

TOWN OF SORRENTO, LOUISIANA

FINANCIAL STATEMENTS

June 30, 2012

TOWN OF SORRENTO, LOUISIANA

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Town Council,
Town of Sorrento, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sorrento (the Town), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012, on our consideration of the Town of Sorrento's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 41 through 42 presented to supplement the basis financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in a appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Postlethwait & Mettunally

Gonzales, Louisiana
November 12, 2012

TOWN OF SORRENTO, LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our analysis of The Town of Sorrento's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts. This MD&A should be read in conjunction with the financial statements which begin on Exhibit A.

FINANCIAL HIGHLIGHTS

In 2012, the Town of Sorrento experienced an increase in governmental revenues of 3% and an increase in expenditures of 2%, relative to the prior year. The utility fund continued to experience an operating deficit, as revenues increased by 15% and expenditures increased by 19%, relative to the prior year. Accordingly, there must be a logical and thoughtful alignment of the Town's resources to community needs.

The major financial highlights for 2012 are as follows:

Government-wide financial statements

- Assets of the Town's primary government exceeded its liabilities at the close of the year by approximately \$2.3 million (net assets). Of this amount, approximately \$301,000 (unrestricted net assets) may be used without restrictions to meet the Town's ongoing obligations to citizens and creditors.
- Governmental activities' net assets increased by approximately \$10,000, whereas business-type total net assets decreased by approximately \$123,000.

Governmental Fund financial statements

- As of the end of the year, the government's general fund reported a fund balance of approximately \$621,000, an increase of approximately \$39,000 in comparison to the prior year. Approximately 54% of the fund balance is restricted for purposes related to recreation, public safety and senior citizen programs.

Significant aspects of the Town's financial well being, as of and for the year ended June 30, 2012, are detailed throughout this analysis.

USING THIS ANNUAL REPORT

The Town's financial statements focus on the government as a whole and on major individual funds. Both government-wide and fund perspectives allow the reader to address relevant questions, broaden a basis for comparison from year to year and should enhance the Town's accountability.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14, respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances.

Fund financial statements start on page 15. For governmental activities, these statements depict how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

The Town's auditor has provided assurance in their independent auditors' report, located immediately preceding this MD&A, that the financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplemental Information and the Supplemental Information. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each part of this report.

Reporting on the Town as a Whole

The analysis of the Town as a whole begins on page 13. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and its activities in a way to determine if the Town is in better condition, compared to the prior year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting methods used by most private-sector companies. All of the current year's revenues and expenses are reported regardless of when cash is received or paid. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

These two statements report the Town's net assets and related changes. The Town's financial health, or financial position, can be measured by its net assets—the difference between assets and liabilities. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors should be considered such as changes in the Town's property and sales tax base and the condition of the Town's buildings, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, the Town's operations are divided into two kinds of activities:

Governmental activities – Most of the Town's basic services are reported here, including public safety, highway and streets, culture and recreation, and general administration. Property and sales taxes, franchise taxes and fines finance most of these activities.

Business-type activities – The Town charges a fee to customers to fund the cost of certain services it provides. The Town maintains garbage pickup, sewer operations and provides water services. The business-type activities have historically generated an operating deficit, primarily due to sewer system repairs and depreciation expense on the Town's water and sewer systems.

At June 30, 2012, the Town's net assets were approximately \$2.3 million, of which approximately \$301,000 was unrestricted. Restricted net assets are reported separately to show legal constraints from legislation that limits the Town's ability to use those net assets for day-to-day operations.

The analysis of the primary government focuses on the net assets and change in net assets of the Town's governmental activities and is as follows:

Town of Sorrento, Louisiana
Statement of Net Assets
June 30, 2012 and 2011
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 711	\$ 740	\$ 45	\$ 185	\$ 756	\$ 925
Capital assets	351	392	1,335	1,313	1,686	1,705
Total assets	<u>1,062</u>	<u>1,132</u>	<u>1,380</u>	<u>1,498</u>	<u>2,442</u>	<u>2,630</u>
Current and other liabilities	106	171	18	13	124	184
Long-term liabilities	-	15	-	-	-	15
Total liabilities	<u>106</u>	<u>186</u>	<u>18</u>	<u>13</u>	<u>124</u>	<u>199</u>
Net assets:						
Invested in capital assets, net						
of related debt	337	364	1,335	1,313	1,672	1,677
Restricted	345	371	-	-	345	371
Unrestricted	<u>274</u>	<u>211</u>	<u>27</u>	<u>172</u>	<u>301</u>	<u>383</u>
Total net assets	<u>\$ 956</u>	<u>\$ 946</u>	<u>\$ 1,362</u>	<u>\$ 1,485</u>	<u>\$ 2,318</u>	<u>\$ 2,431</u>

Net assets of the Town's governmental activities increased by approximately \$10,000 during 2012. Unrestricted net assets represent the part of net assets that can be used to finance day-to-day operations without constraints established by legislation or other legal requirements. The \$301,000 in unrestricted net assets of governmental activities represents the accumulated results of operations. The changes in net assets are discussed later in this analysis.

The net assets of the Town's business activities decreased by approximately \$123,000 during 2012. The Town operates sewer and garbage services and has recently constructed a water distribution system. The water system is operated by a private business that pays the Town franchise fees.

The results of this year's operations for the primary government as a whole, as reported in the Statement of Activities, are as follows:

<p style="text-align: center;">Town of Sorrento Changes in Net Assets For the years ended June 30, 2012 and 2011 (in thousands)</p>						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 231	\$ 205	\$ 143	\$ 124	\$ 374	\$ 329
Operating grants and contributions	8	53	-	-	8	53
Capital grants and contributions	55	55	-	-	55	55
General revenues:						
Ad valorem taxes	46	44	-	-	46	44
Sales taxes	538	489	-	-	538	489
Franchise taxes	80	87	-	-	80	87
Other general revenues	2	15	-	-	2	15
Total revenues	<u>960</u>	<u>948</u>	<u>143</u>	<u>124</u>	<u>1,103</u>	<u>1,072</u>
Functions/Program expenses:						
General government	239	190	-	-	239	190
Public safety	521	560	-	-	521	560
Highway and streets	160	167	-	-	160	167
Culture and recreation	30	23	-	-	30	23
Utility operations	-	-	266	223	266	223
Total expenses	<u>950</u>	<u>940</u>	<u>266</u>	<u>223</u>	<u>1,216</u>	<u>1,163</u>
Change in net assets	10	8	(123)	(99)	(113)	(91)
Beginning net assets	<u>946</u>	<u>938</u>	<u>1,486</u>	<u>1,585</u>	<u>2,432</u>	<u>2,523</u>
Ending net assets	<u>\$ 956</u>	<u>\$ 946</u>	<u>\$ 1,363</u>	<u>\$ 1,486</u>	<u>\$ 2,319</u>	<u>\$ 2,432</u>

For the year, the Town's net worth decreased by approximately \$113,000, and its operating cash position decreased by approximately \$21,000. The decrease in the Town's cash position results from the cash flow used in operations of the utility fund of approximately \$144,000.

