

CITY OF SULPHUR, LOUISIANA



Annual Financial Report For Fiscal Year Ended June 30, 2012

Prepared by
Department of Finance

FAITH  FAMILY  COMMUNITY

CITY OF SULPHUR, LOUISIANA
 ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2012
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CITY OF SULPHUR, LOUISIANA

June 30, 2012

MAYOR

The Honorable Christopher L. Duncan

CITY COUNCIL

Dru Ellender
Mike Koonce
Veronica Allison

Stuart Moss
Randy Favre

LEGAL COUNSEL

Mitch Redd - City Attorney

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

4827 IHLES ROAD
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sdrouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

REPORT OF INDEPENDENT AUDITOR

Honorable Chris Duncan, Mayor
And City Council Members
City of Sulphur, Louisiana

I 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 Sulphur, Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the city's primary government unless the City also issues financial statements for the financial reporting entity that include data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units would have been reported as approximately \$10.5 million, \$0.5 million, \$10 million, \$4.5 million, and \$5 million, respectively.

In my opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the City of Sulphur, Louisiana, as of June 30, 2012, and the changes in the financial position thereof and their cash flows, where applicable, for the year then ended.

In my 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 aggregate remaining fund information of the primary government of the City of Sulphur, Louisiana as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows

thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated December 26, 2012, on my consideration of the City of Sulphur's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis on pages 5-12 and the required supplemental information on pages 46-47 are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The other supplemental information on pages 49-50 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Steven M. DeRouen & Associates

December 26, 2012

**CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS**

Within this section of the City of Sulphur, Louisiana's annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities by \$97.0 million (net assets) for the fiscal year reported.
- Total revenues of \$26.1 million were less than total expenditures of \$30.3 million, resulting in a current year decrease in net assets of \$4.2 million.
- Total sales taxes revenues for the current fiscal year were 13.1 million, an increase of \$0.6 million (4.8 percent) over the prior fiscal year.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$83.5 million include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$0.5 million are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$13.0 million represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$13.1 million this year of which \$0.5 million is restricted for debt service and law enforcement, 0.7 million committed for capital projects, \$4.3 million is assigned for capital projects and 7.6 million is unassigned. This compares to the prior year fund balance, as restated, of \$14.2 million reflecting a decrease of \$1.1 million during the current fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7.6 million or 45.2% of total General Fund expenditures and 44.3% of total General Fund revenues.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City of Sulphur's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Comparative data is presented when available.

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused employee leave).

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public safety and streets. The business-type activities of the City of Sulphur include the water and sewer systems.

The government-wide financial statements are presented on pages 15 through 16 of this report.

FUND FINANCIAL STATEMENTS. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sulphur, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Sulphur maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, sales tax fund, public improvement capital project fund, and street improvement capital project fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules elsewhere in this report.

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

The basic governmental fund financial statements are presented on pages 18 through 20 of this report.

Proprietary funds. The City of Sulphur maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Sulphur uses an internal service fund to account for its workers' compensation program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer services and the workers' compensation program. The City's water and sewer fund is considered to be a major fund.

The basic proprietary fund financial statements are presented on pages 21 through 24 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 25 through 44 of this report.

OTHER INFORMATION. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's budget presentations. Budgetary comparison schedules are included as "required supplemental information" for the general fund and the sales tax fund. These statements demonstrate compliance with the City's adopted and final revised budget.

Required supplemental information can be found on pages 46 through 47 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Combining and individual fund statements for non-major funds can be found on pages 49 through 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City of Sulphur's assets exceeded liabilities by \$97.0 million.

The largest portion of the City's net assets (86.0 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt (still outstanding) that was used to acquire those assets. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

At the end of the current and prior fiscal years, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Sulphur's Net Assets
June 30,

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	\$ 17,282,221	\$ 18,370,931	\$ 8,772,914	\$ 8,823,569	\$ 26,055,135	\$ 27,194,500
Capital assets	31,706,203	32,037,551	61,063,257	63,467,695	92,769,460	95,505,246
Total assets	48,988,424	50,408,482	69,836,171	72,291,264	118,824,595	122,699,746
LIABILITIES						
Current liabilities	2,581,325	2,483,209	647,161	699,965	3,228,486	3,183,174
Long-term liabilities	8,322,325	6,298,795	10,237,411	11,986,628	18,559,736	18,285,423
Total liabilities	10,903,650	8,782,004	10,884,572	12,686,593	21,788,222	21,468,597
NET ASSETS						
Investment in capital assets, net of debt	31,287,117	31,571,227	52,207,661	52,482,031	83,494,778	84,053,258
Restricted	517,256	430,893	-	-	517,256	430,893
Unrestricted	6,280,401	9,624,358	6,743,938	7,122,640	13,024,339	16,746,998
Total net assets	\$ 38,084,774	\$ 41,626,478	\$ 58,951,599	\$ 59,604,671	\$ 97,036,373	\$ 101,231,149

City of Sulphur's Changes in Net Assets
Year Ended June

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Programs:						
Fees, fines and charges for services	\$ 2,699,672	\$ 2,670,840	\$ 5,096,460	\$ 4,813,892	\$ 7,796,132	\$ 7,484,732
Operating grants	115,308	302,040	-	-	115,308	302,040
Capital grants	272,639	763,483	-	-	272,639	763,483
General:						
Sales taxes	11,155,101	10,785,636	1,940,236	1,739,957	13,095,337	12,525,593
Property taxes	1,651,902	1,345,235	-	-	1,651,902	1,345,235
Franchise taxes	1,301,589	1,449,417	-	-	1,301,589	1,449,417
Intergovernmental	1,518,945	1,206,919	-	-	1,518,945	1,206,919
Investment income	95,640	137,535	58,476	83,930	154,116	221,465
Other	151,860	19,505	-	-	151,860	19,505
Total revenue	18,962,656	18,680,610	7,095,172	6,637,779	26,057,828	25,318,389

CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program expenses:						
General government	3,634,570	3,696,508	-	-	3,634,570	3,696,508
Fire	5,526,925	5,618,192	-	-	5,526,925	5,618,192
Police	5,618,287	5,505,471	-	-	5,618,287	5,505,471
Streets and parks	5,939,660	6,199,826	-	-	5,939,660	6,199,826
Inspection/animal control	835,938	853,804	-	-	835,938	853,804
Shop	397,889	373,970	-	-	397,889	373,970
Interest on long-term debt	17,673	22,056	-	-	17,673	22,056
Other	-	-	-	-	-	-
Water and sewer	-	-	8,281,662	8,044,936	8,281,662	8,044,936
Total expenses	<u>21,970,942</u>	<u>22,269,827</u>	<u>8,281,662</u>	<u>8,044,936</u>	<u>30,252,604</u>	<u>30,314,763</u>
Increase (decreases) in net assets before transfers	(3,008,286)	(3,589,217)	(1,186,490)	(1,407,157)	(4,194,776)	(4,996,374)
Transfers	(533,418)	(356,991)	533,418	356,991	-	-
Increase in net assets	<u>(3,541,704)</u>	<u>(3,946,208)</u>	<u>(653,072)</u>	<u>(1,050,166)</u>	<u>(4,194,776)</u>	<u>(4,996,374)</u>
Beginning net assets	41,626,478	45,572,686	59,604,671	60,654,837	101,231,149	106,227,523
Ending net assets	<u>\$ 38,084,774</u>	<u>\$ 41,626,478</u>	<u>\$ 58,951,599</u>	<u>\$ 59,604,671</u>	<u>\$ 97,036,373</u>	<u>\$ 101,231,149</u>

GOVERNMENTAL ACTIVITIES. Governmental activities decreased the City of Sulphur's net assets by \$3.5 million. Transfers totaling \$0.53 million to the enterprise fund (water and sewer services) contributed to the decrease in net assets. The transfers were mainly used to fund the wastewater debt service fund.

