

# CITY OF SULPHUR, LOUISIANA

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## Annual Financial Report For Fiscal Year Ended June 30, 2010

Prepared by  
Department of Finance

CITY OF SULPHUR, LOUISIANA  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2010  
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CITY OF SULPHUR, LOUISIANA

June 30, 2010

MAYOR

The Honorable Christopher Duncan

CITY COUNCIL

Dru Ellender  
Mike Koonce  
Veronica Allison

Stuart Moss  
Randy Farve

LEGAL COUNSEL

Mitch Redd - City Attorney



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## **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, 2010, 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 the financial 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 \$17.4 million, \$4.8 million, \$12.5 million, \$6.8 million, and \$5.2 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, 2010, 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then 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 November 30, 2010, 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 6-13 and the required supplemental information on pages 49-51 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Additionally, the other supplemental information on pages 53- 54 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 the 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.

A handwritten signature in blue ink that reads "J. Aaron Coogan, CPA, LLC". The signature is written in a cursive, flowing style.

November 30, 2010

## 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, 2010. 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 \$106.2 million (net assets) for the fiscal year reported.
- Total revenues of \$25.8 million were less than total expenditures of \$27.5 million, resulting in a current year decrease in net assets of \$1.6 million.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$95.9 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 \$1.6 million are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$8.8 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 \$17.6 million this year of which \$1.6 million is reserved for debt service and \$6.5 million is designated for capital projects. This compares to the prior year fund balance, as restated, of \$17.6 million reflecting no significant change during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$8.3 million or 54% of total General Fund expenditures and 119% 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.

**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.

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

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 16 through 17 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.

The basic governmental fund financial statements are presented on pages 19 through 23 of this report.

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

***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 24 through 27 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 28 through 47 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 49 through 50 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 53 through 54 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 \$106.3 million.

The largest portion of the City's net assets (90.2 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.

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, LOUISIANA**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
(Continued)

City of Sulphur's Net Assets  
June 30,

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2008
<b>ASSETS</b>						
Current and other assets	\$ 21,608,130	\$ 22,319,227	\$ 8,763,140	\$ 11,147,141	\$ 30,371,270	\$ 33,466,368
Capital assets	31,708,718	30,072,556	64,736,118	65,450,761	96,444,836	95,523,317
Total assets	<u>53,316,848</u>	<u>52,391,783</u>	<u>73,499,258</u>	<u>76,597,902</u>	<u>126,816,106</u>	<u>128,989,685</u>
<b>LIABILITIES</b>						
Current liabilities	1,948,446	2,727,478	648,777	408,380	2,597,223	3,135,858
Long-term liabilities	17,307,677	17,585,033	683,683	353,576	17,991,360	17,938,609
Total liabilities	<u>19,256,123</u>	<u>20,312,511</u>	<u>1,332,460</u>	<u>761,956</u>	<u>20,588,583</u>	<u>21,074,467</u>
<b>NET ASSETS</b>						
Investment in capital assets, net of debt	31,157,156	29,719,020	64,736,118	65,450,760	95,893,274	95,169,780
Restricted	1,579,164	1,607,155	-	-	1,579,164	1,607,155
Unrestricted	1,324,405	753,097	7,430,680	10,385,186	8,755,085	11,138,283
Total net assets	<u>\$ 34,060,725</u>	<u>\$ 32,079,272</u>	<u>\$ 72,166,798</u>	<u>\$ 75,835,946</u>	<u>\$ 106,227,523</u>	<u>\$ 107,915,218</u>

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Programs						
Fees, fines and charges for services	\$ 2,620,916	\$ 2,501,560	\$ 4,668,707	\$ 4,729,089	\$ 7,289,623	\$ 7,230,649
Operating grants	310,654	568,666	-	-	310,654	568,666
Capital grants	1,501,995	-	-	-	1,501,995	-
General						
Sales taxes	11,893,646	13,619,084	-	-	11,893,646	13,619,084
Other taxes	4,137,044	4,035,127	-	-	4,137,044	4,035,127
Investment income	292,398	391,528	110,587	234,872	402,985	626,400
Other	207,435	161,551	100,304	-	307,739	161,551
Total revenue	<u>20,964,088</u>	<u>21,277,516</u>	<u>4,879,598</u>	<u>4,963,961</u>	<u>25,843,686</u>	<u>26,241,477</u>

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program expenses						
General government	3,467,625	3,519,382	-	-	3,467,625	3,519,382
Police	5,133,507	4,785,626	-	-	5,133,507	4,785,626
Fire	4,761,423	4,762,426	-	-	4,761,423	4,762,426
Streets and parks	5,290,653	5,310,098	-	-	5,290,653	5,310,098
Inspection/animal control	763,465	831,373	-	-	763,465	831,373
Shop	324,786	323,276	-	-	324,786	323,276
Interest on long-term debt	591,176	637,119	-	-	591,176	637,119
Other	-	-	-	-	-	-
Water and sewer	-	-	7,198,746	6,674,755	7,198,746	6,674,755
Total expenses	<u>20,332,635</u>	<u>20,169,300</u>	<u>7,198,746</u>	<u>6,674,755</u>	<u>27,531,381</u>	<u>26,844,055</u>
Increase (decreases) in net assets before transfers	631,453	1,108,216	(2,319,148)	(1,710,794)	(1,687,695)	(602,578)
Transfers	<u>1,350,000</u>	<u>(605,812)</u>	<u>(1,350,000)</u>	<u>605,812</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>1,981,453</u>	<u>502,404</u>	<u>(3,669,148)</u>	<u>(1,104,982)</u>	<u>(1,687,695)</u>	<u>(602,578)</u>
Beginning net assets	<u>32,079,272</u>	<u>31,576,868</u>	<u>75,835,946</u>	<u>76,940,928</u>	<u>107,915,218</u>	<u>108,517,796</u>
Ending net assets	<u>\$ 34,060,725</u>	<u>\$ 32,079,272</u>	<u>\$ 72,166,798</u>	<u>\$ 75,835,946</u>	<u>\$ 106,227,523</u>	<u>\$ 107,915,218</u>

**GOVERNMENTAL ACTIVITIES.** Governmental activities increased the City of Sulphur's net assets by \$2.0 million. Transfers totaling \$1.35 million from the enterprise fund (water and sewer services) contributed to the increase in net assets. The transfers were mainly used to fund the wastewater debt service fund.

Revenues decreased \$0.3 million (1.47 percent) from governmental activities for the current fiscal year. Sales taxes decreased by \$1.7 million (12.67 percent) during the current fiscal year. The major sources of revenue for governmental activities are: sales tax (56.75 percent), other taxes such as property taxes and franchise taxes (19.73 percent), program revenues (21.15 percent), and investment earnings and other (2.38 percent).