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. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is on major funds, rather than generic fund types.

Reporting the Town's Most Significant Funds

The analysis of the Town's major funds begins on page 15 with the fund financial statements that provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law or by bond covenants. However, the Town Council establishes other funds to control and manage money for particular purposes or meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds—governmental and proprietary—use different accounting approaches.

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 balances of spendable resources available at the end of the fiscal year. Most of the Town's basic services are reported in governmental funds. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation to the financial statements. The governmental major funds (Exhibits A-2 and A-4) presentation is presented using modified accrual basis and focuses on the major funds of the Town. The Town has one governmental fund, which is the General Fund.

Proprietary funds—When the Town charges customers for the services it provides—whether to outside customers or to other units of the Town—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The Town has one proprietary fund, which is the Utility Fund.

Notes to the financial statements—The notes provide information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in Exhibit A-9.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning original and final budgetary comparisons to actual results for the year for the Town's major governmental fund, which is the General Fund.

Financial Analysis of the Government's Funds

The general government operations of the Town are accounted for in the General Fund. The focus of this fund, as noted earlier, is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. The following is a summary of general governmental operations:

	(in thousands)	
	General Fund	
	2012	2011
Revenues	\$ 961	\$ 938
Expenditures	<u>930</u>	<u>984</u>
Excess (deficiency) of revenues over expenditures	31	(46)
Other financing sources	<u>8</u>	<u>54</u>
Excess of revenues and other financing sources over expenditures	39	8
Beginning fund balance	<u>582</u>	<u>574</u>
Ending fund balance	<u>\$ 621</u>	<u>\$ 582</u>

The Town's General Fund experienced an increase in fund balance of approximately \$39,000 during 2012, which is primarily related to a decrease in expenditures of approximately \$54,000, relative to the prior year. At year end, fund balance was approximately \$621,000, of which approximately \$275,000 is unassigned and available for utilization at the Town's discretion. Of the remaining balance, approximately \$346,000 relates to restricted fund balances where constraints have been established by parties outside the Town by enabling legislation.

Sources of governmental revenues, excluding other financing sources, are summarized below.

<u>Source of Revenue</u>	(In thousands)			
	2012		2011	
Taxes	\$ 664	69%	\$ 622	66%
Fines	146	15%	112	12%
Licenses and permits	75	8%	80	9%
Intergovernmental	62	6%	59	6%
Special assessments - Orange Grove	-	0%	50	5%
Other revenues	14	1%	15	2%
Total	\$ 961	100%	\$ 938	100%

Revenues of the primary government for general governmental fund types for 2012 were approximately \$961,000, compared to approximately \$938,000 for the previous year. The Town's tax revenue increased by \$42,000, or 7% whereas no revenues from special assessments were recognized in 2012. As noted above, the Town's activities are largely supported by tax revenues, which represent 69% of total governmental resources.

<u>Function</u>	(In thousands)			
	2012		2011	
General government	\$ 226	24%	\$ 177	18%
Public safety	488	52%	529	54%
Highways and streets	158	17%	162	16%
Culture and recreation	30	3%	23	2%
Debt service	16	2%	16	2%
Capital outlay	12	2%	77	8%
Total	\$ 930	100%	\$ 984	100%

Expenditures of the primary government decreased in 2012 by \$54,000 or 5%. The change is attributable to a decrease in public safety as well as highways and streets expenditures, and capital outlay. Additionally, expenditures increased in the general government due to professional service fees incurred.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year the Town's General Fund's budget was amended. The amendment of the operating budget is a customary practice of the Town for changes that occur with financial related matters throughout the fiscal year. The most significant changes during 2012 were as follows:

- An increase of taxes of approximately \$66,000, and
- A decrease of approximately \$84,000 in police expenditures.

Overall, the decreases to appropriations (expenditures) were approximately \$6,000 that resulted in the final budget appropriation of approximately \$852,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the Town had approximately \$1,686,000 invested in a range of capital assets, including vehicles, fire equipment, computer equipment, office furniture, land, buildings, water distribution systems, and sewer treatment systems. This amount represents a net decrease of \$19,000, or 1%, over last year.

	(in thousands)					
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 128	\$ 128	\$ 60	\$ 60	\$ 188	\$ 188
Construction in progress	-	5	-	-	-	5
Infrastructure	96	106	-	-	96	106
Buildings	29	30	-	-	29	30
Improvements other than buildings	24	13	-	-	24	13
Equipment and vehicles	75	110	15	21	90	131
Sewer system	-	-	736	680	736	680
Water distribution system	-	-	523	552	523	552
Total assets, net of depreciation	\$ 352	\$ 392	\$ 1,334	\$ 1,313	\$ 1,686	\$ 1,705

The Town elected to capitalize infrastructure assets on a prospective basis as a Phase 3 government, which is provided by GASB No. 34. More detailed information about the Town's capital assets is presented in Note 7 to the financial statements.

Debt

In 2010, the Town entered into a capital lease of \$43,793 to purchase two police vehicles. During the year the Town retired \$13,609 of the obligation, leaving \$14,574 outstanding at year end. This obligation is the Town's only long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget and tax rates. One of those factors is the economy. The largest taxpayers in the surrounding area are primarily companies involved in the oil refining and petrochemical processing sector. These companies impact the local economy of the Town and its businesses. These industrial companies are significantly impacted by the change in the cost of fuel, as well as the variation in overall production demands. As a result, the local economy can be impacted.

An important factor affecting the budget is the Town's sales tax collections that approximate 40% of budgeted revenue. The Town budgeted an increase in overall revenue of approximately \$479,000 for 2013. The increase relates to an increase in intergovernmental revenues related to the construction of a community center. Additionally, the Town is projecting an increase in expenditures of \$428,000 that relates primarily to an increase in building capital outlay for the community center. If these estimates are realized during 2013, fund balance for the Town's general operating fund will increase by approximately \$85,000, as compared to an increase of approximately \$31,000 increase during 2012.

Contacting the Town's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show accountability for the money the Town receives. Questions about this report or need additional financial information, contact the Town's Finance Office at (225) 675-5337 or P.O. Box 65, Sorrento, LA 70778.