Revenues decreased \$0.3 million (1.51 percent) from governmental activities for the current fiscal year. Sales taxes increased by \$0.4 million (3.43 percent) during the current fiscal year. The major sources of revenue for governmental activities are: sales tax 58.83 percent, other taxes such as property taxes and franchise taxes 23.58 percent, program revenues 16.29 percent, and investment earnings and other (1.30 percent).

Expenses from governmental activities decreased \$0.3 million (1.34 percent) for the current fiscal year. Public safety comprises 50.73 percent of total governmental activity expenses; 25.57 percent for police services and 25.16 percent for fire protection and prevention. Street and parks accounted for 27.03 percent of governmental activity expenditures.

Program revenues covered 14.05 percent of governmental operating expenses in the current fiscal year. Taxes and other general revenues fund remaining 85.95 percent of the governmental activities. The table below presents total cost and net cost of each of the City's programs. The net cost reflects total cost less revenues generated by the activity.

**CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)**

Governmental Activities

	Total Cost of Services	Net Cost of Services
General government	\$ 3,634,570	\$ 2,676,719
Public safety:		
Fire	5,526,925	5,435,342
Police	5,618,287	5,337,437
Streets and parks	5,791,712	4,034,377
Inspection	544,670	544,670
Animal control	291,268	291,268
Code enforcement	147,948	147,948
Shop	397,889	397,889
Interest on long-term debt	17,673	17,673
Total	<u>\$ 21,970,942</u>	<u>\$ 18,883,323</u>

BUSINESS-TYPE ACTIVITIES. Business-type activities decreased the City of Sulphur's net assets by \$0.7 million. Transfers to government-activities were \$0.53 million in the current year.

Operating revenues for water and sewer services increased \$0.28 million (5.87 percent) in the current fiscal year. Sales taxes increased by \$0.20 million (11.51 percent) during the current fiscal year. Operating expenses increased \$0.23 million (2.94 percent). This activity generated an operating loss of \$3.19 million for the current fiscal year, compared to an operating loss of \$3.23 million for the prior fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Sulphur uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental funds reported combined ending fund balances of \$13.11 million, a decrease of less than \$1.11 million in comparison with the fund balance for the prior year. Approximately fifty-eight percent of this total amount, 7.63 million, constitutes unassigned fund balance which is available for spending at the City's discretion. The City has committed \$0.66 million, which has been committed by the City Council for capital projects. The City has assigned \$4.30 million, which has been assigned by the City Council for capital projects. Restricted fund balances (not available for new spending because it has already been committed) are \$0.52 million committed.

The general fund is the primary operating fund of the City of Sulphur. The fund balance of the City's general fund decreased \$0.78 million during the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8.04 million. A comparison of both unassigned fund balance and total fund balance to total fund expenditures can be a useful measure of the general fund's liquidity. Unassigned fund balance represents 45.21 percent of total general fund expenditures.

Revenues on the general fund increased \$0.48 million (2.85 percent) over the prior year. Expenditures increased \$0.42 million (2.54 percent) over the prior year.

**CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)**

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail.

Unrestricted net assets of the enterprise fund (which accounts for water and sewer services) at the end of the year totaled \$6.7 million. The total decrease in net assets for this fund was \$0.65 million.

The internal service fund (which accounts for the City's workers' compensation program) had unrestricted net assets of \$1.02 million at the end of the current fiscal year. This represents a decrease of \$0.12 million over the previous fiscal year.

BUDGETARY HIGHLIGHTS

General Fund. The budget amendments during the year reflected an increase in budgeted sales tax revenues expenditures in the amount of \$0.4 million.

Actual revenues exceeded budget by \$0.35 million or 2.0% and actual expenditures were less than budgeted by \$0.18 million or 1.1%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets (net of depreciation) for governmental and business-type activities as of June 30, 2012, was \$31.3 million and \$52.2 million, respectively. The total decrease in the City's investment in capital assets (net of depreciation) for the current fiscal year was \$0.6 million (0.7 percent). This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Completed replacements of Verdine Street and Burton Street bridges
- Construction began on Parish Road
- Continuing program of improving, rehabilitating, and expanding the City's infrastructure

City of Sulphur's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 3,076,025	\$ 2,735,025	\$ -	\$ -	\$ 3,076,025	\$ 2,735,025
Construction in progress	1,572,803	1,786,877	301,616	29,862	1,874,419	1,816,739
Buildings	5,533,393	5,584,701	60,318,157	63,002,504	65,851,550	68,587,205
Furniture and equipment	1,671,356	2,033,918	367,640	380,831	2,038,996	2,414,749
Transportation equipment	1,700,760	2,039,700	75,843	54,498	1,776,603	2,094,198
Infrastructure	18,151,865	17,857,331	-	-	18,151,865	17,857,331
Total	\$ 31,706,202	\$ 32,037,552	\$ 61,063,256	\$ 63,467,695	\$ 92,769,458	\$ 95,505,247

Additional information on the City's capital assets can be found on pages 35 - 36 of this report. The following table provides a summary of capital asset activity.

**CITY OF SULPHUR, LOUISIANA
MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)**

Long-term Liabilities. At the end of the current fiscal year, the City of Sulphur had total long-term liabilities \$18.3 million.

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
<i>Governmental activities:</i>					
Special assessments bonds	\$ 466,324	\$ -	\$ 47,238	\$ 419,086	\$ 85,129
Compensated absences	877,666	539,672	547,109	870,229	608,627
Other post-employment benefit	4,954,805	2,432,421	354,217	7,033,009	409,969
	<u>\$ 6,298,795</u>	<u>\$ 2,972,093</u>	<u>\$ 948,564</u>	<u>\$ 8,322,324</u>	<u>\$ 1,103,725</u>
<i>Governmental activities:</i>					
Capital leases	\$ 4,675,664	\$ -	\$ 960,068	\$ 3,715,596	\$ 1,090,170
General obligation bonds	6,310,000	-	1,170,000	5,140,000	1,215,000
Compensated absences	158,832	130,975	80,427	209,380	59,697
Other post-employment benefit	842,132	386,602	56,298	1,172,436	65,599
	<u>\$ 11,986,628</u>	<u>\$ 517,577</u>	<u>\$ 2,266,793</u>	<u>\$ 10,237,412</u>	<u>\$ 2,430,466</u>

Of this amount, the City's sales tax revenues are dedicated to retire \$8.86 million and \$0.42 million is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

Additional information concerning the City's long-term debt can be found on pages 36 and 38 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The primary revenue stream for the City of Sulphur is sales tax. The City adopted a 2013 sales tax budget of \$13.1 million, an increase of \$0.45 (3.6 percent) million over the final 2012 sales tax budget. The City adopted a 2013 general fund budget with budget deficit of \$0.25 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Sulphur's finances for all those with an interest in such. Questions concerning this report or requests for additional information should be addressed to the Director of Finance, Post Office Box 1309, Sulphur, Louisiana 70664-1309. Information about the component units and their separately issued financial statements can also be obtained from the Director of Finance.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SULPHUR, LOUISIANA

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,815,317	\$ 4,087,583	\$ 12,902,900
Receivables (net of allowance for doubtful accounts)	2,397,847	778,725	3,176,572
Inventories	56,413	77,920	134,333
Prepaid expenses	237,644	92,734	330,378
Restricted cash	-	235,952	235,952
Investments	5,775,000	3,500,000	9,275,000
Capital assets:			
Land and construction in progress	4,648,828	301,616	4,950,444
Capital assets, net of accumulated depreciation	27,057,375	60,761,641	87,819,016
TOTAL ASSETS	48,988,424	69,836,171	118,824,595
LIABILITIES			
Accounts and other accrued payables	2,568,026	395,189	2,963,215
Liabilities payable from restricted assets	-	235,952	235,952
Interest payable	13,299	16,020	29,319
Long-term liabilities:			
Due within one year	1,106,898	1,342,255	2,449,153
Due in more than one year	7,215,427	8,895,156	16,110,583
Total Liabilities	10,903,650	10,884,572	21,788,222
NET ASSETS			
Invested in capital assets, net of related debt	31,287,117	52,207,661	83,494,778
Restricted for:			
Debt service reserve	134,394	-	134,394
Law enforcement	382,862	-	382,862
Unrestricted	6,280,401	6,743,938	13,024,339
Total net assets	\$ 38,084,774	\$ 58,951,599	\$ 97,036,373

