

CITY OF SULPHUR, LOUISIANA



Annual Financial Report For Fiscal Year Ended June 30, 2013

Prepared by
Department of Finance

CITY OF SULPHUR, LOUISIANA
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2013
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CITY OF SULPHUR, LOUISIANA

June 30, 2013

MAYOR

The Honorable Christopher L. Duncan

CITY COUNCIL

Dru Ellender
Mike Koonce
Veronica Allison

Stuart Moss
Randy Favre

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Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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 City of Sulphur, Louisiana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial 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 from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

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 financial data for the City's legally separate component units to be reported with the financial data of the City's primary government. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the government-wide financial statements has not been determined.

Adverse Opinion

In my opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion” paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the City of Sulphur, Louisiana, as of June 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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 the aggregate remaining fund information for the primary government of the City of Sulphur, Louisiana, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Steven M. DeRouen & Associates

December 30, 2013
Lake Charles, Louisiana

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, 2013. 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 assets and deferred outflows of resources of the City exceeded its liabilities by \$88,752,244 (net position) for the fiscal year reported. Of this amount, \$9,494,668 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- Total revenues of \$28,009,855 were less than total expenses of \$30,113,877, resulting in a current year decrease in net position of \$2,104,022.
- Total sales taxes revenues for the current fiscal year were \$13,976,308, an increase of \$800,971 (6.7 percent) over the prior fiscal year.
- Total net position are comprised of the following:
 - (1) Capital assets, net of related debt, of \$78,741,983 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$515,593 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$9,494,668 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 \$12,564,984 this year of which \$55,938 is nonspendable, \$515,593 is restricted for debt service and law enforcement, \$943,438 committed for capital projects, \$3,300,270 is assigned for capital projects and \$7,749,745 is unassigned. This compares to the prior year fund balance, as restated, of \$13,252,751 reflecting a decrease of \$687,767 during the current fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,749,745 or 42.7% of total General Fund expenditures and 42.8% of total General Fund revenues.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused employee leave).

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

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

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

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

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

The City of Sulphur maintains nine 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, public improvement capital project fund, and street improvement capital project fund, which are considered to be major funds. Data from the other six 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 18 through 20 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 21 through 24 of this report.

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

The notes to the financial statements can be found on pages 25 through 47 of this report.

OTHER INFORMATION. In addition to the basic financial statements and accompanying notes, this report also presents required supplemental information concerning the City's budget presentations and progression in funding other postemployment benefits (OPEB).

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 52 through 53 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time, may serve 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 and deferred outflows of resources exceeded liabilities by \$88,752,244.

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

City of Sulphur's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	\$ 18,676,796	\$ 19,310,596	\$ 7,494,746	\$ 8,772,914	\$ 26,171,542	\$ 28,083,510
Capital assets	32,580,385	31,706,202	51,177,368	52,854,776	83,757,753	84,560,978
Total assets	51,257,181	51,016,798	58,672,114	61,627,690	109,929,295	112,644,488
LIABILITIES						
Current liabilities	2,569,053	2,581,325	808,838	647,161	3,377,891	3,228,486
Long-term liabilities	9,720,092	8,322,325	8,079,068	10,237,411	17,799,160	18,559,736
Total liabilities	12,289,145	10,903,650	8,887,906	10,884,572	21,177,051	21,788,222
NET POSITION						
Investment in capital assets, net of debt	34,022,120	33,175,925	44,719,863	43,999,180	78,741,983	77,175,105
Restricted	515,593	517,256	-	-	515,593	517,256
Unrestricted	4,430,323	6,419,967	5,064,345	6,743,938	9,494,668	13,163,905
Total net position	\$ 38,968,036	\$ 40,113,148	\$ 49,784,208	\$ 50,743,118	\$ 88,752,244	\$ 90,856,266

The largest portion of the City's net position (88.7%) 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. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

City of Sulphur's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Programs:						
Fees, fines and charges for services	\$ 2,930,122	\$ 2,699,672	\$ 5,348,505	\$ 5,096,460	\$ 8,278,627	\$ 7,796,132
Operating grants	205,367	115,308	-	-	205,367	115,308
Capital grants	1,406,200	272,639	44,127	-	1,450,327	272,639
General:						
Sales taxes	12,169,046	11,155,101	1,807,262	1,940,236	13,976,308	13,095,337
Property taxes	1,651,909	1,651,902	-	-	1,651,909	1,651,902
Franchise taxes	1,230,435	1,301,589	-	-	1,230,435	1,301,589
Intergovernmental	1,060,173	1,518,945	-	-	1,060,173	1,518,945
Investment income	(32,875)	58,214	15,794	58,476	(17,081)	116,690
Other	173,790	151,860	-	-	173,790	151,860
Total revenue	20,794,167	18,925,230	7,215,688	7,095,172	28,009,855	26,020,402

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program expenses:						
General government	3,984,251	4,471,675	-	-	3,984,251	4,471,675
Public safety	12,029,618	11,689,882	-	-	12,029,618	11,689,882
Streets and parks	5,910,705	5,791,712	-	-	5,910,705	5,791,712
Interest on long-term debt	14,705	17,673	-	-	14,705	17,673
Water and sewer	-	-	8,174,598	7,843,876	8,174,598	7,843,876
Total expenses	<u>21,939,279</u>	<u>21,970,942</u>	<u>8,174,598</u>	<u>7,843,876</u>	<u>30,113,877</u>	<u>29,814,818</u>
Increase (decreases) in net assets before transfers	(1,145,112)	(3,045,712)	(958,910)	(748,704)	(2,104,022)	(3,794,416)
Transfers	-	(533,418)	-	533,418	-	-
Increase in net position	<u>(1,145,112)</u>	<u>(3,579,130)</u>	<u>(958,910)</u>	<u>(215,286)</u>	<u>(2,104,022)</u>	<u>(3,794,416)</u>
Beginning net position, as restated	40,113,148	43,692,278	50,743,118	50,958,404	90,856,266	94,650,682
Ending net position	<u>\$ 38,968,036</u>	<u>\$ 40,113,148</u>	<u>\$ 49,784,208</u>	<u>\$ 50,743,118</u>	<u>\$ 88,752,244</u>	<u>\$ 90,856,266</u>

GOVERNMENTAL ACTIVITIES. During the current fiscal year, net position for governmental activities decreased \$1,145,112 from the prior year for an ending balance of \$38,968,036.

Revenues increased \$1,868,937 (9.9%) from governmental activities for the current fiscal year. Sales taxes increased by \$1,013,945 (9.1%) during the current fiscal year. The major sources of revenue for governmental activities are: sales tax 58.5 percent, other taxes such as property taxes and franchise taxes 19.0 percent, program revenues 21.8 percent, and investment earnings and other 0.30 percent.