BASIC FINANCIAL STATEMENTS

TOWN OF SORRENTO, LOUISIANA
STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 247,004	\$ 40,660	\$ 287,664
Accounts receivable, net	34,858	9,910	44,768
Internal balances	12,826	(12,826)	-
Due from other governments	71,315	-	71,315
Restricted assets	345,188	7,450	352,638
Capital assets:			
Non-depreciable	127,750	60,366	188,116
Depreciable, net	<u>223,503</u>	<u>1,275,002</u>	<u>1,498,505</u>
 Total assets	 <u>\$ 1,062,444</u>	 <u>\$ 1,380,562</u>	 <u>\$ 2,443,006</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 67,567	\$ 10,845	\$ 78,412
Payable from restricted assets	23,880	7,450	31,330
Capital leases payable:			
Due within one year	<u>14,574</u>	<u>-</u>	<u>14,574</u>
 Total liabilities	 <u>106,021</u>	 <u>18,295</u>	 <u>124,316</u>
NET ASSETS			
Investment in capital assets, net of related debt	336,679	1,335,368	1,672,047
Restricted for:			
Recreational services	232,926	-	232,926
Public safety	63,696	-	63,696
Senior citizen assistance	39,510	-	39,510
Other purposes	9,500	-	9,500
Unrestricted	<u>274,112</u>	<u>26,899</u>	<u>301,011</u>
 Total net assets	 <u>956,423</u>	 <u>1,362,267</u>	 <u>2,318,690</u>
 Total liabilities and net assets	 <u>\$ 1,062,444</u>	 <u>\$ 1,380,562</u>	 <u>\$ 2,443,006</u>

Notes on Exhibit A-9 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary government:							
Governmental activities:							
General government	\$ 239,412	\$ 86,005	\$ -	33,361	\$ (120,046)	\$ -	\$ (120,046)
Public safety:							
Police	482,809	145,439	7,461	-	(329,909)	-	(329,909)
Fire	37,785	-	-	-	(37,785)	-	(37,785)
Highway and streets	160,447	-	-	21,500	(138,947)	-	(138,947)
Culture and recreation	29,561	-	-	-	(29,561)	-	(29,561)
Total governmental activities	950,014	231,444	7,461	54,861	(656,248)	-	(656,248)
Business-type activities:							
Utility operations	266,534	143,132	-	-	-	(123,402)	(123,402)
Total primary government	\$ 1,216,548	\$ 374,576	\$ 7,461	\$ 54,861	(656,248)	(123,402)	(779,650)
General revenues:							
Taxes:							
Property					45,546	-	45,546
Sales					537,637	-	537,637
Franchise					79,693	-	79,693
Other					1,160	-	1,160
Grants and contributions not restricted to specific programs					2,300	-	2,300
Investment earnings					562	85	647
Total general revenues					666,898	85	666,983
Change in net assets					10,650	(123,317)	(112,667)
Net assets - beginning of year					945,773	1,485,584	2,431,357
Net assets - end of year					\$ 956,423	\$ 1,362,267	\$ 2,318,690

Notes on Exhibit A-9 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA**BALANCE SHEET
GOVERNMENTAL FUND**

June 30, 2012

	General Fund
ASSETS	
Cash and cash equivalents	\$ 247,004
Accounts receivable, net	34,858
Due from Utility Fund	12,826
Due from other governmental units	71,315
Restricted cash	<u>345,188</u>
Total assets	<u><u>\$ 711,191</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 66,532
Payable from restricted assets	<u>23,880</u>
Total liabilities	<u>90,412</u>
FUND BALANCE	
Restricted for:	
Recreational services	232,926
Public safety	63,696
Senior citizen assistance	39,510
Other purposes	9,500
Unassigned	<u>275,147</u>
Total fund equity	<u>620,779</u>
Total liabilities and fund balance	<u><u>\$ 711,191</u></u>

Notes on Exhibit A-9 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA

**RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

June 30, 2012

Total net assets reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental funds (Exhibit A-2)	\$ 620,779
Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.	351,253
Long-term liabilities (e.g. bonds, leases), that are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Accrued interest payable	(1,035)
Capital lease payable	(14,574)
	(15,609)
Net assets of governmental activities (Exhibit A)	<u>\$ 956,423</u>

TOWN OF SORRENTO, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the year ended June 30, 2012

	<u>General Fund</u>
REVENUES	
Taxes:	
Sales and use	\$ 537,637
Franchise	79,693
Ad valorem	45,546
Other	1,160
Fines	145,439
Licenses and permits	74,788
Intergovernmental	62,322
Charges for services	11,217
Investment income	562
Miscellaneous	<u>2,300</u>
Total revenues	<u>960,664</u>
EXPENDITURES	
Current function:	
General government	225,984
Public safety:	
Police	449,995
Fire	37,785
Highways and streets	158,269
Culture and recreation	29,561
Debt service	15,891
Capital outlay	<u>12,380</u>
Total expenditures	<u>929,865</u>
Excess of revenues over expenditures	30,799
OTHER FINANCING SOURCES	
Proceeds from insurance claims	<u>8,143</u>
Net change in fund balance	38,942
FUND BALANCE	
Beginning of year	<u>581,837</u>
End of year	<u>\$ 620,779</u>

Notes on Exhibit A-9 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2012

The change in net assets reported for governmental activities in the statement of activities is different because:

Net change in fund balance - total governmental fund (Exhibit A-4)	\$ 38,942
--------------------------------------------------------------------	-----------

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation.

Capital outlay	12,379	
Depreciation expense	<u>(53,245)</u>	<u>(40,866)</u>

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of activities.

Principal payments on debt	<u>13,609</u>
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	<u>(1,035)</u>
------------------------------------	----------------

Change in net assets of governmental activities (Exhibit A-1)	<u>\$ 10,650</u>
---------------------------------------------------------------	------------------

**TOWN OF SORRENTO, LOUISIANA
PROPRIETARY FUND - UTILITY FUND**

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 40,660
Accounts receivable, net	<u>9,910</u>
Total current assets	<u>50,570</u>

Restricted assets - utility deposits	7,450
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Capital assets:

Non-depreciable	60,366
Depreciable, net	<u>1,275,002</u>

Total noncurrent assets	<u>1,335,368</u>
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Total assets	<u><u>\$ 1,393,388</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 10,845
Due to General Fund	12,826
Payable from restricted assets	<u>7,450</u>
Total current liabilities	<u>31,121</u>

NET ASSETS

Investment in capital assets	1,335,368
Unrestricted	<u>26,899</u>

Total net assets	<u>1,362,267</u>
------------------	------------------

Total liabilities and net assets	<u><u>\$ 1,393,388</u></u>
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Notes on Exhibit A-9 are an integral part of this statement.