Expenses from governmental activities increased \$0.1 million (0.5 percent) for the current fiscal year. Public safety comprises 48.6 percent of total governmental activity expenses; 25.2 percent for police services and 23.4 percent for fire protection and prevention. Street maintenance and upgrading accounted for 26.1 percent of governmental activity expenditures.

Program revenues covered 21.9 percent of governmental operating expenses in the current fiscal year. Taxes and other general revenues fund remaining 78.1 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	\$ 3,467,625	\$ 2,511,620
Public safety		
Police	5,133,507	4,756,324
Fire	4,761,423	4,645,024
Streets	5,290,653	2,306,675
Inspection/animal control	763,465	763,465
Shop	324,786	324,786
Interest on long-term debt	591,176	591,176
	<hr/>	<hr/>
Total	\$20,332,635	\$15,899,070
	<hr/>	<hr/>

**BUSINESS-TYPE ACTIVITIES.** Business-type activities decreased the City of Sulphur's net assets by \$1.1 million. Transfers to government-activities were \$1.3 million in the current year.

Operating revenues for water and sewer services decreased \$0.1 million (1.28 percent) in the current fiscal year. Operating expenses increased \$0.5 million (7.66 percent). This activity generated an operating loss of \$2.5 million for the current fiscal year, compared to an operating loss of \$1.9 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. Unreserved 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 \$17.6 million, a decrease of less than \$0.1 million in comparison with the restated fund balance for the prior year. Ninety-one percent of this total amount, \$16.0 million, constitutes unreserved fund balance which is available for spending at the City's discretion. Reserved fund balances (not available for new spending because it has already been committed) are \$1.6 million committed for service debt.

The general fund is the primary operating fund of the City of Sulphur. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8.3 million. A comparison of both unreserved fund balance and total fund balance to total fund expenditures can be a useful measure of the general fund's liquidity. Unreserved fund balance represents 53.7 percent of total general fund expenditures.

The fund balance of the City's general fund decreased \$1.2 million during the current fiscal year. Changes in the fund balance of the City's general fund are affected by the amount of resources transferred in by the sales tax fund. The sales tax fund transferred \$7.3 million to the general fund during the current fiscal year.

Revenues on the general fund decreased \$0.2 million (2.3 percent) over the prior year. Expenditures

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

increased \$0.4 million (2.7 percent) over the prior year.

Revenues on the sales tax fund decreased \$1.7 million (12.7 percent) over the prior year. The City transfers excess of revenues over expenses to other City funds as provided in the sales tax ordinances.

*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 \$7.4 million. The total decrease in net assets for this fund was \$2.9 million.

The internal service fund (which accounts for the City's workers' compensation program) had unrestricted net assets of \$1.3 million at the end of the current fiscal year. This represents a decrease of \$0.15 million over the previous fiscal year.

### **BUDGETARY HIGHLIGHTS**

*General Fund.* The budget amendments during the year reflected a decrease in budgeted expenditures in the amount of \$0.5 million. Most of the budget amendments were in response to a decrease in budgeted transfers from the sales tax fund in the amount of 0.76 million.

Actual revenues exceeded budget by \$0.3 million or 4.5% and actual expenditures were more than budgeted by \$0.6 million or 4.2%. Transfers from sales tax were \$7.3 million.

*Sales Tax Fund.* The budget amendments during the year reflected a decrease in budgeted revenues in the amount of \$1.05 million. Actual revenues were less than the amount budgeted by less than \$0.1 million or less than 0.1%. Transfers out to various funds were 11.8 million. Actual transfers out were more than budgeted by less than \$0.1 million or less than 0.1%.

### **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, 2010, was \$31.7 million and \$64.7 million, respectively. The total increase in the City's investment in capital assets (net of depreciation) for the current fiscal year was \$0.9 million (1.0 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 the New City Hall Business Center
- Continuing program of improving, rehabilitating, and expanding the City's infrastructure

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

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,813,162	\$ 2,597,525	\$ -	\$ -	\$ 2,813,162	\$ 2,597,525
Construction in progress	3,387,592	2,539,444	3,223,659	1,458,168	6,611,251	3,997,612
Buildings	5,606,431	5,150,927	61,022,500	63,509,509	66,628,931	68,660,436
Furniture and quipment	2,573,147	2,983,995	424,786	429,763	2,997,933	3,413,758
Transportation equipment	2,406,117	2,493,787	65,174	53,321	2,471,291	2,547,108
Infrastructure	14,922,269	14,306,878	-	-	14,922,269	14,306,878
Total	<u>\$ 31,708,718</u>	<u>\$ 30,072,556</u>	<u>\$ 64,736,119</u>	<u>\$ 65,450,761</u>	<u>\$ 96,444,837</u>	<u>\$ 95,523,317</u>

Additional information on the City's capital assets can be found on pages 38 - 39 of this report. The following table provides a summary of capital asset activity.

*Long-term Debt.* At the end of the current fiscal year, the City of Sulphur had total long-term debt outstanding of \$8.00 million. Of this amount, the City's sales tax revenues are dedicated to retire \$7.44 million and \$0.55 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 39 and 41 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 2011 sales tax budget with a budget decrease of sales tax revenue in the amount of \$0.45 million. The City adopted a 2011 general fund budget with budget deficit of 1.2 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, 2010**

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash	\$ 5,553,887	\$ 2,877,243	\$ 8,431,130
Receivables (net of allowance for doubtful accounts)	3,420,552	566,372	3,986,924
Inventory	54,299	71,287	125,586
Prepaid and deferred expenses	315,568	72,664	388,232
Restricted cash	-	175,574	175,574
Investments	12,263,824	5,000,000	17,263,824
Capital assets:			
Land and construction in progress	6,200,754	3,223,659	9,424,413
Capital assets, net of accumulated depreciation	25,507,964	61,512,459	87,020,423
Total assets	<u>53,316,848</u>	<u>73,499,258</u>	<u>126,816,106</u>
<b>LIABILITIES</b>			
Accounts and other accrued payables	1,915,120	473,203	2,388,323
Liabilities payable from restricted assets	-	175,574	175,574
Interest payable	33,326	-	33,326
Long-term liabilities:			
Due within one year	2,927,533	121,609	3,049,142
Due in more than one year	14,380,144	562,074	14,942,218
Total liabilities	<u>19,256,123</u>	<u>1,332,460</u>	<u>20,588,583</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	31,157,156	64,736,118	95,893,274
Restricted for:			
Debt service	1,579,164	-	1,579,164
Unrestricted	1,324,405	7,430,680	8,755,085
Total net assets	<u>\$ 34,060,725</u>	<u>\$ 72,166,798</u>	<u>\$ 106,227,523</u>