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General and administrative	\$ 3,634,570	\$ 957,851	\$ -	\$ -	\$ (2,676,719)	\$ -	\$ (2,676,719)
Fire	5,526,925	-	91,583	-	(5,435,342)	-	(5,435,342)
Police	5,618,287	257,125	23,725	-	(5,337,437)	-	(5,337,437)
Streets and parks	5,791,712	1,484,696	-	272,639	(4,034,377)	-	(4,034,377)
Inspection	544,670	-	-	-	(544,670)	-	(544,670)
Animal control	291,268	-	-	-	(291,268)	-	(291,268)
Code enforcement	147,948	-	-	-	(147,948)	-	(147,948)
Shop	397,889	-	-	-	(397,889)	-	(397,889)
Interest on long-term debt	17,673	-	-	-	(17,673)	-	(17,673)
Total governmental activities	21,970,942	2,699,672	115,308	272,639	(18,883,323)	-	(18,883,323)
Business-type activities:							
Water and sewer	8,281,662	5,096,460	-	-	-	(3,185,202)	(3,185,202)
Total activities	\$ 30,252,604	\$ 7,796,132	\$ 115,308	\$ 272,639	(18,883,323)	(3,185,202)	(22,068,525)
General revenues:							
Sales taxes					11,155,101	1,940,236	13,095,337
Property taxes					1,651,902	-	1,651,902
Franchise taxes					1,301,589	-	1,301,589
Intergovernmental					1,518,945	-	1,518,945
Unrestricted investment earnings					95,640	58,476	154,116
Other					151,860	-	151,860
Transfers					(533,418)	533,418	-
Total general revenues and transfers					15,341,619	2,532,130	17,873,749
Change in net assets					(3,541,704)	(653,072)	(4,194,776)
Beginning net assets					41,626,478	59,604,671	101,231,149
Ending net assets					\$ 38,084,774	\$ 58,951,599	\$ 97,036,373

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

FUND FINANCIAL STATEMENTS

CITY OF SULPHUR, LOUISIANA

**BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2012**

	<u>General Fund</u>	<u>Public Improvement Capital Project Fund</u>	<u>Street Improvement Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	\$ 4,212,233	\$ 2,481,732	\$ 1,200,452	\$ 451,811	\$ 8,346,228
Receivables	1,661,926	-	286,924	386,045	2,334,895
Inventories	56,413	-	-	-	56,413
Investments	3,000,000	-	1,775,000	-	4,775,000
Total Assets	\$ 8,930,572	\$ 2,481,732	\$ 3,262,376	\$ 837,856	\$ 15,512,536
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,300,165	\$ 10,450	\$ 768,137	\$ 320,600	\$ 2,399,352
FUND BALANCES					
Restricted:					
Debt service reserves	-	-	-	134,394	134,394
Law enforcement	-	-	-	382,862	382,862
Committed for capital projects	-	-	658,634	-	658,634
Assigned for capital projects	-	2,471,282	1,835,605	-	4,306,887
Unassigned	7,630,407	-	-	-	7,630,407
Total Fund Balances	7,630,407	2,471,282	2,494,239	517,256	13,113,184
Total Liabilities and Fund Balances	\$ 8,930,572	\$ 2,481,732	\$ 3,262,376	\$ 837,856	\$ 15,512,536
Total fund balance - total governmental funds					\$ 13,113,184
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					31,706,202
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					263,164
Internal service funds are used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.					1,017,291
Long-term liabilities, including bonds payable, special assessment debt, accrued interest payable, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported liabilities in the funds.					(1,302,614)
Other Postemployment Benefits (OPEB) obligations are due and payable in the current period and, therefore, are not reported the funds.					(7,033,010)
Special assessments are not considered available to liquidate liabilities of the current period and are, therefore, deferred in the funds. However, they are properly recognized as re in the entity-wide statements as soon as the related improvement has been completed.					320,557
					\$ 38,084,774

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPEDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Public Improvement Capital Project Fund</u>	<u>Street Improvement Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes:					
Sales taxes	\$ 10,326,269	\$ -	\$ 828,832	\$ -	\$ 11,155,101
Ad valorem taxes	1,651,902	-	-	-	1,651,902
Franchise taxes	1,313,684	-	-	-	1,313,684
Other taxes	-	-	-	57,905	57,905
Licenses and permits	957,851	-	-	-	957,851
Intergovernmental	1,056,105	462,840	-	-	1,518,945
Charges for services	1,484,696	-	-	-	1,484,696
Fines and forfeitures	161,502	-	-	95,623	257,125
Interest	44,513	19,486	18,417	2,936	85,352
Federal and state grants and awards	115,308	-	272,639	-	387,947
Other	133,726	-	6,732	15,445	155,903
Total Revenues	17,245,556	482,326	1,126,620	171,909	19,026,411
EXPENDITURES					
General and administrative	2,699,662	-	5,606	-	2,705,268
Fire	4,795,537	-	-	-	4,795,537
Police	4,682,936	-	-	24,253	4,707,189
Streets and parks	3,560,799	85,663	559,896	-	4,206,358
Inspection	444,986	-	-	-	444,986
Animal control	244,993	-	-	-	244,993
Code enforcement	128,680	-	-	-	128,680
Shop	319,125	-	-	-	319,125
Capital outlay	-	1,280,009	712,276	-	1,992,285
Debt service:					
Principal retirement	-	-	-	47,243	47,243
Interest and fiscal charges	-	-	-	11,634	11,634
Total Expenditures	16,876,718	1,365,672	1,277,778	83,130	19,603,298
Excess (deficiency) of revenues over (under) expenditures	368,838	(883,346)	(151,158)	88,779	(576,887)
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of debt	-	-	-	-	-
Transfers in	19,483	60,000	190,000	17,068	286,551
Transfers (out)	(800,486)	-	-	(19,483)	(819,969)
Total other financing sources and (uses)	(781,003)	60,000	190,000	(2,415)	(533,418)
Net change in fund balances:	(412,165)	(823,346)	38,842	86,364	(1,110,305)
Fund balances, beginning	8,042,572	3,294,628	2,455,397	430,892	14,223,489
Fund balances, ending	\$ 7,630,407	\$ 2,471,282	\$ 2,494,239	\$ 517,256	\$ 13,113,184

CITY OF SULPHUR, LOUISIANA

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ (1,110,305)
Internal service funds are used by management to charge the cost of insurance to individual funds. The net expenses of the activities of internal service fund is reported within the governmental activities.	(128,068)
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 assets acquisitions exceed depreciation in the current period.	
Capital asset acquisitions	2,098,225
Depreciation expense	(2,420,066)
Net book value of capital assets retired during year	(9,508)
Governmental funds report bonded debt repayments as expenditures. However, this expenditure does not appear in the Statement of Activities since the payment is applied against the bonds payable on the Statement of Net Assets.	47,243
The net effect of various other transactions that increase net assets.	(471)
Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on accrual basis.	(6,039)
Special assessments are not considered available to liquidate liabilities of the current period, and are therefore deferred in the funds. However, they are properly recognized as revenue in the statement of activities as soon as the related improvement has been completed.	(61,947)
Governmental funds do not report net change in other postemployment benefits (OPEB) obligations. However, this expense does appear in the Statement of Activities since the payable is reported on the Statement of Net Assets.	(2,078,205)
Governmental funds do not report the net change in accrued compensated absences as expenditures. However, this expense does appear in the Statement of Activities since the payable is reported on the Statement of Net Assets.	127,437
Changes in net assets of governmental activities	<u><u>\$ (3,541,704)</u></u>