**TOWN OF SORRENTO, LOUISIANA
 PROPRIETARY FUND - UTILITY FUND
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS**

For the year ended June 30, 2012

OPERATING REVENUES

Charges for services:

Garbage	\$ 105,836
Sewer	34,858
Water franchise fees	<u>2,438</u>

Total operating revenues	<u>143,132</u>
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OPERATING EXPENSES

Garbage	93,175
Sewer	107,894
Depreciation	<u>65,465</u>

Total operating expenses	<u>266,534</u>
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Operating loss	(123,402)
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NONOPERATING REVENUES

Interest income	<u>85</u>
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Net loss	(123,317)
----------	-----------

NET ASSETS

Beginning of year	<u>1,485,584</u>
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End of year	<u><u>\$ 1,362,267</u></u>
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**TOWN OF SORRENTO, LOUISIANA
PROPRIETARY FUND - UTILITY FUND**

STATEMENT OF CASH FLOWS

For the year ended June 30, 2012

	Business-type Activities - Enterprise Funds
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 141,952
Payments to suppliers	<u>(197,597)</u>
Net cash used by operating activities	(55,645)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Decrease in due to other funds	(713)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(87,447)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>85</u>
Net decrease in cash	(143,720)
CASH	
Beginning of period	<u>184,380</u>
End of period	<u><u>\$ 40,660</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (123,402)
Adjustments for non-cash items:	
Depreciation	65,465
Change in operating assets and liabilities:	
Accounts receivable and other assets	(1,180)
Accounts payable and accrued liabilities	<u>3,472</u>
Net cash used by operating activities	<u><u>\$ (55,645)</u></u>

Notes on Exhibit A-9 are an integral part of this statement.

TOWN OF SORRENTO, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement Presentation

Located in Ascension Parish, the Town of Sorrento was incorporated in 1956 and is a political subdivision of the State of Louisiana. The Town, under the provisions of the Lawrason Act, enacts ordinances, sets policy, and establishes programs in such fields as public safety, highways and streets, and culture and recreation.

The financial statements of the Town of Sorrento, Louisiana (the Town) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are described below.

The financial statements comply with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) and include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations,
- Financial statements prepared using accrual accounting for all of the Town’s activities, including infrastructure (roads, bridges, etc.), and
- Fund financial statements to focus on the major funds.

Reporting Entity

As the municipal governing authority, for reporting purposes, the Town is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary municipal government, and where applicable (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (continued)

The criteria for determining which component units should be considered part of the Town for financial reporting purposes are as follows:

- Legal status of the potential component unit including the right to incur its own debt, levy its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name;
- Whether the Town governing authority (the Council and/or Mayor) appoints a majority of board members of the potential component unit;
- Fiscal interdependency between the Town and the potential component unit;
- Imposition of will by the Town on the potential component unit; and
- Financial benefit/burden relationship between the Town and the potential component unit.

As required by generally accepted accounting principles, these financial statements present the Town; there are no component units to be included either blended within the Town's funds or discretely presented in these financial statements.

Basis of Presentation

The Town's basic financial statements consist of the government-wide statements of the primary government (the Town) and the fund financial statements (individual major funds and combined non-major funds). The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and applied to governmental units. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities for all non-fiduciary activities of the Town. As a general rule, the effect of interfund activity has been removed from these statements. The government-wide presentation focuses primarily on the sustainability of the government as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These statements distinguish between the governmental and business-type activities of the Town.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Business type activities are financed in whole or part by fees charged to external parties for utility services provided. The Town's sewer, water and garbage services are classified as business-type activities.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements are very similar to the traditional government fund statements as prepared by governments prior to the issuance of GASB No. 34. Emphasis is now on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column in the basic financial statements. The Town does not have any non-major funds in 2012.

The daily operations of the Town continue to be organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures or expenses, as appropriate. Funds are organized into three major categories: governmental, proprietary and fiduciary. The Town does not have any fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (continued)

A fund is considered major if it is the primary operating fund of the Town (the General Fund) or meets the following criteria:

- Total assets, liabilities, revenues, or expenditures/expense of that individual governmental fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues, or expenditures/expense of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The various funds of the primary government presented in the financial statements are described as follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Town are financed. The acquisition, use, and balances of expendable financial resources and related liabilities of the Town are accounted for through governmental funds. Measurement is focused upon determining changes in financial position, rather than net income. The following are the governmental fund types of the Town:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund.

Proprietary Fund Types

Enterprise Funds - Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Town considers the Utility Fund a major fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Measurement Focus

Government-wide 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 the related cash flows. Property taxes are recognized in the year for which they are assessed. Program revenues for governmental activities include operating and capital grants, traffic fines, occupational licenses and permits, and special assessments.

Fund financial statements

All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included in the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other uses) in net current assets. Governmental funds are maintained on the modified accrual basis of accounting. Governmental fund revenues resulting from exchange transactions are recognized in the fiscal year in which the exchange takes place and meets the government's availability criteria (susceptible to accrual). "Available" means collectible within the current period or within 60 days after year-end. Charges for services, traffic fines, and governmental miscellaneous revenues, are recorded as earned since they are measurable and available.

Nonexchange transactions, in which the Town receives value without directly giving value in return, includes sales tax, ad valorem tax, federal and state grants, and special assessments. Ad valorem taxes are recorded in the year the taxes are assessed. Ad valorem taxes are assessed on a calendar year basis, become due on November 15th of each year, and become delinquent after December 31st. The taxes are generally collected in December of the current year and January and February of the following year. Sales taxes are recorded when in the possession of the intermediary collecting agent and are recognized as revenue at that time. Federal and state grants are recorded as revenue when the Town is entitled to the funds, generally corresponding to when grant related costs are incurred by the Town, but subject to the availability criteria. Special assessments are recorded when the Town has an enforceable legal claim on those resources.

Expenditures are recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) unmatured interest on general long-term debt which is recognized when due, and (2) claims and judgments and compensated absences are recorded as expenditures in the governmental fund type when paid with expendable financial resources. Allocations of costs such as depreciation and amortization are not recognized in the governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Measurement Focus (continued)

Fund financial statements (continued)

All proprietary funds are accounted for on a flow of economic resources measurement focus. Proprietary funds are maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable.

Cash and Cash Equivalents

Cash and cash equivalents for the Town includes the Louisiana Asset Management Pool (LAMP) account and each individual fund's operating cash accounts.