# CITY OF SULPHUR, LOUISIANA

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Governmental activities:						
General and administrative	\$ 3,467,625	\$ 956,005	\$ -	\$ -	\$ (2,511,620)	\$ -
Streets and parks	5,290,653	1,423,784	58,199	1,501,995	(2,306,675)	-
Fire	4,761,423	-	116,399	-	(4,645,024)	-
Police	5,133,507	241,127	136,056	-	(4,756,324)	-
Inspection/animal control	763,465	-	-	-	(763,465)	-
Shop	324,786	-	-	-	(324,786)	-
Interest on long-term debt	591,176	-	-	-	(591,176)	-
Total governmental activities	20,332,635	2,620,916	310,654	1,501,995	(15,899,070)	-
Business-type activities:						
Water and sewer	7,198,746	4,668,707	-	-	-	(2,530,039)
Total activities	\$ 27,531,381	\$ 7,289,623	\$ 310,654	\$ 1,501,995	(15,899,070)	(2,530,039)
General revenues:						
Property taxes					1,647,146	-
Franchise taxes					1,399,977	-
Sales taxes					11,893,646	-
Intergovernmental					1,089,921	-
Unrestricted investment earnings					292,398	110,587
Other					207,435	100,304
Transfers					1,350,000	(1,350,000)
Total general revenues and transfers					17,880,523	(1,139,109)
Change in net assets					1,981,453	(3,669,148)
Beginning net assets					32,079,272	75,835,946
Ending net assets					\$ 34,060,725	\$ 72,166,798

The 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, 2010**

	<b>General Fund</b>	<b>Sales Tax Fund</b>	<b>Public Improvement Capital Project Fund</b>
<b>ASSETS</b>			
Cash	\$ 1,840,131	\$ 8,629	\$ 1,844,046
Receivables	697,138	1,137,516	5,776
Inventories	54,299	-	-
Investments	6,502,326	-	2,257,688
Total Assets	<u>\$ 9,093,894</u>	<u>\$ 1,146,145</u>	<u>\$ 4,107,510</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	<u>\$ 763,185</u>	<u>\$ 28,561</u>	<u>\$ 61,339</u>
<b>FUND BALANCES</b>			
Reserved for debt service	-	-	-
Unreserved - designated capital project funds	-	-	4,046,171
Unreserved - undesignated reported in:			
General fund	8,330,709	-	-
Special revenue funds	-	1,117,584	-
Debt service funds	-	-	-
Total Fund Balances	<u>8,330,709</u>	<u>1,117,584</u>	<u>4,046,171</u>
Total Liabilities and Fund Balances	<u><u>\$ 9,093,894</u></u>	<u><u>\$ 1,146,145</u></u>	<u><u>\$ 4,107,510</u></u>

**CITY OF SULPHUR, LOUISIANA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2010  
(Continued)**

	<b>Street Improvement Capital Project Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 143,418	\$ 1,587,635	\$ 5,423,859
Receivables	1,015,846	458,796	3,315,072
Inventories	-	-	54,299
Investments	2,000,000	-	10,760,014
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 3,159,264	\$ 2,046,431	\$ 19,553,244
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 664,458	\$ 448,269	\$ 1,965,812
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES</b>			
Reserved for debt service	-	1,579,164	1,579,164
Unreserved - designated capital project funds	2,494,806	-	6,540,977
Unreserved - undesignated reported in:			
General fund	-	-	8,330,709
Special revenue funds	-	-	1,117,584
Debt service funds	-	18,998	18,998
	<hr/>	<hr/>	<hr/>
Total Fund Balances	2,494,806	1,598,162	17,587,432
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 3,159,264	\$ 2,046,431	\$ 19,553,244
	<hr/>	<hr/>	<hr/>
Total fund balance - total governmental funds			\$ 17,587,432
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.			31,708,718
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			347,038
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.			1,310,271
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.			(14,507,841)
Other Postemployment Benefits (OPEB) obligations are due and payable in the current period and, therefore, are not reported the funds.			(2,833,161)
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 entity-wide statements as soon as the related improvement has been completed.			448,269
			<hr/>
			\$ 34,060,725
			<hr/>

**CITY OF SULPHUR, LOUISIANA**

**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2010**

	General Fund	Sales Tax Fund	Public Improvement Capital Project Fund
	<hr/>	<hr/>	<hr/>
<b>REVENUES</b>			
Taxes	\$ 2,679,111	\$ 11,893,646	\$ -
Licenses and permits	956,005	-	-
Intergovernmental	1,089,921	-	-
Charges for services	1,423,784	-	-
Fines and forfeitures	241,127	-	-
Investment earnings	147,366	-	42,003
Federal and state grants and awards	310,655	-	-
Other	145,882	-	1,142
	<hr/>	<hr/>	<hr/>
Total Revenues	6,993,851	11,893,646	43,145
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES</b>			
General and administrative	2,401,251	97,338	-
Fire	4,170,625	-	-
Police	4,503,937	-	-
Streets and parks	3,461,007	-	141,433
Inspection/animal control	693,055	-	-
Shop	270,910	-	-
Capital outlay	-	-	915,806
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
	<hr/>	<hr/>	<hr/>
Total Expenditures	15,500,785	97,338	1,057,239
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	(8,506,934)	11,796,308	(1,014,094)
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from issuance of debt	-	-	257,511
Transfers in	8,989,826	-	1,712,417
Transfers (out)	(1,721,108)	(11,800,478)	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	7,268,718	(11,800,478)	1,969,928
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(1,238,216)	(4,170)	955,834
	<hr/>	<hr/>	<hr/>
Beginning fund balances, as previously reported	9,568,925	1,121,754	3,090,337
	<hr/>	<hr/>	<hr/>
Prior period adjustment	-	-	-
Beginning fund balances, as restated	9,568,925	1,121,754	3,090,337
	<hr/>	<hr/>	<hr/>
Fund balances, ending	\$ 8,330,709	\$ 1,117,584	\$ 4,046,171
	<hr/>	<hr/>	<hr/>