Expenses from governmental activities decreased \$31,663 (0.1%) for the current fiscal year. Public safety comprises 54.8 percent of total governmental activity expenses. Street and parks accounted for 26.9 percent of governmental activity expenditures.

Program revenues covered 20.7 percent of governmental operating expenses in the current fiscal year. Taxes and other general revenues fund remaining 79.3 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.

	Total Cost of Services	Net Cost of Services
General government	\$ 3,984,251	\$ 3,072,311
Public safety:	12,029,618	11,386,530
Streets and parks	5,910,705	2,924,044
Interest on long-term debt	14,705	14,705
Total governmental activities	<u>\$ 21,939,279</u>	<u>\$ 17,397,590</u>

BUSINESS-TYPE ACTIVITIES. During the current fiscal year, net position for business-type activities decreased \$958,910 from the prior year for an ending balance of \$49,784,208.

Operating revenues for water and sewer services increased \$252,045 (5.0%) over the prior fiscal year. Sales taxes decreased by \$132,974 (6.9%) during the current fiscal year. Operating expenses increased \$127,902 (5.5%). This activity generated an operating loss of \$2,448,465 for the current fiscal year, compared to an operating loss of \$2,320,563 for the prior fiscal year.

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

Governmental funds reported combined ending fund balances of \$12,564,984, a decrease of \$687,767 in comparison with the fund balance for the prior year. Approximately 61.7 percent of this total amount, \$7,749,745, constitutes unassigned fund balance which is available for spending at the City's discretion. The City has nonspendable fund balances of \$55,938. Restricted fund balances (not available for new spending because it has already been committed) are \$515,593. The City has committed \$943,438, which has been committed by the City Council for capital projects. The City has assigned \$3,300,270, which has been assigned by the City Council for capital projects.

The general fund is the primary operating fund of the City of Sulphur. The fund balance of the City's general fund increased \$35,709 during the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,749,745. A comparison of both unassigned fund balance and total fund balance to total fund expenditures can be a useful measure of the general fund's liquidity. Unassigned fund balance represents 42.8 percent of total general fund expenditures.

Revenues on the general fund increased \$919,204 (5.34%) over the prior year. Expenditures increased \$1,333,315 (8.0%) over the prior year.

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 position of the public utility fund (which accounts for water and sewer services) at the end of the year totaled \$5,064,345. The total decrease in net position for this fund was \$958,910.

The internal service fund (which accounts for the City's workers' compensation program) had unrestricted net assets of \$1,195,872 at the end of the current fiscal year. This represents an increase of \$178,581 over the previous fiscal year.

BUDGETARY HIGHLIGHTS

General Fund. During the year there was a need for significant amendments to the original estimated revenues and budgeted appropriations. Budget amendments were approved to increase estimated revenues by \$423,000 and budget appropriations by \$126,240.

Actual revenues exceeded budget by \$263,427 (1.45%) and actual expenditures were more than budgeted by \$275,397 (1.52%).

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

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, 2013, was \$32,580,385 and \$51,177,368, respectively. The total decrease in the City's investment in capital assets (net of depreciation) for the current fiscal year was \$803,225 million (0.95%) 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:

- Continuing program of improving, rehabilitating, and expanding the City's infrastructure
- Construction on Parish Road

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

	Governmental Activities		Business-type Activities (*)		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 3,076,025	\$ 3,076,025	\$ -	\$ -	\$ 3,076,025	\$ 3,076,025
Construction in progress	3,765,396	1,572,803	141,685	301,616	3,907,081	1,874,419
Buildings	5,571,956	5,533,393	50,520,864	52,109,677	56,092,820	57,643,070
Furniture and quipment	1,309,583	1,671,356	319,672	367,640	1,629,255	2,038,996
Transportation equipment	1,811,288	1,700,760	195,147	75,843	2,006,435	1,776,603
Infrastructure	17,046,137	18,151,865	-	-	17,046,137	18,151,865
Total	<u>\$ 32,580,385</u>	<u>\$ 31,706,202</u>	<u>\$ 51,177,368</u>	<u>\$ 52,854,776</u>	<u>\$ 83,757,753</u>	<u>\$ 84,560,978</u>

(*) The 2012 year balance was restated as described in note 15.

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

Long-term Debt. At the end of the current fiscal year, the City of Sulphur had total long-term liabilities \$17,799,160.

City of Sulphur's Changes in Net Position

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
Governmental activities:					
Special assessments bonds	\$ 419,086	\$ -	\$ 85,135	\$ 333,951	\$ 59,161
Compensated absences	870,229	508,551	526,574	852,206	616,324
Other post-employment benefit	7,033,008	1,865,979	365,053	8,533,935	416,160
	<u>\$ 8,322,323</u>	<u>\$ 2,374,530</u>	<u>\$ 976,762</u>	<u>\$ 9,720,092</u>	<u>\$ 1,091,645</u>
Business-type activities:					
Capital leases	\$ 3,715,596	\$ -	\$ 1,183,091	\$ 2,532,505	\$ 1,043,789
General obligation bonds	5,140,000	-	1,215,000	3,925,000	1,260,000
Compensated absences	209,380	84,764	89,813	204,331	54,595
Other post-employment benefit	1,172,435	304,337	59,539	1,417,232	67,875
	<u>\$ 10,237,411</u>	<u>\$ 389,101</u>	<u>\$ 2,547,443</u>	<u>\$ 8,079,068</u>	<u>\$ 2,426,259</u>

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

Of this amount, the City's sales tax revenues are dedicated to retire \$6,457,505 and \$333,951 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 37 and 39 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 2014 sales tax budget of \$14,400,000, an increase of \$500,000 (3.6%) over the final 2013 sales tax budget. The City adopted a 2013 general fund budget with budget deficit of \$369,445.

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 POSITION

June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,328,475	\$ 2,334,293	\$ 8,662,768
Receivables (net of allowance for uncollectibles)	1,751,138	780,273	2,531,411
Intergovernmental	548,032	-	548,032
Inventories	55,938	78,778	134,716
Prepaid expenses	268,562	65,854	334,416
Restricted cash	-	250,258	250,258
Investments	7,755,000	3,985,290	11,740,290
Investment-joint venture	1,969,651	-	1,969,651
Capital assets:			
Land and construction in progress	6,841,421	141,685	6,983,106
Capital assets, net of accumulated depreciation	25,738,964	51,035,683	76,774,647
TOTAL ASSETS	51,257,181	58,672,114	109,929,295
LIABILITIES			
Accounts and other accrued payables	2,563,717	546,347	3,110,064
Liabilities payable from restricted assets	-	250,258	250,258
Interest payable	5,336	12,233	17,569
Noncurrent liabilities:	-		
Due within one year	1,091,645	2,426,259	3,517,904
Due in more than one year	8,628,447	5,652,809	14,281,256
Total Liabilities	12,289,145	8,887,906	21,177,051
NET POSITION			
Net investment in capital assets	34,022,120	44,719,863	78,741,983
Restricted for:			
Debt service reserve	55,606	-	55,606
Law enforcement	459,987	-	459,987
Unrestricted	4,430,323	5,064,345	9,494,668
Total net position	\$ 38,968,036	\$ 49,784,208	\$ 88,752,244