The investment policy of the Town is governed by state statutes that include depository and custodial contract provisions. The Town invests funds in accordance with L.R.S. 39:1211-1245 and 33:2955 which include, but are not limited to, United States Treasury Bonds, Treasury Notes, Treasury Bills, and fully collateralized interest bearing checking accounts and certificates of deposit. Other provisions require depositories to insure or collateralize all deposits in accordance with state law and require securities collateralizing deposits to be held by an independent third party with whom the Town has a custodial agreement. The Town primarily utilizes the LAMP to invest idle funds.

For purposes of the Statement of Cash Flows, liquid investments of the enterprise fund with a maturity of three months or less are considered to be cash equivalents.

Accounts Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. For governmental activities uncollectible amounts due for receivables are recognized as bad debts and directly charged off at the time information becomes available which indicates that the particular receivable is not collectible. In governmental fund types, the uncollectible amount is charged to the revenue reported. In business-type activities, uncollectible amounts due from utility billing receivables are recognized as bad debts through the use of an allowance account or are directly charged off at the time information becomes available which indicates that the particular receivable is not collectible. An allowance for doubtful accounts of approximately \$11,200 was recorded at June 30, 2012.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund receivables/payables

During the course of operations, transactions may occur between individual funds. Those related to short-term borrowings are classified as “due from other funds” or “due to other funds” on the balance sheet. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” The Utility Fund owed the General Fund \$12,826 at June 30, 2012.

Capital Assets

The accounting treatment of property, plant, and equipment (fixed assets) 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.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable, except for donated fixed assets which are recorded at their estimated fair 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 asset lives are expensed. Major outlays for capital assets and improvements are capitalized at completion of construction projects.

Prior to the implementation of GASB 34, governmental funds' infrastructure assets were not capitalized. The Town has elected to capitalize infrastructure expenditures on a prospective basis.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Infrastructure	15 years
Buildings	25 - 40 years
Improvements	20 years
Machinery and equipment	3 - 20 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Fund Financial Statements

In the fund financial statements fixed assets used in governmental fund operations are not capitalized. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds. Capital assets used in proprietary fund operations are accounted for in the same manner as in government-wide statements.

Property, plant and equipment used by the proprietary funds are stated at cost. Interest costs incurred during construction periods are capitalized. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Lines, meters, & sewer systems	50 years
Water well, tank & pump	10 - 25 years
Equipment	5 years

Compensated Absences

The Town has the following policy relating to vacation and sick leave:

Each full time employee is entitled to 10 days vacation and 5 days sick leave for each year worked. For those full time employees hired prior to August 18, 1992, vacation benefits increase after 10 years worked to 15 days, and after 15 years worked to 20 days. These benefits are non-cumulative and must be taken when due. As a result, no liability is recorded in these financial statements.

Government-wide and Proprietary Fund Net Assets

Government-wide and proprietary fund net assets are divided into three components:

- Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets - consist of net assets that are restricted by the Town's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net assets are reported in this category.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This included the Budget Reserve Account.
- Assigned - Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Town Council.
- Unassigned - All amounts not included in other spendable classifications.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Town's policy is to apply the expenditure in the following priority:

1. Restricted fund balance,
2. Committed fund balance,
3. Assigned fund balance, and
4. Unassigned fund balance.

Interfund Transfers

Advances between funds which are not expected to be repaid are accounted for as transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

In those cases where repayment is expected, the advances are accounted for through the various interfund accounts. No interfund transfers have been made by the Town in 2012.

Budget Policy and Budgetary Accounting

A proposed budget is prepared and submitted by the Mayor to the Town Council prior to the beginning of each fiscal year. A budget summary and notice of a public hearing is published with the public hearing being conducted prior to the commencement of the budget year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Policy and Budgetary Accounting (continued)

The annual operating budget, prepared on the accrual basis, covers the General Fund. At the end of the fiscal year, unexpended appropriations automatically lapse. Budget amendments are approved by the Town Council and are included in the financial statements.

In connection with budget preparation, a portion of the unreserved fund balance of an individual fund may be designated for expenditures of the subsequent year. Such designation represents the extent to which the fund balance is used to balance the subsequent year's operating budget of that fund, as reflected in the legally adopted budget.

Restricted Cash

Restricted cash on the balance sheet of the General Fund represents cash received from the restricted sales tax for the purposes of recreation, fire protection and senior citizen programs. Additionally, amounts collected by the Town for utility deposits, special assessments, bail bonds, and confiscated property have been classified as restricted.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses of proprietary funds and the government-wide financial statements during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for the allowance for uncollectible accounts and depreciation.

NOTE 2 - CASH AND INVESTMENTS

The Town may invest in United States bonds, treasury notes, or certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana or other qualifying federally insured investments.

Custodial credit risk is the risk that in the event of a financial institution failure, the Town's deposits may not be returned to them. To mitigate this risk, state law requires deposits to be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent financial institution. As of June 30, 2012, the Town's deposits were not exposed to any custodial risk.

As of June 30, 2012 the Town had a balance of \$267,406 invested in LAMP.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pools of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA – R.S. 33:2955 that operates in conformity with Rule 2a7 of the Securities and Exchange Commission that governs the accounting practice of investment pools.

LAMP is an investment pool with the following characteristics:

- The value of the portfolio is carried at amortized cost.
- Credit risk: LAMP is rated AAAm by Standard & Poor's.
- Custodial risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. The fair value of investments is determined on a weekly basis to monitor any variances between amortized cost and fair value. For purposes of determining participants' shares, investments are valued at amortized cost. The fair value of the participant's position is the same as the value of the pool shares. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

Investment by the Town in the LAMP pool is considered unclassified as to credit risk provided by GASB Codification Section 150.125 because the investment is in a pool of funds and therefore not evidenced by securities that exist in physical or book form.

The government's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name, or (3) uninsured and unregistered for which securities are held by the broker or dealer, or by its trust department or agent but not in the government's name.

NOTE 3 - CONCENTRATION OF CREDIT RISK - PROPRIETARY FUNDS

Accounts receivable and related user fees from utility customers were comprised largely of residents in the Town. Most customers have made deposits to partially secure their outstanding balance.

NOTE 4 - ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTS

At June 30, 2012, accounts receivable for the Town's funds consisted of the following:

Franchise fees	\$ 17,505
Occupational licenses	12,198
Other	<u>5,155</u>
Total General Fund	34,858
Utility Fund - user fees net	<u>9,910</u>
Total	<u><u>\$ 44,768</u></u>

Due from other governments at June 30, 2012 in the General Fund totaled \$71,315, which consisted of \$42,860 of sales and use taxes and \$28,455 of grants receivable.

Additionally, the Town has recorded an accounts receivable of \$100,000 in special assessments due from Renaissance Orange Grove, L.L.C. (see Note 10). This amount is considered likely uncollectable by the Town, therefore, a provision for doubtful account has also been recorded of \$100,000.