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2012**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,087,583	\$ 469,090
Receivables:		
Accounts (net of allowance for doubtful accounts)	577,398	-
Other	201,327	-
Prepaid expenses	92,734	37,433
Inventories	77,920	-
Investments	3,500,000	1,000,000
	<u>8,536,962</u>	<u>1,506,523</u>
Noncurrent Assets:		
Investments	-	-
Restricted cash and cash equivalents	235,952	-
Capital assets:		
Land and construction in progress	301,616	-
Capital assets, net of accumulated depreciation	60,761,641	-
	<u>61,299,209</u>	<u>-</u>
Total Assets	<u>\$ 69,836,171</u>	<u>\$ 1,506,523</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 349,386	\$ 489,232
Accrued salaries and benefits	45,803	-
Accrued compensated absences	59,697	-
Interest payable	16,020	-
Bond payable	1,215,000	-
Capital leases	1,090,170	-
Other post-employment benefits	67,558	-
Customer meter deposits	235,952	-
	<u>3,079,586</u>	<u>489,232</u>
Noncurrent Liabilities:		
Accrued compensated absences, noncurrent	149,683	-
Bonds payable	3,925,000	-
Capital leases payable	2,625,426	-
Other post-employment benefits, noncurrent	1,104,877	-
	<u>7,804,986</u>	<u>-</u>
Total Liabilities	<u>10,884,572</u>	<u>489,232</u>
NET ASSETS		
Investment in capital assets, net of related debt	52,207,661	-
Unrestricted	6,743,938	1,017,291
Total Net Assets	<u>\$ 58,951,599</u>	<u>\$ 1,017,291</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 For The Year Ended June 30, 2012**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<hr/>	<hr/>
OPERATING REVENUES		
Charges for services	\$ 5,096,460	\$ 366,517
	<hr/>	<hr/>
OPERATING EXPENSES		
General and administrative	829,689	43,260
Water department	1,801,433	-
Sewer department	2,333,805	-
Depreciation	2,889,882	-
Claims	-	396,620
Insurance	-	64,993
	<hr/>	<hr/>
Total Operating Expenses	7,854,809	504,873
	<hr/>	<hr/>
OPERATING INCOME (LOSS)	(2,758,349)	(138,356)
	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES)		
Sales taxes	1,940,236	-
Investment earnings	58,476	10,288
Interest expense	(395,955)	-
Other	(30,898)	-
	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	1,571,859	10,288
	<hr/>	<hr/>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS	(1,186,490)	(128,068)
	<hr/>	<hr/>
OPERATING TRANSFERS IN	533,418	-
	<hr/>	<hr/>
Change in net assets	(653,072)	(128,068)
TOTAL NET ASSETS, BEGINNING	59,604,671	1,145,359
	<hr/>	<hr/>
TOTAL NET ASSETS, ENDING	\$ 58,951,599	\$ 1,017,291
	<hr/>	<hr/>

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2012**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 5,057,426	\$ 366,517
Cash paid to suppliers	(3,521,050)	(111,992)
Cash paid to or on behalf of employees	(997,694)	-
Cash paid for claims	-	(204,420)
Net cash provided (used) by operating activities	<u>538,682</u>	<u>50,105</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	533,418	-
Cash received from sales taxes	1,934,351	-
Net cash used by noncapital and related financing activities	<u>2,467,769</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for acquisitions and construction of fixed assets	(629,680)	-
Cash paid for bond and capital leases principal	(2,130,068)	-
Cash paid for interest	(399,601)	-
Net cash used by capital and related financing activities	<u>(3,159,349)</u>	<u>-</u>
CASH FLOWS FORM INVESTING ACTIVITIES		
Purchased investments	(5,500,000)	(2,000,000)
Proceeds from sales and maturity of investments	7,000,000	2,178,571
Investment earnings	57,229	11,639
Net cash provided by investing activities	<u>1,557,229</u>	<u>190,210</u>
Net increase (decrease) in cash and cash equivalents	1,404,331	240,315
Cash and cash equivalents, beginning of the year	<u>2,919,204</u>	<u>228,775</u>
Cash and cash equivalents, end of the year	<u>\$ 4,323,535</u>	<u>\$ 469,090</u>
Cash and cash equivalents at the end of the year consisted of:		
Unrestricted cash	\$ 4,087,583	\$ 469,090
Restricted cash	235,952	-
	<u>\$ 4,323,535</u>	<u>\$ 469,090</u>

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2012
(Continued)**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (2,758,349)	\$ (138,356)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,889,882	-
(Increase) decrease in receivables	(39,034)	-
(Increase) decrease in inventory	636	-
(Increase) decrease in prepaid items	(30,382)	(3,739)
Increase (decrease) in accounts payable	59,694	192,200
Increase (decrease) in compensated absences payable	55,917	-
Increase (decrease) in other post-employment benefits	330,303	-
Increase (decrease) in customer deposits	30,015	-
Net cash provided (used) by operating activities	<u>\$ 538,682</u>	<u>\$ 50,105</u>

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2012

1) Summary of Significant Accounting Policies

A. Reporting Entity

The City of Sulphur (City) was incorporated under the provisions of the State of Louisiana LA R.S. 33:321-481. The City operates under a home rule charter.

The accounting and financial reporting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guidance set forth in the *Louisiana Municipal Audit and Accounting Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. Following is a summary of certain more significant accounting policies.

The accompanying financial statements include all funds, which are directly controlled by the City, and which constitute the primary government as defined for financial statement purposes. In accordance with generally accepted accounting principles, this report should also include component units, which are legally separate from the City but considered to be fiscally dependent on the primary government. Component units are not discretely presented in this report. Further disclosures concerning such units are provided below.

The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body and
 - a. The ability of the City of Sulphur to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City of Sulphur.
2. Organizations for which the City of Sulphur does not appoint a voting majority but are fiscally dependent on the City of Sulphur.
3. Organizations for which the reporting entity financial statements could be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based upon the application of these criteria, the following are component units that should be included in the City's reporting entity:

The City Court of Sulphur for Ward 4
The City Marshall of Sulphur for Ward 4

The West Calcasieu Airport Managing Board, a joint service agreement, and the Housing Authority of the City of Sulphur, a related organization, are also to be included in City's reporting entity.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Only the primary government's financial information is included in these financial statements. Information on how to obtain component unit financial statements can be obtained by contacting the Director of Finance for the City of Sulphur, Louisiana.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the City as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each of the functions of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of services offered by the City, and (b) grants and contributions that are restricted to meeting the operational or capital requirement of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - The City uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. The various funds of the City are classified into two categories: governmental and proprietary. The emphasis on fund financial statements is on major funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the City or its total assets, liabilities, revenues, or expenditures of the individual governmental and enterprise fund is at least 10 percent of the corresponding total for all governmental and enterprise funds of that category or type; and total assets, liabilities revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenue in the year for which they are levied. Grants and similar items are recorded 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. Requests for reimbursement from grants

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

are recorded as revenue when allowable reimbursable expenditures have been recorded. Expenditures (including capital outlay) generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. Only the portion of the special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Special assessments receivable that are not due within the current fiscal period and not susceptible to accrual are recorded as deferred revenue.

The City reports the following major governmental funds:

The General Fund is the principal fund of the City. It accounts for all financial resources except those that are required to be accounted for in other funds.

The Public Improvement Capital Project Fund accounts for capital improvements related to the acquisition, construction, and improvements of major capital facilities.

The Street Improvement Capital Project Fund accounts for capital improvements related to the opening, construction, paving, and improving of streets.

The City reports the following major proprietary fund:

The Utility Fund accounts for operation and maintenance of water and sewerage services to residents of the City. The activities provide such services including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

The City also reports the following fund types:

Internal Service Fund is used to account for the workers' compensation program provided to other departments of the City.