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

CITY OF SULPHUR, LOUISIANA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	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 government:						
General and administrative	\$ 3,163,299	\$ 894,985	\$ -	\$ -	\$ (2,268,314)	\$ (2,268,314)
Animal control	304,400	-	-	-	(304,400)	(304,400)
Code enforcement	157,968	16,955	-	-	(141,013)	(141,013)
Shop	358,584	-	-	-	(358,584)	(358,584)
Public safety:						
Police	5,987,675	345,007	200,425	-	(5,442,243)	(5,442,243)
Fire	5,585,206	-	-	-	(5,585,206)	(5,585,206)
Inspection	456,737	97,656	-	-	(359,081)	(359,081)
Streets and parks	5,910,705	1,575,519	4,942	1,406,200	(2,924,044)	(2,924,044)
Interest on long-term debt	14,705	-	-	-	(14,705)	(14,705)
Total governmental activities	21,939,279	2,930,122	205,367	1,406,200	(17,397,590)	(17,397,590)
Business-type activities:						
Water and sewer	8,174,598	5,348,505	-	44,127	(2,781,966)	(2,781,966)
Total activities	\$ 30,113,877	\$ 8,278,627	\$ 205,367	\$ 1,450,327	(17,397,590)	(20,179,556)
General revenues:						
Sales taxes		12,169,046			1,807,262	13,976,308
Property taxes		1,651,909			-	1,651,909
Franchise taxes		1,230,435			-	1,230,435
Intergovernmental		1,060,173			-	1,060,173
Unrestricted investment earnings		25,848			15,794	41,642
Investment earnings - joint venture		(58,723)			-	(58,723)
Other		173,790			-	173,790
Transfers		-			-	-
Total general revenues and transfers		16,252,478			1,823,056	18,075,534
Change in net position		(1,145,112)			(958,910)	(2,104,022)
Net position-beginning, as previously reported		38,084,774			58,951,599	97,036,373
Prior period adjustment		2,028,374			(8,208,481)	(6,180,107)
Net position-beginning, as restated		40,113,148			50,743,118	90,856,266
Net position-ending		\$ 38,968,036			\$ 49,784,208	\$ 88,752,244

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

FUND FINANCIAL STATEMENTS

CITY OF SULPHUR, LOUISIANA

**BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2013**

	General Fund	Public Improvement Capital Project Fund	Street Improvement Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,191,746	\$ 2,314,751	\$ 824,351	\$ 505,619	\$ 5,836,467
Receivables (net of allowance for uncollectibles)	1,377,354	-	27,019	300,776	1,705,149
Intergovernmental receivables	254,985	76,988	204,247	11,812	548,032
Inventories	55,938	-	-	-	55,938
Investments	4,980,000	-	1,775,000	-	6,755,000
Investment-joint venture	193,965	-	-	-	193,965
Total Assets	<u>\$ 9,053,988</u>	<u>\$ 2,391,739</u>	<u>\$ 2,830,617</u>	<u>\$ 818,207</u>	<u>\$ 15,094,551</u>
LIABILITIES					
Accounts payable	\$ 724,841	\$ 114,073	\$ 864,575	\$ 1,839	\$ 1,705,328
Accrued liabilities	523,464	-	-	-	523,464
Total liabilities	<u>1,248,305</u>	<u>114,073</u>	<u>864,575</u>	<u>1,839</u>	<u>2,228,792</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-special assessments	-	-	-	300,775	300,775
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,775</u>	<u>300,775</u>
FUND BALANCES					
Nonspendable:					
Inventories	55,938	-	-	-	55,938
Restricted:					
Debt service reserves	-	-	-	55,606	55,606
Law enforcement	-	-	-	459,987	459,987
Committed:					
Capital projects	-	146,931	796,507	-	943,438
Assigned:					
Capital projects	-	2,130,735	1,169,535	-	3,300,270
Unassigned	7,749,745	-	-	-	7,749,745
Total Fund Balances	<u>7,805,683</u>	<u>2,277,666</u>	<u>1,966,042</u>	<u>515,593</u>	<u>12,564,984</u>
Total liabilities, deferred inflows, and fund Balances	<u>\$ 9,053,988</u>	<u>\$ 2,391,739</u>	<u>\$ 2,830,617</u>	<u>\$ 818,207</u>	<u>\$ 15,094,551</u>

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

Total fund balance - governmental funds	\$ 12,564,984
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	32,580,385
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,051,447
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 position.	1,195,872
Long-term liabilities, including bonds payable, special assessment debt, accrued interest payable, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported liabilities in the funds.	(1,191,493)
Other Postemployment Benefits (OPEB) obligations are due and payable in the current period and, therefore, are not reported the funds.	(8,533,935)
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.	300,776
Net position of governmental activities	<u>\$ 38,968,036</u>

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

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPEDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2013**

	General Fund	Public Improvement Capital Project Fund	Street Improvement Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Sales taxes	\$ 11,031,046	\$ -	\$ 1,138,000	\$ -	\$ 12,169,046
Ad valorem taxes	1,651,909	-	-	-	1,651,909
Franchise taxes	1,237,787	-	-	-	1,237,787
Other taxes	-	-	-	21,592	21,592
Licenses and permits	1,009,596	-	-	-	1,009,596
Intergovernmental	1,265,540	115,058	1,291,142	-	2,671,740
Charges for services	1,575,519	-	-	-	1,575,519
Fines and forfeitures	146,983	-	-	198,024	345,007
Investment earnings	54,471	7,812	9,005	3,143	74,431
Other	164,226	-	-	7,754	171,980
Total Revenues	18,137,077	122,870	2,438,147	230,513	20,928,607
EXPENDITURES					
Current:					
General government:					
General and administrative	2,745,257	-	7,775	-	2,753,032
Animal control	275,832	-	-	-	275,832
Code enforcement	145,667	-	-	-	145,667
Shop	330,333	-	-	-	330,333
Public safety:					
Police	5,309,047	37,235	-	124,373	5,470,655
Fire	4,890,484	-	-	-	4,890,484
Inspection	393,445	-	-	-	393,445
Streets and parks	4,011,303	21,656	580,392	-	4,613,351
Debt service:					
Principal retirement	-	-	-	85,129	85,129
Interest and fiscal charges	-	-	-	22,674	22,674
Capital outlay:					
General government	-	4,400	-	-	4,400
Streets and parks	-	253,195	2,378,177	-	2,631,372
Total Expenditures	18,101,368	316,486	2,966,344	232,176	21,616,374
Excess (deficiency) of revenues over (under) expenditures	35,709	(193,616)	(528,197)	(1,663)	(687,767)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	-	-	-	-	-
Total other financing sources and (uses)	-	-	-	-	-
Net change in fund balances	35,709	(193,616)	(528,197)	(1,663)	(687,767)
Fund balances-beginning, as previously reported	7,630,407	2,471,282	2,494,239	517,256	13,113,184
Prior period adjustment	139,567	-	-	-	139,567
Fund balance-beginning, as restated	7,769,974	2,471,282	2,494,239	517,256	13,252,751
Fund balances-ending	\$ 7,805,683	\$ 2,277,666	\$ 1,966,042	\$ 515,593	\$ 12,564,984