NOTE 5 - RESTRICTED CASH

Restricted cash at June 30, 2012 was as follows:

Recreation	\$ 232,926
Assurity bond	9,500
Public safety - Police	33,071
Public safety - Fire	30,181
Senior citizens	39,510
Garbage deposits	<u>7,450</u>
Total	<u><u>\$ 352,638</u></u>

NOTE 6 - AD VALOREM TAXES

The 1974 Louisiana Constitution (Article 7 Section 18) provided that land and improvements for residential purposes be assessed at 10% of fair market value; other property and electric cooperative properties, excluding land, are to be assessed at 15%; and public service properties, excluding land, are to be assessed at 25% of fair market value. Fair market value is determined by the elected assessor of the parish on all property subject to taxation except public service properties, which are valued by the Louisiana Tax Commission (LRS 47:1957). The correctness of assessments by the assessor is subject to review and certification by the Louisiana Tax Commission. The assessor is required to reappraise all property subject to taxation at intervals of not more than four years.

All property taxes are recorded in governmental funds, and as explained in Note 1, revenues in governmental funds are recognized in the accounting period in which they become available and measurable. Property taxes are considered measurable in the calendar year of the tax levy. Accordingly, the taxes assessed for the calendar year falling within the current fiscal year are recorded as revenue. Property taxes are collected by the tax collector during the fiscal year and are therefore available to liquidate liabilities of the current period.

Taxes are levied by the Town in September or October, and are billed to the taxpayers in November. Billed taxes become delinquent on December 31st. Revenues from ad valorem taxes are budgeted in the year assessed. Ad valorem taxes attach as an enforceable lien on property as of January 1st of each year.

For the year ended June 30, 2012, taxes of 6.11 mills were levied on property with assessed valuations totaling \$7,362,940, and were dedicated to general government. Total taxes levied and collected were \$44,988 and \$45,546, respectively. Collections exceeded taxes levied due to the collection of delinquent taxes levied in previous years.

(Continued)

NOTE 7 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012, is as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 127,750	\$ -	\$ -	\$ 127,750
Construction in progress	<u>5,360</u>	<u>-</u>	<u>(5,360)</u>	<u>-</u>
Total capital assets not being depreciated	<u>133,110</u>	<u>-</u>	<u>(5,360)</u>	<u>127,750</u>
Capital assets being depreciated:				
Infrastructure	137,405	-	-	137,405
Buildings and improvements	202,695	-	-	202,695
Equipment and vehicles	510,478	5,017	-	515,495
Improvements other than buildings	<u>21,998</u>	<u>12,722</u>	<u>-</u>	<u>34,720</u>
Total capital assets being depreciated	<u>872,576</u>	<u>17,739</u>	<u>-</u>	<u>890,315</u>
Less accumulated depreciation for:				
Infrastructure	31,634	9,160	-	40,794
Buildings and improvements	172,058	1,832	-	173,890
Equipment and vehicles	400,733	40,920	-	441,653
Improvements other than buildings	<u>9,142</u>	<u>1,333</u>	<u>-</u>	<u>10,475</u>
Total accumulated depreciation	<u>613,567</u>	<u>53,245</u>	<u>-</u>	<u>666,812</u>
Total capital assets being depreciated, net	<u>259,009</u>	<u>(35,506)</u>	<u>-</u>	<u>223,503</u>
Governmental activities capital assets, net	<u>\$ 392,119</u>	<u>\$ (35,506)</u>	<u>\$ (5,360)</u>	<u>\$ 351,253</u>

During the year ended June 30, 2011, the Town signed a capital lease for two police vehicles. The amount of this lease was \$43,793, and the corresponding accumulated amortization on the lease is \$16,216 at June 30, 2012.

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

Governmental activities:	
General government	\$ 13,427
Public safety	36,893
Highways and streets	<u>2,925</u>
Total depreciation expense - governmental activities	<u>\$ 53,245</u>

NOTE 7 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 60,366	\$ -	\$ -	\$ 60,366
Capital assets being depreciated:				
Sewer treatment plants	993,179	87,447	-	1,080,626
Water system, tank, & pump	773,283	-	-	773,283
Equipment	46,773	-	-	46,773
Total capital assets being depreciated	1,813,235	87,447	-	1,900,682
Less accumulated depreciation for:				
Sewer treatment plants	313,041	31,094	-	344,135
Water well, tank, & pump	221,198	28,595	-	249,793
Equipment	25,976	5,776	-	31,752
Total accumulated depreciation	560,215	65,465	-	625,680
Total capital assets being depreciated, net	1,253,020	21,982	-	1,275,002
Business-type activities capital assets, net	\$ 1,313,386	\$ 21,982	\$ -	\$ 1,335,368

NOTE 8 - PENSION PLAN

Substantially all police employees of the Town of Sorrento can elect to be members of the Municipal Police Employees Retirement System of Louisiana ("System"), a cost sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. Pertinent information relative to the plan is as follows:

Plan Description

All full-time police department employees engaged in law enforcement are required to participate in the System, unless electing to participate in the Social Security System. Employees who retire after at least 25 years of creditable service, or at or after age 50 with at least 20 years of creditable service, or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3.33% of their final-average salary for each year of creditable service, not to exceed 100%. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

NOTE 8 - PENSION PLAN (CONTINUED)

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana, 70809-2250, or (225)929-7411.

Funding Policy

Plan members are required by state statute to contribute 10 percent of their annual covered salary and the Town of Sorrento is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Town of Sorrento are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. During the years ended June 30, 2012, 2011 and 2010, the town contributed 26.5%, 25% and 11% of the salary for the officer enrolled in the program, respectively, totaling \$17,821, \$15,632 and \$3,290, respectively.

NOTE 9 - LONG-TERM DEBT

Governmental Activities - Capital Lease Obligation

The Town has a capital lease agreement that is secured by vehicles and is due in annual installments of \$15,609, including interest of 7.1%.

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Capital leases	\$ 28,183	\$ -	\$ 13,609	\$ 14,574	\$ 14,574

Maturities of the capital lease payable for 2012 are \$15,609 consisting of \$14,574 and \$1,035 in principal and interest, respectively.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Intergovernmental Agreement

The Town entered into an agreement with Orange Grove Community Development District (the District) whereas the District and its developer, Renaissance Orange Grove, L.L.C. (Renaissance), plan to construct a planned unit development (Orange Grove) within an annexed area of the Town. The Town and Renaissance have agreed that within 45 days of completed construction and approval of the final plat of the first filing of Orange Grove subdivision, the infrastructure assets of Orange Grove, which consist of a sewer system and related facilities, internal roadway system and storm water management system, shall be transferred by the District to the Town. Upon transfer of the systems, the Town shall assume full ownership and responsibility for operation and maintenance of the systems and will be responsible for the expansion, completion, operation and maintenance of the systems for all residents of Orange Grove who may reside in subsequent filing plats of Orange Grove. Also, the Town shall have exclusive rights to all fees and revenues generated from the sewer system within Orange Grove. The term of this agreement is for 60 years unless terminated by both the Town and the District. As of June 30, 2012, the systems had not been transferred to the Town from the District.