Debt Service Fund is used to account for the accumulation of resources and the payments made for principal, interest, and related cost on long-term debt obligations of governmental funds.

Drug Seizure Funds are special revenue funds, which account for the receipt and use of the proceeds. The City maintains a separate fund for each Federal and State program. The funds have been consolidated because they are similar in nature.

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

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for Enterprise and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The City annually adopts and implements an operating and capital budget in accordance with requirements of state law for the General Fund and all Special Revenue Funds. The Capital Projects Fund's budget is a project-based capital budget. Policies and procedures with respect to budgetary control are as follows.

No later than sixty days prior to the beginning of each fiscal year, the Mayor submits a budget to the City Council. The Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated or the revenue estimates must be changed by an affirmative vote of a majority of the City Council. The budget presented is as amended by the City Council.

The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds and Capital Projects Funds. In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year end for which goods or services are received are reclassified to expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year end and are either canceled or are included as reappropriations of fund balance for the subsequent year. Encumbrances at year end in funds that are budgeted on a project basis, including Enterprise Fund construction projects, are carried forward along with their related appropriations and are not subject to annual cancellation and re-appropriation. The City's outstanding encumbrances at June 30, 2012, were approximately \$3.1 million.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

F. Cash 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. The demand deposits and certificates of deposits are stated at cost, which reasonably estimates fair value. Investment securities are reported at fair value which is valued at the last report sales price at current exchange rates.

G. Accounts Receivable

Uncollectible amounts due for ad valorem taxes and other receivables of governmental funds are recognized as bad debts at the time information becomes available which would indicate that the particular receivable is not collectible.

The City utilizes the allowance method for proprietary funds to recognize doubtful accounts. Accounts receivable are stated at cost less an allowance for doubtful accounts. Accounts are considered delinquent when 30 days past due. The allowance account consists of an estimate of uncollectible specifically identified accounts and a general reserve. Management's evaluation of the adequacy of the allowance is based on a continuing review of all accounts and includes a consideration of past user history, any adverse situations that might affect the user's ability to repay, and current economic conditions. The need for an adjustment to the allowance is considered at year end. Amounts charged-off that are subsequently recovered are recorded as income.

There appears to be concentration of credit risk with regard to general accounts receivable and more specifically accounts receivable for water and sewer user fees in the enterprise fund. The City's ability to collect the amounts due from the users of the City water and sewer system and others (as reflected on the financial statements) may be affected by significant economic fluctuations, natural disaster or other calamity in this one concentrated geographic location.

H. Inventory

Inventory is valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

I. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are capitalized at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of assets are not capitalized.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Depreciation is provided over the estimated useful lives of assets using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Property and plant	15-50 years
Equipment	5-15 years
Transportation equipment	5 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

J. Compensated Absences

It is the City's policy to permit regular full-time and part-time employees to accumulate earned but unused vacation and sick leave benefits.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as result of an employee resignations and retirements.

Unused sick leave may be accumulated from year to year. However, unused sick leave is paid up to a maximum of 65 days upon retirement. Sick leave liability is reported at the estimated value in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

K. Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and special assessment payables.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

L. Equity Classification

In the government-wide statements, equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

- Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The City uses restricted resources first when expenses are incurred when both restricted and unrestricted net assets are available

In the fund statements, governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

- Non-spendable - 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 grantors, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internal imposed by the City through formal action of the City and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for a specific purpose that are considered to be neither restricted nor committed. Fund balance can be assigned by the City Council.
- Unassigned - includes fund balance amounts 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 resources first when expenditures are incurred when both restricted and unrestricted fund balances are available.

Proprietary fund equity is classified the same as in the government-wide statements.

M. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect: (1) the reported amount of assets and liabilities, (2) disclosures such as contingencies, and (3) the reported amounts of revenues and expenditures or expenses included on the financial statements. Actual results could differ from those estimates.

N. Revenues, Expenditures, and Expenses

Program revenues included in the statement of activities are derived directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Ad valorem taxes and the related state revenue sharing are recorded in the year taxes are due and payable. Ad valorem taxes are assessed on a calendar year basis, become due on November 15 of each year, and become delinquent on December 31. The taxes are generally collected in December, January and February of the fiscal year. Sales taxes are considered as “measurable” when in the hands of sales tax collector and are recognized as revenue at that time. Interest on interest-bearing deposits is recorded or accrued as revenues when earned. Substantially all other revenues are recorded on a modified accrual basis.

The City’s primary expenditures include salaries, benefits, and insurance, which are recorded when the liability is incurred. Capital expenditures and purchases of various operating supplies are regarded as expenditures at the time purchased. Restricted resources are applied to expenditures and expenses before the use of unrestricted resources when both are available.

Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses) when the transfer is authorized by the City.

2) Individual Fund Transaction

Transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General		
Public Improvement	\$ -	\$ 60,000
Street Improvements	-	190,000
Paving Projects Debt Service	19,483	17,068
Water Utility Fund	-	533,418
Total General	<u>19,483</u>	<u>800,486</u>
Street Improvement Capital Project		
General	<u>190,000</u>	-
Total Street Improvement Capital Project	<u>190,000</u>	-
Public Improvements Capital Project		
General	<u>60,000</u>	-
Total Public Improvements Capital Project	<u>60,000</u>	-
Water Utility		
General	<u>533,418</u>	-
Total Water Utility	<u>533,418</u>	-
Paving Projects Debt Service		
General	<u>17,068</u>	<u>19,483</u>
Total Paving Projects Debt Service	<u>17,068</u>	<u>19,483</u>
Grand totals	<u>\$ 819,969</u>	<u>\$ 819,969</u>

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

3) Restricted Assets

Restricted assets were applicable to the following at June 30, 2012:

Enterprise Fund:

Customers' deposits for water and sewer services were \$235,952.

4) Cash and Investments

As of June 30, 2012, the City had cash and cash equivalents (book balances) totaling \$13,138,852 (net of outstanding checks and deposit in transit) of which \$8,722,740 is in interest-bearing demand deposits, \$4,379,739 is in noninterest-bearing demand deposits, \$34,833 is deposited in LAMP, and cash on hand of \$1,540.

As of June 30, 2012, the City had investments totaling \$9,275,000 of which \$6,275,000 is in certificates of deposit with maturities not exceeding two years and \$3,500,000 consisting of callable investments of United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies. As of June 30, 2012, the weighted average maturity of the City's investment portfolio was 4.7123 years.

Under Louisiana Revised Statutes 39:2955, the City may deposit funds in demand deposit accounts, interest bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks organized under Louisiana Law and National Banks having a principal offices in Louisiana. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Additionally, Louisiana statues allow the City to invest in United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies, and mutual or trust funds registered with the Securities and Exchange Commission which have underlying investments consisting solely of and limited to the United States government or its agencies.

In addition, local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool.

Interest Rate Risk. Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of the investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of bank failure, the City's deposits may not be returned. As of June 30, 2012, the City had \$13,349,987 in demand deposits (bank balances before outstanding checks or deposits in transit) and \$6,275,000 in certificates of deposit. These deposits are secured from risk by \$11,652,244 of federal deposit insurance and \$7,972,743 of pledged securities held by the custodial bank in the name of the fiscal agent bank. Even though the pledged securities are considered uncollateralized, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent bank has failed to pay deposited funds upon demand.

5) Property Taxes

For the year ended June 30, 2012, taxes of 14.21 mills were levied on property with net assessed valuations totaling \$106,498,700 and were dedicated as follows:

General purposes	5.52 mills
Streets - maintenance	5.00 mills
Fire - maintenance	5.00 mills
 Total taxes levied	 \$ 1,652,861

The City is permitted by ordinance to levy taxes up to 14.21 mills of assessed valuation for general governmental services. The general-purpose millage is perpetual, while the streets and fire maintenance mileages are for ten-year durations and expire in 2015. Property tax millage rates are adopted in July for the calendar year in which the taxes are levied and recorded. All taxes are due and collectible when the assessment rolls are filed on or before November 15th of the current year and become delinquent after December 31st. Property taxes not paid by the end of February are subject to lien.