The notes to 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
For The Year Ended June 30, 2013**

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

Net change in fund balances - total governmental funds	\$ (687,767)
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.	178,581
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets acquisitions exceed depreciation in the current period.	
Capital asset acquisitions	3,163,635
Depreciation expense	(2,289,452)
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 Position.	85,129
The net effect of various other transactions that increase net position.	(100,524)
Difference between interest on long-term debt on modified accrual basis versus interest on long-term debt on accrual basis.	7,969
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.	(19,781)
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 Position.	(1,500,925)
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 Position.	18,023
Changes in net position of governmental activities	<u>\$ (1,145,112)</u>

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

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2013**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Public Utility	Workers' Compensation
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,334,293	\$ 492,009
Accounts receivable	567,190	-
Interest receivable	2,635	-
Sales tax receivable	210,448	-
Other	-	-
Restricted cash and cash equivalents	250,258	-
Prepaid expenses	65,854	38,789
Inventories	78,778	-
Total Current Assets	3,509,456	530,798
Noncurrent Assets:		
Investments	3,985,290	1,000,000
Capital assets:		
Land and construction in progress	141,685	-
Capital assets, net of accumulated depreciation	51,035,683	-
Total Noncurrent Assets	55,162,658	1,000,000
Total Assets	\$ 58,672,114	\$ 1,530,798
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 489,405	\$ 334,926
Accrued salaries and benefits	56,942	-
Accrued compensated absences	54,595	-
Interest payable	12,233	-
Customer deposits payable	250,258	-
Bond payable	1,260,000	-
Capital leases	1,043,789	-
Other post-employment benefits	67,875	-
Total Current Liabilities	3,235,097	334,926
Noncurrent Liabilities:		
Accrued compensated absences, noncurrent	149,736	-
Bonds payable	2,665,000	-
Capital leases payable	1,488,716	-
Other post-employment benefits, noncurrent	1,349,357	-
Total Noncurrent Liabilities	5,652,809	-
Total Liabilities	8,887,906	334,926
NET POSITION		
Investment in capital assets, net of related debt	44,719,863	-
Unrestricted	5,064,345	1,195,872
Total Net Position	\$ 49,784,208	\$ 1,195,872

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

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For The Year Ended June 30, 2013**

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Public Utility	Workers' Compensation
OPERATING REVENUES		
Charges for services:		
Water sales	\$ 2,066,665	\$ -
Wastewater fees	3,129,854	-
Water and sewer taps fees	27,625	-
Workers' compensation fees	-	526,820
Miscellaneous	124,361	-
Total operating revenues	5,348,505	526,820
OPERATING EXPENSES		
General and administrative	835,592	64,808
Water expenses	1,789,722	-
Wastewater expenses	2,608,739	-
Depreciation	2,562,917	-
Claims	-	221,927
Insurance	-	67,320
Total Operating Expenses	7,796,970	354,055
Operating income (loss)	(2,448,465)	172,765
NON-OPERATING REVENUES (EXPENSES)		
Sales taxes	1,807,262	-
Investment earnings	15,794	5,816
Interest expense	(333,418)	-
Grants	44,127	-
Other	(44,210)	-
Total Non-Operating Revenues (Expenses)	1,489,555	5,816
Income before capital contributions and transfers	(958,910)	178,581
TRANSFERS IN (OUT)	-	-
Change in net position	(958,910)	178,581
Net position-beginning, as previously reported	58,951,599	1,017,291
Prior period adjustment	(8,208,481)	-
Net position-beginning, as restated	50,743,118	1,017,291
Net position-ending	\$ 49,784,208	\$ 1,195,872

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

CITY OF SULPHUR, LOUISIANA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2013**

	Business-Type Activities - Enterprise Fund Water and Wastewater	Governmental Activities - Internal Service Fund Workers' Compensation
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 5,358,713	\$ -
Receipts from interfund charges for risk management services	-	526,820
Payments to suppliers and service providers	(3,595,202)	(133,484)
Payment to employees for salaries and benefits	(1,093,436)	-
Payments made for claims	-	(376,233)
Net cash provided by (used for) operating activities	<u>670,075</u>	<u>17,103</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from sales taxes	1,753,740	-
Other	1,044	-
Net cash (used for) noncapital and related financing activities	<u>1,754,784</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants	44,126	-
Acquisitions and construction of capital assets	(1,004,747)	-
Principal paid on capital debt	(2,398,091)	-
Interest paid on capital debt	(337,205)	-
Net cash provided by (used for) capital and related financing activities	<u>(3,695,917)</u>	<u>-</u>
CASH FLOWS FORM INVESTING ACTIVITIES		
Purchase of investments	(5,000,000)	(1,000,000)
Proceeds from sales and maturity of investments	4,500,000	1,000,000
Interest on investments	32,074	5,816
Net cash provided by investing activities	<u>(467,926)</u>	<u>5,816</u>
Net increase (decrease) in cash and cash equivalents	(1,738,984)	22,919
Cash and cash equivalents, beginning of the year	4,323,535	469,090
Cash and cash equivalents, end of the year	<u><u>2,584,551</u></u>	<u><u>492,009</u></u>
Cash and cash equivalents at the end of the year consisted of:		
Unrestricted cash	2,334,293	\$ 492,009
Restricted cash	250,258	-
	<u><u>\$ 2,584,551</u></u>	<u><u>\$ 492,009</u></u>

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

CITY OF SULPHUR, LOUISIANA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For The Year Ended June 30, 2013 (Continued)

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water and Wastewater	Workers' Compensation
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating loss	\$ (2,448,465)	\$ 172,765
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	2,562,917	-
(Increase) decrease in receivables	10,208	-
(Increase) decrease in inventory	(858)	-
(Increase) decrease in prepaid items	26,878	(1,356)
Increase (decrease) in customer deposits	14,306	-
Increase (decrease) in accounts payable	254,201	(154,306)
Increase (decrease) in accrued liabilities	11,140	-
Increase (decrease) in compensated absences payable	(5,049)	-
Increase in other post-employment benefits	244,797	-
Total Adjustments	3,118,540	(155,662)
Net Cash Provided by (Used for) Operating Activities	\$ 670,075	\$ 17,103

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

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2013

1) Summary of Significant Accounting Policies

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally *separate component* units for which the primary government is financially accountable.