Additionally, the District partially financed the construction of Orange Grove through the issuance of special assessment bonds. The Town has not incurred any debt, liabilities or other obligations as the bonds were issued by the District.

Finally, the Town entered into a cooperative endeavor agreement with Renaissance. This agreement provides that Renaissance shall pay the Town a sum of \$150,000 within two years of the annexation ordinance (Ordinance #09-04, adopted May 19, 2009) and approval of Orange Grove by the Town as specified lots are sold within Orange Grove. When received, these funds are restricted for fire and safety construction. As of June 30, 2012, the Town has received \$50,000 as part of this intergovernmental agreement; the remaining \$100,000 was the basis for a provision for uncollectable debt as disclosed in Note 4.

Risk Management

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the Town carries commercial insurance. There were no major changes in insurance coverage from the prior year and settlements have not exceeded coverage in the current year or in the past three years.

Suits and Claims

Various suits and claims arising in the ordinary course of operations are pending against the Town. The majority of the cases are either covered by insurance or other defenses; however, the ultimate effect of such litigation cannot be ascertained at this time. It is the opinion of Town management that the ultimate resolution of any unrecorded litigation will not have a material effect on the financial position of the Town.

NOTE 11 - DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Nationwide Retirement Solutions, Inc. (Nationwide). The Plan, available to all Town employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. In accordance with the amended provisions of the Internal Revenue Code, all amounts deferred under the Plan, including income attributable to those amounts, are solely the property and rights of the participants and their beneficiaries. As required, the Town established an agreement with a third party administrator who will hold the assets and income of the Plan. At June 30, 2012, there were no assets held by Nationwide on behalf of Town employees.

The Town has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Under this statement governments who have no responsibility for the plan and are not formally considered the Plan's trustee are not required to report the plan in its financial statements. Since the Town Plan is held in a custodial account with a third party administrator, the assets and liabilities are not presented in the Town's financial statements.

NOTE 12 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures Exceeding Appropriations

For the year ended June 30, 2012, the General Fund had an excess of expenditures over appropriations in culture and recreation of \$4,061.

NOTE 13 - COMPENSATION OF GOVERNING BOARD

During the year ended June 30, 2012, Council members and the Mayor received compensation, as follows:

Name	Title	Amount
Wilson Longanecker, Jr.	Mayor	\$ 10,136
Randy J. Anny	Mayor Pro-tem/Council Member	2,700
John Wright	Council Member	2,900
Milton J. Vicknair	Council Member	2,700
Marvin L. Martin, Sr.	Council Member	2,350
Lionel Melancon, Jr.	Council Member	1,100
Chad Day	Interim Council Member	1,714
	Total	<u>\$ 23,600</u>

NOTE 14 - SUBSEQUENT EVENTS

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report, the date the financial statements were available to be issued.

**TOWN OF SORRENTO, LOUISIANA
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance - favorable (unfavorable)
REVENUES				
Taxes:				
Sales and use	\$ 475,250	\$ 543,585	\$ 537,637	\$ (5,948)
Franchise	97,200	94,000	79,693	(14,307)
Ad valorem	45,000	45,000	45,546	546
Other	4,500	4,500	1,160	(3,340)
Fines	197,400	173,000	145,439	(27,561)
Licenses and permits	76,830	76,830	74,788	(2,042)
Intergovernmental	45,500	4,000	62,322	58,322
Charges for services	6,645	11,600	11,217	(383)
Investment income	230	525	562	37
Miscellaneous	<u>6,000</u>	<u>3,500</u>	<u>2,300</u>	<u>(1,200)</u>
Total revenues	<u>954,555</u>	<u>956,540</u>	<u>960,664</u>	<u>4,124</u>
EXPENDITURES				
Current function:				
General government	176,260	219,982	225,984	(6,002)
Public safety:				
Police	515,957	435,200	449,995	(14,795)
Fire	20,484	40,000	37,785	2,215
Highways and streets	131,088	158,767	158,269	498
Culture and recreation	52,083	25,500	29,561	(4,061)
Debt service	15,000	15,900	15,891	9
Capital outlay	<u>20,000</u>	<u>27,600</u>	<u>12,380</u>	<u>15,220</u>
Total expenditures	<u>930,872</u>	<u>922,949</u>	<u>929,865</u>	<u>(6,916)</u>
Excess of revenues over expenditures	23,683	33,591	30,799	(2,792)
OTHER FINANCING SOURCES				
Proceeds from insurance claims	<u>-</u>	<u>-</u>	<u>8,143</u>	<u>8,143</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>8,143</u>	<u>8,143</u>
Net change in fund balance	<u>\$ 23,683</u>	<u>\$ 33,591</u>	<u>38,942</u>	<u>\$ 5,351</u>
FUND BALANCE				
Beginning of year			<u>581,837</u>	
End of year			<u>\$ 620,779</u>	

TOWN OF SORRENTO, LOUISIANA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2012

NOTE 1 - BUDGETS

Budget Policy and Budgetary Accounting

A proposed budget is prepared and submitted by the Mayor to the Town Council prior to the beginning of each fiscal year. A budget summary and notice of a public hearing is published with the public hearing being conducted prior to the commencement of the budget year.

The annual operating budget, prepared on the accrual basis, covers the General Fund. At the end of the fiscal year, unexpended appropriations automatically lapse. Budget amendments are approved by the Town Council and are included in the financial statements.

In connection with budget preparation, a portion of the unreserved fund balance of an individual fund may be designated for expenditures of the subsequent year. Such designation represents the extent to which the fund balance is used to balance the subsequent year's operating budget of that fund, as reflected in the legally adopted budget.

Basis of Accounting

All of the Town's funds budgets are prepared on the accrual basis of accounting, which is described in Note 1 to the Town's financial statements for the year ended June 30, 2012. The Town's basis of budgetary accounting follows generally accepted accounting principles.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures Exceeding Appropriations

For the year ended June 30, 2012, the General Fund had an excess of expenditures over appropriations in culture and recreation of \$4,061.