6) Receivables

Receivables at June 30, 2012, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Sales taxes	\$ 1,068,940	\$ 169,273	\$ 1,238,213
Charges for services, net of allowance for doubtful accounts of \$15,937	113,789	577,398	691,187
Franchise taxes	310,180	-	310,180
Interest	17,796	4,205	22,001
Other	887,142	27,849	914,991
	<u>\$ 2,397,847</u>	<u>\$ 778,725</u>	<u>\$ 3,176,572</u>

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

7) Capital Assets

	Beginning of Year	Additions	Deletions	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,735,025	\$ 341,000	\$ -	\$ 3,076,025
Construction in progress	1,786,877	2,028,750	2,242,824	1,572,803
Total capital assets not being depreciated	<u>4,521,902</u>	<u>2,369,750</u>	<u>2,242,824</u>	<u>4,648,828</u>
Capital assets being depreciated:				
Buildings	7,478,012	130,432	-	7,608,444
Furniture and equipment	7,870,140	224,842	722,611	7,372,371
Transportation equipment	4,585,113	5,094	30,055	4,560,152
Infrastructure	52,236,581	1,610,931	-	53,847,512
Total capital assets being depreciated	<u>72,169,846</u>	<u>1,971,299</u>	<u>752,666</u>	<u>73,388,479</u>
Less accumulated depreciation for:				
Buildings	1,893,311	181,740	-	2,075,051
Furniture and equipment	5,836,222	584,126	719,333	5,701,015
Transportation equipment	2,545,413	337,804	23,825	2,859,392
Infrastructure	34,379,250	1,316,397	-	35,695,647
Total accumulated depreciated	<u>44,654,196</u>	<u>2,420,067</u>	<u>743,158</u>	<u>46,331,105</u>
Governmental activities capital assets, net:	<u>\$ 32,037,552</u>	<u>\$ 1,920,982</u>	<u>\$ 2,252,332</u>	<u>\$ 31,706,202</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 29,862	\$ 431,151	\$ 159,397	\$ 301,616
Capital assets being depreciated:				
Buildings and plant	89,739,785	147,231	-	89,887,016
Furniture and equipment	1,381,356	31,918	93,392	1,319,882
Transportation equipment	266,845	34,540	6,500	294,885
Total capital assets being depreciated	<u>91,387,986</u>	<u>213,689</u>	<u>99,892</u>	<u>91,501,783</u>
Less accumulated depreciation for:				
Buildings and plant	26,737,281	2,831,795	217	29,568,859
Furniture and equipment	1,000,525	45,109	93,392	952,242
Transportation equipment	212,347	12,978	6,283	219,042
Total accumulated depreciated	<u>27,950,153</u>	<u>2,889,882</u>	<u>99,892</u>	<u>30,740,143</u>
Business type activities capital assets, net:	<u>\$ 63,467,695</u>	<u>\$ (2,245,042)</u>	<u>\$ 159,397</u>	<u>\$ 61,063,256</u>

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Depreciation expense was charged to governmental activities as follows:

General and administrative	\$ 503,236
Streets and park	1,417,198
Fire	177,867
Police	266,586
Inspection/animal control	30,357
Shop	24,823
	<u>24,823</u>
Total	<u>\$ 2,420,067</u>

The city had total commitments for the following projects for the year ended June 30, 2012:

Project type:	Expended to Date	Remaining Commitment
Streets, bridges and storm drainage	\$ 715,396	\$ 564,074
Buildings	161,440	94,560
Water and sewer projects	271,712	478,306
Total	<u>\$ 876,836</u>	<u>\$ 658,634</u>

8) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
Governmental activities:					
Special assessments bonds	\$ 466,324	\$ -	\$ 47,238	\$ 419,086	\$ 85,129
Compensated absences	877,666	539,672	547,109	870,229	608,627
Other post-employment benefit	4,954,805	2,432,421	354,217	7,033,009	409,969
	<u>\$ 6,298,795</u>	<u>\$ 2,972,093</u>	<u>\$ 948,564</u>	<u>\$ 8,322,324</u>	<u>\$ 1,103,725</u>
Business-type activities:					
Capital leases	\$ 4,675,664	\$ -	\$ 960,068	\$ 3,715,596	\$ 1,090,170
General obligation bonds	6,310,000	-	1,170,000	5,140,000	1,215,000
Compensated absences	158,832	130,975	80,427	209,380	59,697
Other post-employment benefit	842,132	386,602	56,298	1,172,436	65,599
	<u>\$ 11,986,628</u>	<u>\$ 517,577</u>	<u>\$ 2,266,793</u>	<u>\$ 10,237,412</u>	<u>\$ 2,430,466</u>

The payments on the special assessment paving certificates are made by the debt service funds. The accrued leave benefits liability will be paid by the general fund.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Bonds payable at June 30, 2012 are comprised of the following individual issues:

Governmental Activities:

Special assessment bonds:

\$19,742 paving project 2004 dated January 1, 2004, due in annual installments of \$1,974 through January 1, 2014	\$ 3,948
\$54,693 paving project 2007 dated April 1, 2007, due in annual principal installments of \$5,471, plus interest, through April 1, 2017, interest at 5.75%	27,348
\$259,683 paving project 2008 dated June 1, 2008, due in annual principal installments of \$25,968, plus interest, through June 1, 2018, interest at 3.84%	181,779
\$257,511 paving project 2009 dated November 1, 2009, due in annual principal installments of \$25,750, plus interest, through November 1, 2019, interest at 3.80%	<u>206,011</u>
Total special assessment bonds	<u>\$ 419,086</u>

Business-type Activities:

General obligation bonds:

\$8,530,000 Excess Revenue Refunding Certificate of Indebtedness dated June 26, 2009, due in semi-annual installments through June 1, 2016, interest at 3.74%	<u>5,140,000</u>
Total bonds payable	<u>\$ 5,559,086</u>

The annual requirements to amortize all bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 85,129	\$ 15,540	\$ 1,215,000	\$ 192,236
2014	59,161	13,172	1,260,000	146,795
2015	57,187	10,804	1,310,000	99,671
2016	57,187	8,514	1,355,000	50,677
2017	57,190	6,223	-	-
2018-2022	<u>103,232</u>	<u>6,869</u>	<u>-</u>	<u>-</u>
	<u>\$ 419,086</u>	<u>\$ 61,122</u>	<u>\$ 5,140,000</u>	<u>\$ 489,379</u>

The City has entered into two lease agreements as lessee for financing of equipment that is a component of the wastewater plant expansion. The lease obligation will be serviced by sales tax revenues generated through governmental activities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

The assets acquired through capital leases are as follows:

	Utility Fund
Assets:	
Equipment	\$ 10,000,000

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Year Ending June 30	Government Activities
2013	\$ 1,225,828
2014	1,225,828
2015	1,124,440
2016	411,667
2017	-
2018 - 2022	-
Total minimum lease payments	3,987,763
Less: amount representing interest	272,167
Present value of minimum lease payments	\$ 3,715,596

9) Dedication of Sales Tax Proceeds

One Percent Sales and Use Tax – Proceeds of the one percent (1%) sales and use tax levied and collected by the City. This tax was authorized in 1966 for a perpetual duration. The proceeds are dedicated to the following purposes:

Fifty Percent (50%), but not to exceed the total annual debt service on any and all bonds secured by pledge of Proceeds of this fund to the City, which proceeds shall be dedicated and used for any of the following capital improvements: opening, construction, paving and improving streets, sidewalks, roads and alleys, constructing bridges, purchasing or constructing water works, sewerage and sewerage disposal works, drains, drainage canals, pumping plants and waste disposal facilities, facilities for pollution control and abatement, water and waste water systems, halls, courthouses, auditoriums, jails, public parks and recreation facilities. Other public works and/or buildings, title to which said works, buildings and improvements shall be in the Public.