B. 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, which is governed by an elected mayor and five-member governing council.

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. Component units are not discretely presented in this report. Further disclosures concerning such units are provided below.

The City Court of Sulphur and for Ward Four (Court) is dependent on the City for office space, court rooms and partially funding the Court Judge's salary. Additionally, the City's provides partial funding for court employees and other operating expenses. The Court was determined to be a component unit of the City, the primary reporting entity.

The Ward Four Marshal is dependent on the City for office space and partially funding the Marshal's salary. Additionally, the City's provides partial funding for the salary expenses and other operating expenses. The Ward Four Marshal was determined to be a component unit of the City, the primary reporting entity.

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.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

C. Basis of presentation - government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of presentation - fund financial statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in other funds.

The *public improvement capital project fund* accounts for 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 enterprise fund:

The *public utility fund* accounts for activities of the water distribution system and wastewater collection and treatment.

Additionally, the City also reports the following fund types:

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

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

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

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is available. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Budgetary information

Adoption Process

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 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 Capital Projects Fund's budget is a project-based capital budget. Policies and procedures with respect to budgetary control are as follows.

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

Basis of accounting

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

Excess of Expenditures over Appropriations

The legal level of budgetary control for the General Fund is at the department level. Expenditures of various departments did exceed appropriated amounts. Additionally, the expenditures of General Fund exceeded the appropriated amounts by \$275,397. A formal budget amendment is not required according to state law since the General Fund's total expenditures did not exceed appropriated expenditures by more than five percent.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. *Cash and cash equivalents*

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

2. *Investments*

The City investments are limited to U.S. Treasury and government agency obligations as well as investments in the Louisiana Asset Management Pool, Inc. (LAMP) and the Certificate of Deposit Account Registry Service (CDARS). LAMP is a nonprofit corporation organized under the laws of the State of Louisiana which operates a local government investment pool. CDARS is an investment vehicle providing full FDIC insurance for the purchase of certificates of deposit.

Investments are reported at fair value except for LAMP investments which are stated at cost, which approximates market and is equal to the value of the pool shares. Fair value was determined by obtaining "quoted" year-end market prices.

3. *Inventory and prepaid items*

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.

Certain contracts and insurance payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and the proprietary funds financial statements. The cost of prepaid items is recorded as expenditures/expenses when purchased in the governmental funds.

4. *Capital Assets*

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

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

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

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

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

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

5. *Accounts Receivable*

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

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

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

6. *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.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

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.

7. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items which qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. *Net position flow assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. *Fund balance flow assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes the City classifies governmental fund balances as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or grantors, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internal imposed by the City through formal action of the City and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for a specific purpose that are considered to be neither restricted nor committed. Fund balance can be assigned by the City Council.
- Unassigned - includes fund balance amounts within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and, (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes and the related state revenue sharing are recorded in the year taxes are due and payable. Property 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.

3. Compensated Absences

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

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

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

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

4. Proprietary funds operating and nonoperating revenues and expenses

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.

I. 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.

2) Restricted Assets

Customer deposits of the public utility fund are legally restricted as to purpose. These assets have been classified as restricted assets on the Statement of Net Position since the use of these funds are limited. Restricted assets as of June 30, 2013, were \$250,258.

3) Cash and Investments

As of June 30, 2013, the City had cash and cash equivalents (book balances) totaling \$8,913,026 (net of outstanding checks and deposit in transit) of which \$6,053,609 is in interest-bearing demand deposits, \$2,823,009 is in noninterest-bearing demand deposits, \$34,868 is deposited in LAMP, and cash on hand of \$1,540.

As of June 30, 2013, the City had investments totaling \$11,740,290 of which \$8,275,000 is in certificates of deposit with maturities not exceeding two years and \$3,465,290 consisting of callable investments of United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies. As of June 30, 2013, the weighted average maturity of the City's investment portfolio was 4.7607 years.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

Credit risk. 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. The City does not have a deposit policy for custodial credit risk.

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.

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. The City does not have a deposit policy for custodial credit risk. As of June 30, 2013, the City had \$9,645,459 in demand deposits (bank balances before outstanding checks or deposits in transit) and \$8,275,000 in certificates of deposit. These deposits are secured from risk by \$9,489,329 of federal deposit insurance and \$8,431,130 of pledged securities held by the custodial bank in the name of the fiscal agent bank. Even though the pledged securities are considered uncollateralized, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent bank has failed to pay deposited funds upon demand.

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.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

4) Property Taxes

For the year ended June 30, 2013, taxes of 14.07 mills were levied on property with net assessed valuations totaling \$117,444,240 and were dedicated as follows:

General purposes	5.01 mills
Streets - maintenance	4.53 mills
Fire - maintenance	4.53 mills
Total taxes levied	\$ 1,652,860

The City is permitted by ordinance to levy taxes up to 14.21 mills of assessed valuation for general governmental services. The general-purpose millage is perpetual, while the streets and fire maintenance mileages are for ten-year durations and expire December 31, 2024. 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.

5) Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables as of June 30, 2013, for major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts:

Receivables	General	Public Improvement Capital Project	Street Improvement Capital Project	Nonmajor Governmental	Total
Sales taxes	\$ 949,871	\$ -	\$ 27,019	\$ -	\$ 976,890
Charges for services	126,034	-	-	-	126,034
Franchise taxes	297,656	-	-	-	297,656
Special assessments	-	-	-	300,776	300,776
Interest	54	-	-	-	54
Other	8,120	-	-	-	8,120
Gross receivables	\$ 1,381,735	\$ -	\$ 27,019	\$ 300,776	\$ 1,709,530
Less: Allowance for uncollectibles	(4,381)	-	-	-	(4,381)
Net receivable	<u>\$ 1,377,354</u>	<u>\$ -</u>	<u>\$ 27,019</u>	<u>\$ 300,776</u>	<u>\$ 1,705,149</u>

Revenues of the Public Utility, an enterprise fund, are reported net of uncollectible amounts. As of June 30, 2013, the total uncollectible amounts related to water sales and wastewater services amounted to \$12,635.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