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

**CITY OF SULPHUR, LOUISIANA**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**For The Year Ended June 30, 2010**

**(Continued)**

	<b>Street Improvement Capital Project Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ -	\$ 154,714	\$ 14,727,471
Licenses and permits	-	-	956,005
Intergovernmental	-	-	1,089,921
Charges for services	-	-	1,423,784
Fines and forfeitures	-	-	241,127
Investment earnings	30,798	23,583	243,750
Federal and state grants and awards	1,501,994	-	1,812,649
Other	-	10,789	157,813
	<hr/>	<hr/>	<hr/>
Total Revenues	1,532,792	189,086	20,652,520
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES</b>			
General and administrative	-	-	2,498,589
Fire	-	-	4,170,625
Police	-	-	4,503,937
Streets and parks	241,838	-	3,844,278
Inspection/animal control	-	-	693,055
Shop	-	-	270,910
Capital outlay	2,695,377	-	3,611,183
Debt service:			
Principal retirement	-	2,114,530	2,114,530
Interest and fiscal charges	-	585,318	585,318
	<hr/>	<hr/>	<hr/>
Total Expenditures	2,937,215	2,699,848	22,292,425
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	(1,404,423)	(2,510,762)	(1,639,905)
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from issuance of debt	-	-	257,511
Transfers in	1,589,162	2,736,108	15,027,513
Transfers (out)	(50,000)	(105,927)	(13,677,513)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	1,539,162	2,630,181	1,607,511
	<hr/>	<hr/>	<hr/>
Net change in fund balances	134,739	119,419	(32,394)
	<hr/>	<hr/>	<hr/>
Beginning fund balances, as previously reported	2,360,067	1,726,588	17,867,671
	<hr/>	<hr/>	<hr/>
Prior period adjustment	-	(247,845)	(247,845)
Beginning fund balances, as restated	2,360,067	1,478,743	17,619,826
	<hr/>	<hr/>	<hr/>
Fund balances, ending	\$ 2,494,806	\$ 1,598,162	\$ 17,587,432
	<hr/>	<hr/>	<hr/>

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

**CITY OF SULPHUR, LOUISIANA**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010**

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (32,394)</b>
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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.	(154,930)
--	-----------

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 asst acquisition	3,901,303
Depreciation expense	(2,265,142)

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.	2,114,530
---	-----------

Governmental funds report proceeds from bond issues as revenue. However, this revenue does not appear in the Statement of Activities since proceeds are added to bonds payable on the Statement of Net Assets.	(257,511)
--	-----------

The net effect of various other transactions that increase net assets.	110,315
--	---------

Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on accrual basis.	(5,858)
---	---------

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.	150,801
--	---------

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.	(1,421,674)
---	-------------

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.	<u>(157,987)</u>
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<b>Changes in net assets of governmental activities</b>	<b><u><u>\$ 1,981,453</u></u></b>
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# CITY OF SULPHUR, LOUISIANA

## STATEMENT OF NET ASSETS

### PROPRIETARY FUNDS

As of June 30, 2010

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,877,243	\$ 130,028
Receivables:		
Accounts (net of allowance for doubtful accounts)	518,582	-
Other	47,790	42,983
Prepaid expenses	72,664	31,027
Inventories	71,286	-
Total Current Assets	3,587,565	204,038
Noncurrent Assets:		
Investments	5,000,000	1,503,810
Restricted cash and cash equivalents	175,574	-
Capital assets, net of accumulated depreciation	64,736,119	-
Total Noncurrent Assets	69,911,693	1,503,810
Total Assets	\$ 73,499,258	\$ 1,707,848
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 440,332	\$ 397,577
Accrued salaries and benefits	32,871	-
Accrued compensated absences	44,737	-
Other post-employment benefits	76,872	-
Customer meter deposits	175,574	-
Total Current Liabilities	770,386	397,577
Noncurrent Liabilities:		
Accrued compensated absences, noncurrent	136,295	-
Other post-employment benefits, noncurrent	425,779	-
Total Noncurrent Liabilities	562,074	-
Total Liabilities	1,332,460	397,577
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	64,736,119	-
Unrestricted	7,430,679	1,310,271
Total Net Assets	\$ 72,166,798	\$ 1,310,271

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, 2010**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	<hr/>	<hr/>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 4,668,707	\$ -
	<hr/>	<hr/>
<b>OPERATING EXPENSES</b>		
General and administrative	677,795	22,107
Water department	1,749,054	-
Sewer department	2,023,037	-
Depreciation	2,748,860	-
Claims	-	137,490
Insurance	-	43,981
	<hr/>	<hr/>
Total Operating Expenses	7,198,746	203,578
	<hr/>	<hr/>
<b>OPERATING INCOME (LOSS)</b>	(2,530,039)	(203,578)
	<hr/>	<hr/>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment earnings	110,587	48,648
Other	100,304	-
	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	210,891	48,648
	<hr/>	<hr/>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND OPERATING TRANSFERS</b>	(2,319,148)	(154,930)
	<hr/>	<hr/>
<b>OPERATING TRANSFERS IN</b>	150,000	-
<b>OPERATING TRANSFERS OUT</b>	(1,500,000)	-
	<hr/>	<hr/>
Change in net assets	(3,669,148)	(154,930)
	<hr/>	<hr/>
<b>TOTAL NET ASSETS, BEGINNING</b>	75,835,946	1,465,201
	<hr/>	<hr/>
<b>TOTAL NET ASSETS, ENDING</b>	\$ 72,166,798	\$ 1,310,271
	<hr/> <hr/>	<hr/> <hr/>

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

**CITY OF SULPHUR, LOUISIANA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2010**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 4,602,852	\$ -
Payments to suppliers	(3,070,340)	(72,143)
Payments to or on behalf of employees	(975,471)	-
Claims paid	-	(107,304)
Net cash provided (used) by operating activities	<u>557,041</u>	<u>(179,447)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	150,000	-
Transfers (out)	(1,500,000)	-
Net cash used by noncapital and related financing activities	<u>(1,350,000)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisitions and construction of fixed assets	(1,836,974)	-
Other	100,304	-
Net cash used by capital and related financing activities	<u>(1,736,670)</u>	<u>-</u>
<b>CASH FLOWS FORM INVESTING ACTIVITIES</b>		
Purchased investments	(6,500,000)	(1,500,000)
Proceeds from sales and maturity of investments	11,500,000	1,500,000
Investment earnings	77,967	29,855
Net cash provided by investing activities	<u>5,077,967</u>	<u>29,855</u>
Net increase (decrease) in cash and cash equivalents	2,548,338	(149,592)
Cash and cash equivalents, beginning of the year	<u>517,009</u>	<u>279,620</u>
Cash and cash equivalents, end of the year	<u><u>\$ 3,065,347</u></u>	<u><u>\$ 130,028</u></u>
Cash and cash equivalents at the end of the year consisted of:		
Unrestricted cash	\$ 2,877,243	\$ 130,028
Restricted cash	<u>175,574</u>	<u>-</u>
	<u><u>\$ 3,052,817</u></u>	<u><u>\$ 130,028</u></u>

**CITY OF SULPHUR, LOUISIANA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2010  
(Continued)**

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (2,517,509)	\$ (203,578)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,748,860	-
(Increase) decrease in receivables	(65,855)	-
(Increase) decrease in inventory	12,694	-
(Increase) decrease in prepaid items	5,591	(6,055)
Increase (decrease) in accounts payable	53,289	30,186
Increase (decrease) in compensated absences payable	24,898	-
Increase (decrease) in other post-employment benefits	287,646	-
Increase (decrease) in customer deposits	7,427	-
Net cash provided (used) by operating activities	<u>\$ 557,041</u>	<u>\$ (179,447)</u>

CITY OF SULPHUR, LOUISIANA  
NOTES TO FINANCIAL STATEMENT  
June 30, 2010

**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, 2010

(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

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

within 60 days of the end of the current fiscal period. Requests for reimbursement from grants 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 are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as 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 Sales Tax Fund is a special revenue fund. This fund accounts for the receipt and use of proceeds of the City's 2½% sales and use tax.