After payment of above costs:

- 1) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Streets and Parks Department for any lawful purpose.
- 2) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval- of the Council of the City of Sulphur, Louisiana, to the Public Utilities Department for any lawful purpose.
- 3) Seven percent (7%), to the General Fund of the City of Sulphur, Louisiana for operating expenses of the City and for any other lawful purpose.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

- 4) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana to the general fund of the City of Sulphur, Louisiana, for salaries and salary increases to employees of the City of Sulphur, Louisiana, based on a merit and cost-of-living evaluation system.
- 5) Three percent (3%), but not to exceed \$45,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Fire Department for any lawful purpose.
- 6) Ten percent (10%), together with any excess portion of any of the foregoing allocations, to a reserve and match money fund, which fund shall be used first to satisfy any bond issue or bond indenture requirements, and after said bond indenture requirements have been satisfied, any excess funds to be used as matching money for any state and federal grant program or for any lawful corporate purpose at the discretion of the City of Sulphur, Louisiana.

Additional One Percent Sales and Use Tax - Proceeds of the one percent (1%) sales and use tax levied and collected by the City. This tax was original authorized in 1980, and has re-authorized for an additional 25 years from January 1, 2005. The proceeds may be used for virtually any capital or operating needs of the City.

Additional One-Half Percent Sales and Use Tax - Proceeds of the one-half of one percent (½%) sales and use tax levied and collected by the City. This tax was original authorized in 1991, and has re-authorized for an additional 10 years from April 1, 2011. The proceeds are dedicated for improving streets, sewerage disposal, water systems, and waste water systems.

10) Retirement Commitments

The City participates in three state-administered cost-sharing multiple-employer retirement systems, which together cover substantially all of the City's full-time employees: Municipal Employees Retirement System, Municipal Police Employees' Retirement System and Firefighters' Retirement System of the State of Louisiana. Although separately administered by their respective boards of trustees, these systems are established and regulated by acts of the Louisiana Legislature with respect to membership and contribution requirements, plan benefits, and actuarial determination of funding requirements as provided by the state constitution. Additional disclosures with respect to the City's participation in these systems are provided below.

Municipal Employees' Retirement System

The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. Employees of the City are members of Plan A. Membership is mandatory as a condition of employment beginning on the date employed if the employee is on a permanent basis working at least thirty-five hours per week, not participating in another public funded retirement system, and under age sixty (60) at date of employment. Those individuals paid jointly by a participating employer and the parish are not eligible for membership in the System. Under Plan A, employees who retire at or after age 60 with at least 10 years of credited service, at or after age 55 with 25 years of credited service, or at any age with 30 or more years of credited service are entitled to a retirement benefit, payable monthly for life equal to 3 percent of their final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or jointed months that produce the highest average. The System also provides death and disability benefits. Benefits are established by state statute.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

The Municipal Employees' Retirement System of Louisiana issues a publicly-available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Employees' Retirement System of Louisiana, 9737 Office Park Boulevard, Baton Rouge, LA 70809.

Plan members are required to contribute 9.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate which was 16.75% of covered payroll for the fiscal year ended June 30, 2012, 14.25% for the fiscal year ended June 30, 2011, and 13.5% for the fiscal year ended June 30, 2010. The contribution requirements of plan members and the City are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year ended June 30, 2012, 2011, and 2010 totaled \$624,318, \$509,173 and \$495,537, respectively.

Municipal Police Employees' Retirement System

Membership is mandatory for any full-time police officer employed by a municipality of the State of Louisiana and engaged in law enforcement empowered to make arrest, provided they do not have to pay social security and provided they meet the statutory criteria. Employees who retire at or after age 50 with at least 20 years of credited service, or at or after age 55 with at least 12 years of credited service are entitled to a retirement benefit payable monthly for life, equal to 3 1/3 percent of their average final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or joined months that produce the highest average. The System also provides death and disability benefits. Benefits are established by state statute.

The Municipal Police Employee's Retirement System issues a publicly-available report that includes financial statements and required supplemental information. That report may be obtained by writing to Municipal Police Employee's Retirement System, 8401 United Plaza Blvd., Suite 270, Eaton Rouge, LA 70809-7017.

Plan members are required to contribute 10.0% of their annual covered salary for the fiscal year ended June 30, 2012, and 8.0% for the fiscal years ended June 30, 2011 and 2010. The City is required to contribute as established by the state statute an actuarially determined rate, which was 29.0% of covered payroll for the fiscal year ended June 30, 2012, 25.0% for the fiscal year ended June 30, 2011, and 11.0% for the fiscal year ended June 30, 2010. The City's contributions to the system for the year ended June 30, 2011, 2009, and 2008 totaled \$678,285 \$654,350 and \$287,361, respectively.

Firefighters' Retirement System

Membership is mandatory as a condition of employment beginning on date employed if the employee is on a permanent basis as a firefighter, not participating in another publicly-funded retirement system and under age fifty (50) at date of employment. Employees who retire at or after age 50 with at least 20 years of credited service, or at or after age 55 with at least 12 years of credited service are entitled to a retirement benefit payable monthly for life, equal to 3 1/3 percent of their average final compensation multiplied by the employee's years of credited service. Final compensation is the employee's monthly earnings during the 36 consecutive or joined months that produce the highest average. The System also provides death and disability benefits. Benefits are established by state statute.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

The Firefighter's Retirement System issues a publicly-available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Firefighter's Retirement System, P0 Box 94095 Capitol Station, Baton Rouge, LA 70804-9095.

Plan members are required to contribute 10.0% of their annual covered salary for the fiscal year ended June 30, 2012, and 8.0% for the fiscal years ended June 30, 2011 and 2010. The City is required to contribute at an actuarially determined rate, which was 25.25% of covered payroll for the fiscal year ended June 30, 2012, 21.5% for the fiscal year ended June 30, 2011, and 14.0% for the fiscal year ended June 30, 2010. The contribution requirements of Plan members are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year ended June 30, 2011, 2010, and 2009 totaled \$618,581, \$685,666 and \$449,465, respectively.

11) Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

12) Risk Management Obligations

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City established a limited risk management program for workers' compensation in fiscal year 1996. Premiums are paid into the internal service fund by the general and public utility funds and are available to pay claims, claim reserves, reinsurance premiums and administrative costs of the program. The surplus retained earnings resulting from charges for anticipated future catastrophic losses have been designated.

Liabilities related to workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$300,000. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering recent claims settlement trends including frequency and amount of pay-outs and other economic and social factors.

The liability (current) for claims and judgments is reported in the internal service fund because it is expected to be liquidated with expendable available financial resources. Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, beginning of fiscal year	\$ 293,280
Incurred claims (including IBNRs)	350,007
Claim payments	<u>(162,942)</u>
Unpaid claims, end of fiscal year	\$ <u>480,345</u>

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

13) Council Members Compensation

Each council member receives monthly compensation. The following is a list of council members and their compensation for the fiscal year ended June 30, 2012:

Mike Koonce	\$ 4,200
Dru Ellender	\$ 4,200
Stuart Moss	\$ 4,200
Randy Farve	\$ 4,200
Veronica Allison	\$ 4,200

The compensation paid to the both Mayors for the year end June 30, 2012, is as follows:

Chris Duncan	\$ 80,000
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14) Postemployment Health Care and Life Insurance Benefits

Plan Description - The City administers a single-employer defined benefit postemployment health care plan ("the Retiree Health Plan"). The plan provides medical and life insurance benefits to eligible retired employees and their beneficiaries through the City's group health insurance plan, which covers both active and retired members. Benefits are provided through Blue Cross/Blue Shield whose monthly premiums are paid by the City. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy - The contribution requirements of plan members and the City are established and may be amended by the City. The City pays the full cost of the benefits for retired plan members and a portion of the cost of the retirees' spouses and dependent children. For fiscal year 2012, the City contributed \$410,515 to the plan.