6) Capital Assets

	Beginning of Year	Additions	Deletions	End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,076,025	\$ -	\$ -	\$ 3,076,025
Construction in progress	1,572,803	2,635,772	443,179	3,765,396
Total capital assets not being depreciated	4,648,828	2,635,772	443,179	6,841,421
Capital assets being depreciated:				
Buildings	7,608,444	221,115	-	7,829,559
Furniture and equipment	7,372,371	80,688	-	7,453,059
Transportation equipment	4,560,152	447,175	-	5,007,327
Infrastructure	53,847,512	222,064	-	54,069,576
Total capital assets being depreciated	73,388,479	971,042	-	74,359,521
Less accumulated depreciation for:				
Buildings	2,075,051	182,552	-	2,257,603
Furniture and equipment	5,701,015	442,461	-	6,143,476
Transportation equipment	2,859,392	336,647	-	3,196,039
Infrastructure	35,695,647	1,327,792	-	37,023,439
Total accumulated depreciated	46,331,105	2,289,452	-	48,620,557
Governmental activities capital assets, net:	<u>\$ 31,706,202</u>	<u>\$ 1,317,362</u>	<u>\$ 443,179</u>	<u>\$ 32,580,385</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 301,616	\$ 743,281	\$ 903,212	\$ 141,685
Capital assets being depreciated:				
Buildings and plant (*)	73,470,056	903,212	-	74,373,268
Furniture and equipment	1,319,882	2,440	-	1,322,322
Transportation equipment	294,885	139,789	-	434,674
Total capital assets being depreciated	75,084,823	1,045,441	-	76,130,264
Less accumulated depreciation for:				
Buildings and plant (*)	21,360,379	2,492,025	-	23,852,404
Furniture and equipment	952,242	50,408	-	1,002,650
Transportation equipment	219,042	20,485	-	239,527
Total accumulated depreciated	22,531,663	2,562,918	-	25,094,581
Business type activities capital assets, net:	<u>\$ 52,854,776</u>	<u>\$ (774,196)</u>	<u>\$ 903,212</u>	<u>\$ 51,177,368</u>

(*) The beginning of year balance was restated as described in note 15.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Depreciation expense was charged to governmental activities as follows:

General and administrative	\$ 449,984
Fire	174,960
Police	175,221
Streets and park	1,431,194
Inspection	18,478
Animal control	9,926
Code enforcement	3,510
Shop	26,179
	<hr/>
Total	<u><u>\$ 2,289,452</u></u>

The city had total commitments for the following projects for the year ended June 30, 2013:

Project type:	Expended to Date	Remaining Commitment
Streets, bridges and storm drainage	<u>\$ 2,403,693</u>	<u>\$ 796,507</u>
Buildings	218,069	146,931
Total	<u><u>\$ 2,621,762</u></u>	<u><u>\$ 943,438</u></u>

7) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2013:

	Beginning of Year	Issued	Retired	End of Year	Amounts Due Within One Year
Governmental activities:					
Special assessments bonds	\$ 419,086	\$ -	\$ 85,135	\$ 333,951	\$ 59,161
Compensated absences	870,229	508,551	526,574	852,206	616,324
Other post-employment benefit	7,033,008	1,865,979	365,053	8,533,935	416,160
	<u><u>\$ 8,322,323</u></u>	<u><u>\$ 2,374,530</u></u>	<u><u>\$ 976,762</u></u>	<u><u>\$ 9,720,092</u></u>	<u><u>\$ 1,091,645</u></u>
Business-type activities:					
Capital leases	\$ 3,715,596	\$ -	\$ 1,183,091	\$ 2,532,505	\$ 1,043,789
General obligation bonds	5,140,000	-	1,215,000	3,925,000	1,260,000
Compensated absences	209,380	84,764	89,813	204,331	54,595
Other post-employment benefit	1,172,435	304,337	59,539	1,417,232	67,875
	<u><u>\$10,237,411</u></u>	<u><u>\$ 389,101</u></u>	<u><u>\$ 2,547,443</u></u>	<u><u>\$ 8,079,068</u></u>	<u><u>\$ 2,426,259</u></u>

The payments on the special assessment paving certificates are made by the debt service funds.

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

Bonds payable at June 30, 2013 are comprised of the following individual issues:

Governmental Activities:

Special assessment bonds:

\$19,742 paving project 2004 dated January 1, 2004, due in annual installments of \$1,974 through January 1, 2014	\$ 1,974
\$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%	21,876
\$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%	129,840
\$257,511 paving project 2009 dated November 1, 2009, due in annual principal installments of \$25,750, plus interest, through November 1, 2019, interest at 3.80%	<u>180,261</u>
Total special assessment bonds	<u><u>\$ 333,951</u></u>

Business-type Activities:

General obligation bonds:

\$8,530,000 Excess Revenue Refunding Certificate of Indebtedness dated June 26, 2009, due in semi-annual installments through June 1, 2016, interest at 3.74%	<u>3,925,000</u>
Total bonds payable	<u><u>\$ 4,258,951</u></u>

The annual requirements to amortize all bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 59,161	\$ 13,172	\$ 1,260,000	\$ 146,794
2015	57,187	10,804	1,310,000	99,671
2016	57,187	8,514	1,355,000	50,677
2017	57,187	6,223	-	-
2018	51,718	3,933	-	-
2019-2023	<u>51,511</u>	<u>2,936</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 333,951</u></u>	<u><u>\$ 45,582</u></u>	<u><u>\$ 3,925,000</u></u>	<u><u>\$ 297,142</u></u>

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

The City has entered into two lease agreements as lessee for financing of equipment that is a component of the wastewater plant expansion. 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:	
Wastewater treatment facility equipment	\$ 10,000,000

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

<u>Year Ending June 30</u>	<u>Government Activities</u>
2014	1,225,828
2015	1,124,440
2016	411,667
2017	-
2018	-
2019 - 2023	-
Total minimum lease payments	<u>2,761,935</u>
Less: amount representing interest	<u>229,430</u>
Present value of minimum lease payments	<u><u>\$ 2,532,505</u></u>

8) Dedication of Sales Tax Proceeds

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

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

After payment of above costs:

- 1) Ten percent (10%), but not to exceed \$150,000 annually, without subsequent approval of the Council of the City of Sulphur, Louisiana, to the Streets and Parks Department for any lawful purpose.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(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 and collected by the City. This tax was original authorized in 1980, and has re-authorized for an additional 25 years from January 1, 2005. The proceeds may be used for virtually any capital or operating needs of the City.

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

9) 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, 2013

(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 were required to contribute 9.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate, which was 17.0% of covered payroll for the fiscal year ended June 30, 2013, 16.75% for the fiscal year ended June 30, 2012, and 14.25% for the fiscal year ended June 30, 2011. 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, 2013, 2012, and 2011 totaled \$625,350, \$624,318 and \$509,173, 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 jointed 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.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

Plan members were required to contribute 10.0% of their annual covered salary for the fiscal years ended June 30, 2013 and 2012, and 8.0% for the fiscal year ended June 30, 2011. The City is required to contribute as established by the state statute an actuarially determined rate, which was 31.0% of covered payroll for the fiscal year ended June 30, 2013, 29.0% for the fiscal year ended June 30, 2012, and 26.5% for the fiscal year ended June 30, 2011. The City's contributions to the system for the year ended June 30, 2013, 2012, and 2011 totaled \$777,444, \$678,285 and \$654,350, 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 were required to contribute 10.0% of their annual covered salary for the fiscal years ended June 30, 2013 and 2012, and 8.0% for the fiscal year ended June 30, 2011. The City is required to contribute at an actuarially determined rate, which was 24% of covered payroll for the fiscal year ended June 30, 2013, 23.25% for the fiscal year ended June 30, 2012, and 21.5% for the fiscal year ended June 30, 2010. The contribution requirements of Plan members are established and may be amended by the System's Board of Trustees. The City's contributions to the System for the year ended June 30, 2013, 2012, and 2011 totaled \$635,207, \$618,581 and \$685,666, respectively.