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 Funds are 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.

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,

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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 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.

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.

### 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,

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

including Enterprise Fund construction projects, are carried forward along with their related appropriations and are not subject to annual cancellation and reappropriation.

### 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. The allowance for doubtful accounts at June 30, 2010 was \$3,673.

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, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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.



# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

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. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. 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

All permanent, full-time employees earn from 10 to 30 days of vacation leave each year, depending upon length of service. Vacation leave is available for use by employees in the fiscal year succeeding the year it was earned and can be accumulated indefinitely. Upon resignation, termination, or retirement, unused vacation leave is paid to the employee at the employee's current rate of pay.

Sick leave is earned at the rate of 12 days per year by permanent, full-time employees. Unused sick leave may be accumulated from year to year. However, unused sick leave is paid up to a maximum of 65 days upon termination.

At June 30, 2010, employees of the City had accumulated \$982,089 in leave privileges.

### 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.

## CITY OF SULPHUR, LOUISIANA

### NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

#### L. Equity Classification

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

1. 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.
2. 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.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. 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.

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.

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

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:

	Transfers In	Transfers Out
General		
Sales Tax	\$ 7,333,899	\$ -
Public Improvement	-	-
Street Improvements	50,000	215,000
Water Utility Fund	1,500,000	-
Wastewater Plant Debt Service	-	1,500,000
Paving Projects Debt Service	105,927	6,108
Total General	<u>8,989,826</u>	<u>1,721,108</u>
Sales Tax		
General	-	7,333,899
Wastewater Plant Debt Service	-	1,230,000
Street Improvement	-	1,374,162
Water Utility Fund	-	150,000
Public Improvement Capital Project	-	1,712,417
Total Sales Tax	<u>-</u>	<u>11,800,478</u>
Street Improvement Capital Project		
General	215,000	50,000
Sales Tax	1,374,162	-
Total Street Improvement Capital Project	<u>1,589,162</u>	<u>50,000</u>
Public Improvements Capital Project		
Sales Tax	1,712,417	-
Total Public Improvements Capital Project	<u>1,712,417</u>	<u>-</u>
Water Utility		
Sales Tax	150,000	-
General	-	1,500,000
Total Water Utility	<u>150,000</u>	<u>1,500,000</u>
Wastewater Plant Debt Service		
Sales Tax	1,230,000	-
General	1,500,000	-
Total Wastewater Plant Debt Service	<u>2,730,000</u>	<u>-</u>
Paving Projects Debt Service		
General	6,108	105,927
Total Paving Projects Debt Service	<u>6,108</u>	<u>105,927</u>
Grand totals	<u>\$ 15,177,513</u>	<u>\$ 15,177,513</u>

## CITY OF SULPHUR, LOUISIANA

### NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

#### 3) Restricted Assets

Restricted assets were applicable to the following at June 30, 2010:

Enterprise Fund:

Customers' deposits for water and sewer services were \$175,574.

#### 4) Cash and Investments

As of June 30, 2010, the City had cash and cash equivalents (book balances) totaling \$8,606,701 (net of outstanding checks and deposit in transit) of which \$8,570,434 is in interest-bearing demand deposits, \$34,727 is deposited in LAMP, and cash on hand of \$1,540.

As of June 30, 2010, the City had investments totaling \$17,263,824 of which \$8,257,688 is in certificates of deposit and \$9,006,136 consist of United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies. As of June 30, 2010, the weighted average maturity of the City's investment portfolio was 3.354 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 statutes 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, 2010

(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, 2010, the City had \$9,547,376 in demand deposits (bank balances before outstanding checks or deposits in transit) and \$8,257,688 in certificates of deposit. These deposits are secured from risk by \$9,010,235 of federal deposit insurance and \$8,794,829 of pledged securities held by the custodial bank in the name of the fiscal agent bank. Even though the pledged securities are considered uncollateralized (Category 3 under GASB Statement No.3), 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, 2010, taxes of 12.81 mills were levied on property with net assessed valuations totaling \$104,105,870, and were dedicated as follows:

General purposes	5.05 mills
Streets - maintenance	3.88 mills
Fire - maintenance	3.88 mills
Total taxes levied	\$1,333,596

The City is permitted by ordinance to levy taxes up to 14.69 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, 2010, are as follows:

	Governmental Activities	Business-Type Activities	Total
Sales taxes	\$ 1,137,516	\$ -	\$ 1,137,516
Charges for services, net of allowance for doubtful accounts of \$4,173	105,521	518,583	624,104
Franchise taxes	368,753	-	368,753
Interest	50,643	47,789	98,432
Other	1,758,119	-	1,758,119
	<u>\$ 3,420,552</u>	<u>\$ 566,372</u>	<u>\$ 3,986,924</u>

## CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

**7) Capital Assets**

	Beginning of Year	Additions	Deletions	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,597,525	\$ 215,637	\$ -	\$ 2,813,162
Construction in progress	2,539,444	3,611,183	2,763,035	3,387,592
Total capital assets not being depreciated	5,136,969	3,826,820	2,763,035	6,200,754
Capital assets being depreciated:				
Buildings	6,705,957	618,530	-	7,324,487
Furniture and equipment	7,512,621	275,937	-	7,788,558
Transportation equipment	4,486,325	248,195	79,143	4,655,377
Infrastructure	46,410,968	1,694,856	-	48,105,824
Total capital assets being depreciated	65,115,871	2,837,518	79,143	67,874,246
Less accumulated depreciation for:				
Buildings	1,555,030	163,026	-	1,718,056
Furniture and equipment	4,528,626	686,785	-	5,215,411
Transportation equipment	1,992,538	335,866	79,144	2,249,260
Infrastructure	32,104,090	1,079,465	-	33,183,555
Total accumulated depreciated	40,180,284	2,265,142	79,144	42,366,282
Governmental activities capital assets, net:	<u>\$ 30,072,556</u>	<u>\$ 4,399,196</u>	<u>\$ 2,763,034</u>	<u>\$ 31,708,718</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 1,458,168	\$ 1,975,950	\$ 210,459	\$ 3,223,659
Capital assets being depreciated:				
Buildings and plant	84,835,503	210,458	-	85,045,961
Furniture and equipment	1,342,125	39,231	-	1,381,356
Transportation equipment	247,807	19,038	-	266,845
Total capital assets being depreciated	86,425,435	268,727	-	86,694,162
Less accumulated depreciation for:				
Buildings and plant	21,325,994	2,697,467	-	24,023,461
Furniture and equipment	912,362	44,208	-	956,570
Transportation equipment	194,486	7,185	-	201,671
Total accumulated depreciated	22,432,842	2,748,860	-	25,181,702
Business type activities capital assets, net:	<u>\$ 65,450,761</u>	<u>\$ (504,183)</u>	<u>\$ 210,459</u>	<u>\$ 64,736,119</u>