SPECIAL INDEPENDENT AUDITORS' REPORTS

For the year ended June 30, 2012

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

To the Honorable Mayor and
Members of the Town Council
Town of Sorrento, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Sorrento, Louisiana, as of and for the year ended June 30, 2012, which collectively comprise the Town of Sorrento, Louisiana's basic financial statements and have issued our report thereon dated November 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Sorrento, Louisiana is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Sorrento's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Sorrento, Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Sorrento, Louisiana's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employee, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, [2012-1]. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and other matters

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

The Town of Sorrento, Louisiana's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Town of Sorrento, Louisiana's response and, accordingly, we express no opinion on it.

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



Gonzales, Louisiana
November 12, 2012

TOWN OF SORRENTO, LOUISIANA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over Financial Reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes _____ no

Noncompliance material to financial statements noted? _____ yes x no

B. FINDINGS- FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2012-1 Financial Oversight

Condition: The Town has been ineffective in the collecting of unpaid balances for traffic fines and court costs issued. The Town's Police Department issued approximately \$455,000 in fines and court costs during 2012. Of the current year fines and court cost issued, approximately \$342,000 had been collected at year end. The Police Department administers collection of these funds and monitors the outstanding balances. Currently, a warrant is issued for the arrest of offenders with unpaid citations and a listing forwarded to the Department of Motor Vehicles.

Criteria: The Town is unable to effectively monitor the outstanding traffic fines and court costs to maximize collection of these revenues.

Cause: Due to the small staff, the Town is unable to achieve adequate oversight over the collection efforts of traffic fines and court costs.

Effect: The Town is unable to receive revenues generated from traffic fines and court costs issued throughout the year in a timely manner.

Recommendation: The Mayor and the Town Council should review monthly detailed traffic ticket activity logs, to include a list of tickets issued, ticket revenue collections, any other adjustment to tickets issued, and unpaid ticket balances. The Town should involve the Town attorney to assist in collection efforts. These practices may result in a higher probability of collections and increase Town resources.

Management's Response: Management concurs with this finding.

TOWN OF SORRENTO, LOUISIANA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

B. FINDINGS- FINANCIAL STATEMENT AUDIT (continued)

SIGNIFICANT DEFICIENCIES (continued)

2012-2 Utility Fund Operations

Condition: During the year ended June 30, 2012, delinquent accounts receivable approximated \$9,900 and an allowance for doubtful accounts has been recorded for the same amount. Additionally, proceeds received from the franchise agreement associated with water services provided were insufficient to cover direct costs. Furthermore, overall operations experienced net operating losses during 2012 and 2011 of approximately \$123,000 and \$99,000, respectively.

Criteria: The Town is unable to obtain positive results from their efforts to collect on past due utility balances.

Cause: The Town lacks the ability to economically cut-off services to delinquent users. Also, the Town has accounts in arrears relating to customers that are no longer users on the system.

Effect: The Town is experiencing an increase in the allowance for doubtful accounts as well as operating losses in the Utility Fund.

Recommendation: The Town should review the listing of delinquent accounts receivable with its legal advisor to pursue appropriate legal action, and also review its collection policies to alleviate future potential bad debts.

Management's Response: Management concurs with this finding.

COMPLIANCE WITH STATE LAWS AND REGULATIONS

NONE

TOWN OF SORRENTO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2011-1 Segregation of Duties/Financial Oversight

Condition: Segregation of duties is not adequate to have effective internal control over financial reporting. The finding results from the small size of the Town. These limitations allow no opportunity for meaningful segregation of duties and make the Town more susceptible to employee theft.

Current Years Status: The Town has hired an outside CPA firm to perform accounting services essential to the Town's financial operations. This matter is considered resolved.

Condition: The Town has been effective in the collecting of unpaid balances for traffic fines and court costs issued.

Current Years Status: This finding has been reclassified as 2012-1.

2011-2 Accounting Overview

Condition: During the audit of the Town's financial statements, a significant number of correcting journal entries was proposed.

Current Years Status: The Town has contracted with a CPA firm to perform accounting services essential to the Town's financial operations. No correcting journal entries were proposed in the current year. This matter is considered to be resolved.

2011-3 Financial Reporting/Budgeting

Condition: During the fiscal year ended June 30, 2011, the Town's actual expenditures exceeded its adopted budget. The Town's General Fund expenditures for public safety - fire and capital outlay exceeded the budget appropriation by approximately \$81,300 and \$54,200, respectively.

Current Years Status: No similar finding was reported in the current year.

2011-4 Personnel Procedures

Condition: During the audit of the Town's financial statements, several issues of non-compliance were found regarding the Town's new hire and record retention policies. These items included, but were not limited to, the lack of an employee's application, social security cards, identification records, and employment eligibility verification forms.

Current Years Status: This matter is considered to be resolved.

TOWN OF SORRENTO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2011-5 Support of Cash Disbursements

Condition: During our observation of expenditures of the Town for 2011, we observed that check copies or in-house purchase requisitions were the sole documentation retained in support of certain disbursements. To provide adequate disbursement documentation, a copy of an invoice or receipt as well as a canceled check/purchase request form containing a description and purpose of the expenditure should be retained for each disbursement.

Current Years Status: This matter is considered to be resolved.

2011-6 Compliance with Louisiana Public Bid Law

Condition: During 2011, the Town purchased street signs using grant funds. The Town did not solicit bids for the purchase of these signs, despite the purchase amount exceeding the limit for quotes to be obtained during the procurement process. Additionally, the Town did not have proper documentation for the purchase of police vehicles under state contract. However, additional review through the Louisiana Office of State Purchasing disclosed that the purchases of the vehicles were made under state contract.

Current Years Status: No similar finding was reported in the current year.

2011-7 Improper Use of Restricted Funds

Condition: During our review of the intergovernmental agreement between the Orange Grove Development District, Renaissance Orange Grove, L.L.C., and the Town, it was found that the Town's proceeds from the agreement would be restricted toward the enhancement of fire and police safety in Sorrento. For testing purposes, we considered enhancement to be an improvement in the quality, value, or extent of public safety and fire service to the citizens of Sorrento. A review of disbursements made from the restricted cash consisted of routine computer maintenance and payment for life insurance policies for police department personnel.

Current Years Status: No similar finding was reported in the current year.

2011-8 Utility Fund Operations

Condition: During the year ended June 30, 2011, delinquent accounts receivable approximated \$8,600 and an allowance for doubtful accounts has been recorded for the same amount. Additionally, proceeds received from the franchise agreement associated with water services provided were insufficient to cover direct costs. Furthermore, overall operations experienced net operating losses during 2011 and 2010 of approximately \$99,000 and \$60,000, respectively.

Current Years Status: This finding has been reclassified as 2012-2.