10) 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.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

11) Risk Management Obligations

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

Liabilities related to workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$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	\$ 480,345
Incurred claims (including IBNRs)	171,039
Claim payments	(326,438)
Unpaid claims, end of fiscal year	<u>\$ 324,946</u>

12) 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, 2013:

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

The compensation paid to the Mayor for the year end June 30, 2013, is as follows:

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

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

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

Funding Policy - The contribution requirements of plan members and the City are established and may be amended by the City. The City pays the full cost of the benefits for retired plan members and a portion of the cost of the retirees' spouses and dependent children. For fiscal year 2013, the City contributed \$424,592 to the plan.

Annual OPEB Cost and Net OPEB Obligation - For 2013, the City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 2,314,179
Interest on Net OPEB Obligation	287,191
Adjustment to Annual Required Contribution	(431,054)
Annual OPEB Cost (Expense)	<u>2,170,316</u>
Contributions Made	(424,592)
Increase in Net OPEB Obligation	<u>1,745,724</u>
Net OPEB Obligation – beginning of year	8,205,443
Net OPEB Obligation – end of year	<u><u>\$ 9,951,167</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	1,861,363	14.4%	1,626,492
6/30/2010	2,000,878	14.6%	3,335,810
6/30/2011	2,857,433	13.9%	5,796,937
6/30/2012	2,819,023	14.6%	8,205,443
6/30/2013	2,819,023	14.6%	9,951,167

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$22,993,288, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$9,026,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 276.2%.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

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

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

In the July 1, 2012, actuarial valuation, the unit credit actuarial cost method was used. Based on the City's short-term investment portfolio, a discount rate of 3.5% was used, which was decreased from 4.0% in the prior valuation. In addition, the actuarial assumptions included an annual medical healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5.0% after 9 years. The City's unfunded actuarial liability is being amortized as a level dollar on an open basis over 30 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial valuation of assets	Actuarial Accrued Liability Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	-	\$ 16,679,604	\$ 16,679,604	0.0%	\$ 9,671,106	172.5%
7/1/2010	-	\$ 25,903,348	\$ 25,903,348	0.0%	\$ 9,379,696	276.2%
7/1/2012	-	\$ 22,993,288	\$ 22,993,288	0.0%	\$ 9,026,000	254.7%

14) Joint Venture

On February 1, 2000, the Calcasieu Parish Police Jury, the West Calcasieu Port, Harbor, and Terminal District and the Industrial Development Board of the City of Sulphur entered into an amended joint service agreement with the West Calcasieu Airport Managing Board as to the development and operations of the West Calcasieu Airport Managing Board (Airport). The City owns 49.16% of the Airport. Total assets of the Airport were \$4,240,573 and \$4,523,043, and total liabilities were \$233,842 and \$396,857 as of June 30, 2013 and 2012, respectively. The Net Position of the Board decreased \$119,455 and \$79,474 for the years ending June 30, 2013 and 2012, respectively. The investment is accounted for using the equity method. Financial statements can be obtained by contacting the Director of Finance for the City of Sulphur, Louisiana.

CITY OF SULPHUR, LOUISIANA

NOTES TO FINANCIAL STATEMENT

June 30, 2013

(Continued)

15) Prior Period Adjustments

- A. The July 1 2012, beginning balances of the net position for business-type activities in the statement of activities and net position of the public utility fund for the statement of revenues, expenditures and changes in net position were restated to retroactively adjust for the restatement of capital assets, net of accumulated depreciation. An impairment and partial disposal of the wastewater facility, which went into service in 1987, was not properly recorded in a prior fiscal year.
- B. The July 1 2012, beginning balances of the net position for governmental activities in the Statement of Activities and fund balance of the general fund for the statement of revenues, expenditures and changes in fund balance were restated to retroactively adjust for the restatement of the City's investment in a joint venture. The investment was not properly recorded and disclosed in prior fiscal years.

The July 1 2012 beginning balances of the net position of the government-wide statement of activities were restated as follows:

Statement of Activities

Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities
Net Position, as previously reported	\$ 38,084,774	\$ 58,951,599
Restatement of investment-joint venture	2,028,374	-
Restatement of capital assets, net of accumulated depreciation	-	(8,208,481)
Total restatement	2,028,374	(8,208,481)
Net Position, as restated	\$ 40,113,148	\$ 50,743,118

The July 1 2012, beginning fund balances for the statement of revenues, expenditures, and changes in fund balance of the General Fund and beginning net position for the statement of revenues, expenses, and changes in net position were restated as follows:

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

	General
Fund Balance, as previously reported	\$ 7,630,407
Restatement of investment-joint venture	139,567
Fund Balance, as restated	\$ 7,769,974

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

	Public Utility
Net Position, as previously reported	\$ 58,951,599
Restatement of capital assets, net of accumulated depreciation	(8,208,481)
Net Position, as restated	\$ 50,743,118

CITY OF SULPHUR, LOUISIANA
NOTES TO FINANCIAL STATEMENT
June 30, 2013
(Continued)

16) Subsequent Events

The City evaluated its June 30, 2013 financial statements for subsequent events through December 30, 2013, the date of the financial were available to be issued. The City is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended June 30, 2013**

	Budget				Variance Favorable (Unfavorable)
	Original	Amendments	Final	Actual	
REVENUES					
Taxes:					
Sales	\$ 10,330,000	\$ 640,000	\$ 10,970,000	\$ 11,031,046	\$ 61,046
Property	1,606,500		1,606,500	1,651,909	45,409
Franchise	1,505,000	(110,000)	1,395,000	1,237,787	(157,213)
Licenses and permits	963,600		963,600	1,009,596	45,996
Intergovernmental	1,038,500		1,038,500	1,265,540	227,040
Charges for services	1,555,000		1,555,000	1,575,519	20,519
Fines and forfeitures	223,500	(100,000)	123,500	146,983	23,483
Investment earnings	60,800	(30,000)	30,800	54,471	23,671
Other	167,750	23,000	190,750	164,226	(26,524)
Total Revenues	17,450,650	423,000	17,873,650	18,137,077	263,427
EXPENDITURES					
Current:					
General Government:					
General and administrative	2,737,206	83,750	2,820,956	2,745,257	75,699
Animal control	295,564	100	295,664	275,832	19,832
Code enforcement	149,915		149,915	145,667	4,248
Shop	312,909		312,909	330,333	(17,424)
Public safety:					
Police	5,187,174	30,720	5,217,894	5,309,047	(91,153)
Fire	4,735,465	9,000	4,744,465	4,890,484	(146,019)
Inspection	405,304		405,304	393,445	11,859
Streets and grounds	3,876,194	2,670	3,878,864	4,011,303	(132,439)
Total Expenditures	17,699,731	126,240	17,825,971	18,101,368	(275,397)
Excess (deficiency) of revenues over expenditures	(249,081)	296,760	47,679	35,709	(11,970)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(249,081)	296,760	47,679	35,709	(11,970)
Fund balance - beginning, as previously reported	7,630,407		7,630,407	7,630,407	-
Prior period adjustment	139,567		139,567	139,567	-
Fund balance - beginning, as restated	7,769,974		7,769,974	7,769,974	-
Fund balance, ending	\$ 7,520,893		\$ 7,817,653	\$ 7,805,683	\$ (11,970)