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

Depreciation expense was charged to governmental activities as follows:

General and administrative	\$ 485,976
Streets and park	1,178,282
Fire	184,108
Police	363,634
Inspection/animal control	27,604
Shop	25,538
Total	<u>\$ 2,265,142</u>

The city had total commitments for the following projects:

Project type:	Expended to Date	Remaining Commitment
Streets and storm drainage	\$ 2,026,458	\$ 1,491,181
Waste water treatment and transport facilities	1,566,289	1,488,711
Water system improvements	52,848	479,823
Total	<u>\$ 3,645,595</u>	<u>\$ 3,459,715</u>

### 8) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Beginning of Year	Issued	Retired	End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 8,530,000	\$ -	\$ 1,090,000	\$ 7,440,000	\$ 1,130,000
Special assessments	353,536	257,946	59,920	551,562	85,235
Compensated absences	643,071	587,654	429,668	801,057	559,778
Capital leases	6,646,939	-	965,042	5,681,897	878,896
Other post-employment benefit	1,411,487	1,650,193	228,519	2,833,161	273,624
	<u>\$ 17,585,033</u>	<u>\$ 2,495,793</u>	<u>\$ 2,773,149</u>	<u>\$ 17,307,677</u>	<u>\$ 2,927,533</u>
Business-type activities:					
Compensated absences	\$ 138,571	\$ 83,316	\$ 40,855	\$ 181,032	\$ 44,737
Other post-employment benefit	215,005	351,186	63,540	502,651	76,872
	<u>\$ 353,576</u>	<u>\$ 434,502</u>	<u>\$ 104,395</u>	<u>\$ 683,683</u>	<u>\$ 121,609</u>

The payments on the bonds payable and 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, 2010

(Continued)

Bonds payable at June 30, 2010 are comprised of the following individual issues:

Governmental 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%	\$ 7,440,000
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Special assessment bonds:

\$120,240 paving project 2000-1 dated 12/1/00 due in annual installments of \$12,024 through December 1, 2010, interest at 4.93%	12,024
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\$140,496 paving project 2001-1 dated November 28, 2001, due in annual installments of \$14,049 through November 1, 2011, interest at 4.75%	28,098
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\$19,742 paving project 2004 dated January 1, 2004, due in annual installments of \$1,974 through January 1, 2014	7,896
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\$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%	38,286
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\$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%	207,747
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\$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%	257,511
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Total bonds payable	\$ 7,991,562
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The annual requirements to amortize all bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 1,215,235	\$ 319,072
2012	1,243,209	296,832
2013	1,274,161	251,534
2014	1,319,161	205,408
2015	1,335,750	152,666
2016-2020	1,604,046	170,905
	\$ 7,991,562	\$ 1,396,417



# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

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.

The assets acquired through capital leases are as follows:

	<u>Utility Fund</u>
Assets:	
Equipment	\$ 10,000,000

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

<u>Year Ending June 30</u>	<u>Government Activities</u>
2011	\$ 1,123,676
2012	1,225,828
2013	1,225,828
2014	1,225,828
2015	1,124,439
2016 - 2020	411,667
Total minimum lease payments	6,337,266
Less: amount representing interest	655,369
Present value of minimum lease payments	<u>\$ 5,681,897</u>

### 9) Dedication of Sales Tax Proceeds

One Percent Sales and Use Tax - Proceeds of the one percent (1%) sales and use tax levied by the City of Sulphur are collected by the Sales Tax Fund. 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.

## CITY OF SULPHUR, LOUISIANA

### NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

- 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.
- 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 by the City of Sulphur are collected by the Sales Tax Fund. 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 by the City of Sulphur are collected by the Sales Tax Fund. This tax was original authorized in 1991, and has re-authorized for an additional 10 years from April 1, 2001. Subsequent to the fiscal year ended June 30, 2010, on October 12, 2010, voters approved renewal of the sales tax 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.

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

### 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.

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 13.5% of covered payroll for the fiscal year ended June 30, 2010, 13.5% for the fiscal year ended June 30, 2009, and 13.5% for the fiscal year ended June 30, 2008. 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, 2010, 2009, and 2008 totaled \$495,537, \$468,900 and \$447,711, 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, Baton Rouge, LA 70809-7017.

Plan members are required to contribute 7.5% of their annual covered salary and the City is required to contribute as established by the state statute an actuarially determined rate, which was 11.0% of covered payroll for the fiscal year ended June 30, 2010, 9.5% for the fiscal year ended

## CITY OF SULPHUR, LOUISIANA

### NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

June 30, 2009, and 15.5% for the fiscal year ended June 30, 2008. The City's contributions to the system for the year ended June 30, 2010, 2009, and 2008 totaled \$287,361, \$245,877 and \$320,268, 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.

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, PO Box 94095 Capitol Station, Baton Rouge, LA 70804-9095.

Plan members are required to contribute 8.0% of their annual covered salary and the City is required to contribute at an actuarially determined rate, which was 14.0% of covered payroll for the fiscal year ended June 30, 2010, 12.5% for the fiscal year ended June 30, 2009, and 13.75% for the fiscal year ended June 30, 2008. 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, 2009, 2008, and 2007 totaled \$364,730, \$365,102 and \$356,691, 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.

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

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 \$350,000. 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	\$ 361,286
Incurred claims (including IBNRs)	162,265
Claim payments	<u>(137,490)</u>
Unpaid claims, end of fiscal year	<u>\$ 386,061</u>

### 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, 2010:

Mike Koonce	4,200
Dru Ellender	4,200
Stuart Moss	4,200
Randy Farve	896
Veronica Allison	896
Chris Duncan	3,304
Nancy Tower	3,304

The compensation paid to the both Mayors for the year end June 30, 2010, is as follows:

Chris Duncan	\$ 14,923
Ron LeLeux,	\$ 57,281

### 14) Postemployment Health Care and Life Insurance Benefits

The City provides certain continuing health care and life insurance benefits for the City's retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Those benefits for retirees are provided through Blue Cross/Blue Shield whose monthly premiums are paid by the City. The City pays the premiums on a "pay-as-you-go" basis. For the year ended June 30, 2010, there were fifty-six retirees and the costs of their benefits totaled \$291,560.