Annual OPEB Cost and Net OPEB Obligation - For 2012, the City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 2,909,490
Interest on Net OPEB Obligation	231,877
Adjustment to Annual Required Contribution	(322,344)
Annual OPEB Cost (Expense)	2,819,023
Contributions Made	(410,515)
Increase in Net OPEB Obligation	2,408,508
Net OPEB Obligation - beginning of year	5,796,935
Net OPEB Obligation - end of year	\$ 8,205,443

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	1,861,363	14.4%	1,626,492
6/30/2010	2,000,878	14.6%	3,335,810
6/30/2011	2,857,433	13.9%	5,796,937
6/30/2012	2,819,023	14.6%	8,205,443

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$25,903,348, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$9,379,696, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 276.2%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010, actuarial valuation, the unit credit actuarial cost method was used. Based on the City's short-term investment portfolio, a discount rate of 4.0% was used. In addition, the actuarial assumptions included an annual medical healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5.0% after 10 years. The City's unfunded actuarial liability is being amortized as a level dollar on an open basis over 30 years.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2012

(Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial valuation of assets	Actuarial Accrued Liability Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	-	\$ 16,679,604	\$ 16,679,604	0.0%	\$ 9,671,106	172.5%
7/1/2010	-	\$ 25,903,348	\$ 25,903,348	0.0%	\$ 9,379,696	276.2%

15) Subsequent Events

The City evaluated its June 30, 2012 financial statements for subsequent events through December 26, 2012, the date of the financial were available to be issued. The City is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Year Ended June 30, 2012

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes	\$ 12,766,500	\$ 13,166,500	\$ 13,291,855	\$ 125,355
Licenses and permits	921,200	921,200	957,851	36,651
Intergovernmental	940,000	940,000	1,056,105	116,105
Charges for services	1,330,000	1,330,000	1,484,696	154,696
Fines and forfeitures	202,000	202,000	161,502	(40,498)
Investment earnings	100,000	55,000	44,513	(10,487)
Federal and state grants and awards	100,000	100,000	115,308	15,308
Other	178,500	178,500	133,726	(44,774)
Total Revenues	<u>16,538,200</u>	<u>16,893,200</u>	<u>17,245,556</u>	<u>352,356</u>
EXPENDITURES				
General and administrative	2,787,523	2,787,523	2,699,662	87,861
Fire	4,651,507	4,651,507	4,795,537	(144,030)
Police	4,895,812	4,895,812	4,682,936	212,876
Streets and grounds	3,598,160	3,598,160	3,560,799	37,361
Inspection	424,106	424,106	444,986	(20,880)
Animal control	245,109	245,109	244,993	116
Code enforcement	144,188	144,188	128,680	15,508
Shop	309,481	309,481	319,125	(9,644)
Total Expenditures	<u>17,055,886</u>	<u>17,055,886</u>	<u>16,876,718</u>	<u>179,168</u>
Excess (deficiency) of revenues over expenditures	<u>(517,686)</u>	<u>(162,686)</u>	<u>368,838</u>	<u>531,524</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	19,483	19,483
Transfers (out)	(771,224)	(783,418)	(800,486)	(17,068)
Total other financing sources (uses)	<u>(771,224)</u>	<u>(783,418)</u>	<u>(781,003)</u>	<u>2,415</u>
Net change in fund balance	<u>(1,288,910)</u>	<u>(946,104)</u>	<u>(412,165)</u>	<u>533,939</u>
Beginning fund balances	8,042,572	8,042,572	8,042,572	-
Fund balance, ending	<u>\$ 6,753,662</u>	<u>\$ 7,096,468</u>	<u>\$ 7,630,407</u>	<u>\$ 533,939</u>

CITY OF SULPHUR, LOUISIANA

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial valuation of assets</u>	<u>Actuarial Accrued Liability Unit Credit</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2008	-	\$ 16,679,604	\$ 16,679,604	0.0%	\$ 9,671,106	172.5%
7/1/2010	-	\$ 25,903,348	\$ 25,903,348	0.0%	\$ 9,379,696	276.2%

OTHER SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Debt Service Funds	Drug Seizure Funds	Nonmajor Governmental Funds Total
ASSETS			
Cash and cash equivalents	\$ 118,348	\$ 333,463	\$ 451,811
Receivable:			
Special Assessments	320,556	-	320,556
Interest	16,047	-	16,047
Other receivables	-	49,442	49,442
Total assets	\$ 454,951	\$ 382,905	\$ 837,856
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ -	\$ 43	\$ 43
Deferred revenue	320,557	-	320,557
Total liabilities	320,557	43	320,600
FUND BALANCE			
Restricted:			
Debt service reserves	134,394	-	134,394
Law enforcement	-	382,862	382,862
Total fund balance	134,394	382,862	517,256
Total liabilities and fund balances	\$ 454,951	\$ 382,905	\$ 837,856

CITY OF SULPHUR, LOUISIANA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2012**

	Debt Service Funds	Special Revenue Funds	Nonmajor Governmental Funds Total
REVENUES			
Fines and forfeitures	-	95,623	95,623
Assessment levies	\$ 57,905	\$ -	\$ 57,905
Investment earnings	826	2,110	2,936
Interest on assessments	15,095	-	15,095
Other income	-	350	350
Total revenues	73,826	98,083	171,909
EXPENDITURES			
Police	-	24,253	24,253
Debt service:			
Principal retirement	47,243	-	47,243
Interest and fiscal charges	11,634	-	11,634
Total expenditures	58,877	24,253	83,130
Excess (deficiency) of revenues over expenditures:	14,949	73,830	88,779
OTHER FINANCING SOURCES (USES)			
Transfers in	17,068	-	17,068
Transfers out	(19,483)	-	(19,483)
Total other financing sources and (uses)	(2,415)	-	(2,415)
Net change in fund balances	12,534	73,830	86,364
Fund balances, beginning	121,860	309,032	430,892
Fund balances, ending	\$ 134,394	\$ 382,862	\$ 517,256

COMPLIANCE AND INTERNAL CONTROL REPORTS

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

4827 IHLES ROAD
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

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

Honorable Chris Duncan, Mayor
And City Council Members
City of Sulphur, Louisiana

I have audited the financial statements of City of Sulphur, Louisiana, as of and for the year ended June 30, 2012, and have issued my report thereon dated December 26, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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This report is intended solely for the information of management of City of Sulphur, Louisiana and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Steven M. DeRouen & Associates

December 26, 2012

CITY OF SULPHUR, LOUISIANA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

I have audited the financial statements of City of Sulphur, Louisiana, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. I conducted my 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. My audit of the primary government financial statements as of June 30, 2012 resulted in an unqualified opinion.

Section I – Summary of Auditor’s Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

1. Internal Control

Significant Deficiencies	<u> </u> Yes	<u> X </u> No
Material Weaknesses	<u> </u> Yes	<u> X </u> No

Compliance

Compliance Material to Financial Statements	<u> </u> Yes	<u> X </u> No
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2. Federal Awards – not applicable

Section II – Financial Statement Findings

Not applicable

Section III – Federal Award Findings and Questioned Costs

Not applicable

CITY OF SULPHUR, LOUISIANA
Corrective Action Plan for Current Year Findings
Year Ended June 30, 2012

Internal Control:

None noted.

Compliance:

None noted.

CITY OF SULPHUR, LOUISIANA
Schedule of Prior Year Findings
Year Ended June 30, 2012

Section I – Internal Control and Compliance Material to the Financial Statements – none.

Section II – Internal Control and Compliance Material to Federal Awards- Not applicable.

Section III – Management Letter. The prior year report did not include a management letter.