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

CITY OF SULPHUR, LOUISIANA

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 2013**

Actuarial Valuation Date	Actuarial valuation of assets	Actuarial Accrued Liability Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	-	\$ 16,679,604	\$ 16,679,604	0.0%	\$ 9,671,106	172.5%
7/1/2010	-	\$ 25,903,348	\$ 25,903,348	0.0%	\$ 9,379,696	276.2%
7/1/2012	-	\$ 22,993,288	\$ 22,993,288	0.0%	\$ 9,026,000	254.7%

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

OTHER SUPPLEMENTAL INFORMATION

CITY OF SULPHUR, LOUISIANA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	Debt Service Funds	Drug Seizure Funds	Nonmajor Governmental Funds Total
ASSETS			
Cash and cash equivalents	\$ 55,605	\$ 450,014	\$ 505,619
Receivables (net of allowance for uncollectibles)	300,776	-	300,776
Intergovernmental	-	11,812	11,812
Total assets	<u>\$ 356,381</u>	<u>\$ 461,826</u>	<u>\$ 818,207</u>
LIABILITIES			
Accounts payable	\$ -	\$ 1,839	\$ 1,839
Total liabilities	<u>-</u>	<u>1,839</u>	<u>1,839</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-special assessments	300,775	-	300,775
Total deferred inflow of resources	<u>300,775</u>	<u>-</u>	<u>300,775</u>
FUND BALANCES			
Restricted:			
Debt service reserves	55,606	-	55,606
Law enforcement	-	459,987	459,987
Total fund balance	<u>55,606</u>	<u>459,987</u>	<u>515,593</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 356,381</u>	<u>\$ 461,826</u>	<u>\$ 818,207</u>

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

CITY OF SULPHUR, LOUISIANA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2013**

	Debt Service Funds	Special Revenue Funds	Nonmajor Governmental Funds Total
REVENUES			
Fines and forfeitures	\$ -	\$ 198,024	\$ 198,024
Assessment levies	21,592	-	21,592
Investment earnings	239	2,904	3,143
Interest on assessments	7,184	-	7,184
Other income	-	570	570
Total revenues	29,015	201,498	230,513
EXPENDITURES			
Police	-	124,373	124,373
Debt service:			
Principal retirement	85,129	-	85,129
Interest and fiscal charges	22,674	-	22,674
Total expenditures	107,803	124,373	232,176
Excess (deficiency) of revenues over expenditures	(78,788)	77,125	(1,663)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	-
Total other financing sources and (uses)	-	-	-
Net change in fund balances	(78,788)	77,125	(1,663)
Fund balances, beginning	134,394	382,862	517,256
Fund balances, ending	\$ 55,606	\$ 459,987	\$ 515,593

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

COMPLIANCE AND INTERNAL CONTROL REPORTS

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sulphur, Louisiana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Sulphur, Louisiana's basic financial statements, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sulphur, Louisiana's financial statements are free from 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 our audit, and accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Steven M. DeRouen & Associates

Lake Charles, Louisiana
December 30, 2013

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

I have audited City of Sulphur, Louisiana's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Sulphur, Louisiana's major federal programs for the year ended June 30, 2013. City of Sulphur, Louisiana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of City of Sulphur, Louisiana's major federal programs based on our audit of the types of compliance requirements referred to above. 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 City of Sulphur, Louisiana'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 on compliance for each major federal program. However, my audit does not provide a legal determination of City of Sulphur, Louisiana's compliance.

Opinion on Each Major Federal Program

In my opinion, City of Sulphur, Louisiana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of City of Sulphur, Louisiana, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Sulphur, Louisiana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Sulphur, Louisiana'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Steven M. DeRouen & Associates

Lake Charles, Louisiana
December 30, 2013

CITY OF SULPHUR, LOUISIANA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
United States Department of Transportation-			
Federal Highway Administration			
Passed through the State of Louisiana:			
Federal Aid Highway Program*	20.205	N/A	\$ 1,147,525
United States Department of Housing and Urban Development -			
Community Development Block Grant Program			
Passed through the State of Louisiana:			
CDBG Disaster Recovery Program	14.228	N/A	38,070
United States Department of Transportation-			
Federal Highway Administration			
Passed through the State of Louisiana:			
Federal Aid Highway Program	20.205	N/A	12,832
Department of Justice - Office of Justice Programs		N/A	17,591
United States Department of Homeland Security -			
Homeland Security Grant Program			
Passed through the State of Louisiana:			
Governor's Office of Home Land Security	97.067	N/A	<u>70,865</u>
Total expenditures of federal awards			<u><u>\$ 1,286,883</u></u>

* Denotes major Federal program

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

CITY OF SULPHUR, LOUISIANA

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2013

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	\$ 88,456.00
Public Improvement Capital Project Fund	38,070
Street Improvement Capital Project Fund	1,160,357
	<u>\$ 1,286,883</u>

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, LOUISIANA
Schedule of Findings and Questioned Cost
Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued

Unmodified on
Primary
Government;
Adverse on
Aggregate
Discretely
Presented
Component Units

Internal control over financial reporting:

Material weaknesses identified?	_____	Yes	_____	<u>x</u>	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes	_____	<u>x</u>	reported
Noncompliance material to financial statements noted?	_____	Yes	_____	<u>x</u>	No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	_____	Yes	_____	<u>x</u>	No
Significant deficiencies identified not considered to be material weaknesses?	_____	Yes	_____	<u>x</u>	reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?

_____	Yes	_____	<u>x</u>	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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20.205	US Department of Transportation Federal Highway Administration Passed through the State of Louisiana Federal Aid Highway Program
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Dollar threshold used to distinguish between

Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?

_____	Yes	_____	<u>X</u>	No
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CITY OF SULPHUR, LOUISIANA
Corrective Action Plan for Current Year Findings
Year Ended June 30, 2013

Internal Control:

None noted.

Compliance:

None noted.

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

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

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

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