The City's Annual Required Contribution ("ARC") is an amount actuarially-determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, would cover normal cost each year and amortize the beginning Unfunded Actuarial Liability ("UAL") over a period of 30 years. A 30-year, closed amortization period has been used with a level-dollar amortization factor. The total ARC for the fiscal year 2010 is \$1,935,818 which consists of normal cost of \$884,411 and amortization of UAL of \$976,952.

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

The following table presents the City's OPEB obligation for the year ended June 30, 2010:

Beginning OPEB obligation at July 1, 2009	\$ 1,626,492
Annual Required Contribution	1,935,818
Interest on prior year obligation	65,060
Annual OPEB cost	2,000,878
Less: current year premiums paid	291,560
Increase in net OPEB obligation	1,709,318
Ending net OPEB obligation at June 30, 2010	<u>\$ 3,335,810</u>

Utilizing the pay-as-you-go method, the City contributed 15.1% of the annual OPEB cost during 2010.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded 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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 June 30, 2010 actuarial valuation, the "Closed Group" method was used, employees and retirees as of the valuation date were used and employees to be hired in the future were not considered. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after ten years. The 1994 Group Annuity Reserving Mortality Table was used in the actuarial calculation. An age-related turnover scale based on actual experiences as described by the City's administrative staff has been used. The rate, when applied to the active employee census, produced an annual turnover rate of approximately 6%. Based on past experience, it has been assumed that entitlement to benefits will commence four years after retirement eligibility (D.R.O.P. entry), except that police and fire personnel were assumed to wait until age 60 and 10 years of service instead of age 55 and 12 years of service. The remaining amortization period at June 30, 2010 was 28 years.

# CITY OF SULPHUR, LOUISIANA

## NOTES TO FINANCIAL STATEMENT

June 30, 2010

(Continued)

### Funded Status

The funded status of the plan as of June 30, 2010, was as follows:

Unfunded actuarial accrued liability (UAAL)	
as of actuarial valuation date 07/01/10:	18,272,082
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	9,728,392
UAAL as a percentage of covered payroll	188%

### 15) Subsequent Events

In May 2009, the Financial Accounting Standards Board issued Statement 165, Subsequent Events, to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. Statement 165 introduces new terminology, defines a date through which management must evaluate subsequent events, and list the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance-sheet date. The City adopted statement 165 as of June 30, 2010, which was the required effective date.

The City evaluated its June 30, 2010 financial statements for subsequent events through November 30, 2010, 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.

### 16) Prior Period Adjustment

The City recognized revenue on certain paving assessments on full accrual basis in the paving debt service fund, however, the revenue should have been recognized using the modified accrual method. As a result, beginning fund balance was overstated by \$247,845. This adjustment does not affect the government-wide financial statements.

## **REQUIRED SUPPLEMENTAL INFORMATION**



**CITY OF SULPHUR, LOUISIANA**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For The Year Ended June 30, 2010**

	Budget			Variance Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes	\$ 2,932,000	\$ 2,932,000	\$ 2,679,111	\$ (252,889)
Licenses and permits	819,200	819,200	956,005	136,805
Intergovernmental	937,000	937,000	1,089,921	152,921
Charges for services	1,220,000	1,220,000	1,423,784	203,784
Fines and forfeitures	246,500	246,500	241,127	(5,373)
Investment earnings	320,000	320,000	147,366	(172,634)
Federal and state grants and awards	-	-	310,655	310,655
Other	219,000	219,000	145,882	(73,118)
Total Revenues	<u>6,693,700</u>	<u>6,693,700</u>	<u>6,993,851</u>	<u>300,151</u>
 <b>EXPENDITURES</b>				
General and administrative	2,421,639	2,261,639	2,401,251	(139,612)
Fire	4,184,216	4,120,216	4,170,625	(50,409)
Police	4,427,915	4,231,915	4,503,937	(272,022)
Streets and grounds	3,360,140	3,298,140	3,461,007	(162,867)
Inspection/animal control	727,066	691,066	693,055	(1,989)
Shop	271,960	271,960	270,910	1,050
Total Expenditures	<u>15,392,936</u>	<u>14,874,936</u>	<u>15,500,785</u>	<u>(625,849)</u>
 Excess (deficiency) of revenues over expenditures	<u>(8,699,236)</u>	<u>(8,181,236)</u>	<u>(8,506,934)</u>	<u>(325,698)</u>
 <b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	8,125,000	7,412,000	8,989,826	1,577,826
Transfers (out)	-	(215,000)	(1,721,108)	(1,506,108)
Total other financing sources (uses)	<u>8,125,000</u>	<u>7,197,000</u>	<u>7,268,718</u>	<u>71,718</u>
 Net change in fund balance	<u>(574,236)</u>	<u>(984,236)</u>	<u>(1,238,216)</u>	<u>(253,980)</u>
 Fund balance, beginning	<u>9,568,925</u>	<u>9,568,925</u>	<u>9,568,925</u>	<u>-</u>
Fund balance, ending	<u>\$ 8,994,689</u>	<u>\$ 8,584,689</u>	<u>\$ 8,330,709</u>	<u>\$ (253,980)</u>

**CITY OF SULPHUR, LOUISIANA**

**BUDGETARY COMPARISON SCHEDULE**

**SALES TAX FUND**

**For The Year Ended June 30, 2010**

	<u>Budget</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sales taxes	\$ 13,000,000	\$ 11,950,000	\$ 11,893,646	\$ (56,354)
 <b>EXPENDITURES</b>				
Current				
General and administrative	<u>120,000</u>	<u>120,000</u>	<u>97,338</u>	<u>22,662</u>
 Excess (deficiency) of revenues over expenditures	<u>12,880,000</u>	<u>11,830,000</u>	<u>11,796,308</u>	<u>(33,692)</u>
 <b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	<u>(12,880,000)</u>	<u>(11,830,000)</u>	<u>(11,800,478)</u>	<u>29,522</u>
Total other financing sources (uses)	<u>(12,880,000)</u>	<u>(11,830,000)</u>	<u>(11,800,478)</u>	<u>29,522</u>
 Net change in fund balance	<u>-</u>	<u>-</u>	<u>(4,170)</u>	<u>(4,170)</u>
 Fund balance, beginning	<u>1,121,754</u>	<u>1,121,754</u>	<u>1,121,754</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 1,121,754</u></u>	<u><u>\$ 1,121,754</u></u>	<u><u>\$ 1,117,584</u></u>	<u><u>\$ (4,170)</u></u>

**CITY OF SULPHUR, LOUISIANA**

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING SCHEDULE  
For The Year Ended June 30, 2010**

The funded status of the plan as of June 30, 2010, was as follows:

Actuarial valuation of the plan assets	\$	-
Unfunded actuarial accrued liability (UAAL) as of valuation date June 30, 2010		18,272,082
Total unfunded liability		18,272,082
Funded ratio (actuarial value of plan assets/ALL)		0%
Covered payroll (active plan members)	\$	9,728,392
UAAL as a percentage of covered payroll		188%

## **OTHER SUPPLEMENTAL INFORMATION**

**CITY OF SULPHUR, LOUISIANA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2010**

	<b>Debt Service Funds</b>		
	<b>Paving Projects</b>	<b>Wastewater Plant</b>	<b>Nonmajor Governmental Funds Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 156,310	\$ 1,431,325	\$ 1,587,635
Assessments receivable:			
Current	98,850	-	98,850
Deferred	359,946	-	359,946
Total assets	<u>\$ 615,106</u>	<u>\$ 1,431,325</u>	<u>\$ 2,046,431</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Deferred revenue	<u>\$ 448,269</u>	<u>\$ -</u>	<u>\$ 448,269</u>
<b>FUND BALANCE</b>			
Reserved for debt service	147,839	1,431,325	1,579,164
Unreserved - undesignated	18,998	-	18,998
Total fund balance	<u>166,837</u>	<u>1,431,325</u>	<u>1,598,162</u>
Total liabilities and fund balances	<u>\$ 615,106</u>	<u>\$ 1,431,325</u>	<u>\$ 2,046,431</u>

**CITY OF SULPHUR, LOUISIANA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2010**

	<b>Debt Service Funds</b>		
	<b>Paving Projects</b>	<b>Wastewater Plant</b>	<b>Nonmajor Governmental Funds Total</b>
<b>REVENUES</b>			
Assessment levies	\$ 154,714	\$ -	\$ 154,714
Investment earnings	2,592	20,991	23,583
Interest on assessments	10,789	-	10,789
Total revenues	168,095	20,991	189,086
<b>EXPENDITURES</b>			
Debt service:			
Principal retirement	59,488	2,055,042	2,114,530
Interest and fiscal charges	27,664	557,654	585,318
Total expenditures	87,152	2,612,696	2,699,848
Excess (deficiency) of revenues over expenditures	80,943	(2,591,705)	(2,510,762)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	6,108	2,730,000	2,736,108
Transfers out	(105,927)	-	(105,927)
Total other financing sources (uses)	(99,819)	2,730,000	2,630,181
Net change in fund balances	(18,876)	138,295	119,419
Beginning fund balances, as previously reported	433,558	1,293,030	1,726,588
Prior period adjustment	(247,845)	-	(247,845)
Beginning fund balances, as restated	185,713	1,293,030	1,478,743
Ending fund balances	\$ 166,837	\$ 1,431,325	\$ 1,598,162

## **COMPLIANCE AND INTERNAL CONTROL REPORTS**



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

To the City Council  
City of Sulphur, Louisiana

I have audited the financial statements of governmental activities, the business-type activities, each major funds, and the aggregate remaining fund information of the City of Sulphur as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 30, 2010. 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 the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and could not necessarily identify all deficiencies in the 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. However, I identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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



The City's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the City's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the City of Sulphur, the City's management, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "J. Aaron Coogan, CPA, LLC". The signature is written in a cursive, flowing style.

DeRidder, Louisiana  
November 30, 2010



# J. Aaron Cooper , CPA, LLC

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

To the City Council  
City of Sulphur, Louisiana

### Compliance

I have audited the compliance of the City of Sulphur with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The City's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City's compliance with those requirements.

In my opinion the City of Sulphur complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

The management of the City of Sulphur is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

The City's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the City's responses and accordingly, I express no opinion on them.

This report is intended solely for the information and use of the City of Sulphur, the City's management, the Legislative Auditor of the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "J. Aaron Coogan, CPA, LLC". The signature is written in a cursive, flowing style.

DeRidder, Louisiana  
November 30, 2010

**CITY OF SULPHUR, LOUISIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2010**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<b>United States Department of Transportation-</b>			
<b>Federal Highway Administration</b>			
Passed through the State of Louisiana:			
Federal Aid Highway Program*	20.205	N/A	<u>\$    716,694</u>

\* Denotes major Federal program

The accompanying notes are an integral part of this schedule.

## **CITY OF SULPHUR, LOUISIANA**

### **Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2010**

#### **NOTE 1 – GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Sulphur, Sulphur, Louisiana. The City of Sulphur (the “City”) reporting entity is defined in Note 1 to the City’s financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

#### **NOTE 2 – BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City’s financial statements.

#### **NOTE 3 – RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal awards expenditures are reported in the City’s financial statements as follows:

General Fund	\$ <u>716,694</u>
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#### **NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with accounting principles generally accepted in the United States of America.

#### **NOTE 5 – MATCHING REVENUES**

For those funds that have matching revenues and state funding, federal expenditures were determined by deducting matching revenues from total expenditures.

## CITY OF SULPHUR

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

#### Section I - Summary of Audit Results

##### Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

##### Federal Awards

Internal control over compliance:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to major programs noted?	No
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	No
Identification of major programs:	
• Federal Aid Highway Construction Program	
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

## **CITY OF SULPHUR**

### **Corrective Action Plan for Current Year Findings For the Year Ended June 30, 2010**

#### **Internal Control:**

##### *Finding 2010-1(C)*

Description of Finding. Assessment revenue for certain paving assessments was recorded using the full accrual method at the fund level instead of the modified accrual method.

Corrective Action Planned. Management identified the aforementioned error and made a prior period adjustment in the fund financial statements for the effect of the error on beginning fund balance in the appropriate debt service funds. No adjustment was necessary in the government-wide financial statements.

Contact Person. Kevin Alley, Director of Finance.

#### **Compliance:**

None noted.

**CITY OF SULPHUR**

**Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

**Internal Control:**

None noted.

**Compliance:**

*Finding 2009-1(C)*

Description of Finding. The variances between budgeted revenues/expenses and actual revenues/expenses in the general fund exceeded 5%. State law requires that the budget be amended when budget variances exceeds 5%.

Corrective Action Taken. The budgets for the general fund and special revenue fund complied with state budget law for the year ended June 30, 2010.