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Town of Cotton Valley
Cotton Valley, Louisiana

Financial Statement with Auditors' Report

For the Year Ended December 31, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/24/10

Town of Cotton Valley
Cotton Valley, Louisiana

Table of Contents

	Page
Independent Auditors' Report	1 – 2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Balance Sheet – Proprietary Fund	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets – *Proprietary Fund*	10
Statement of Cash Flows – Proprietary Fund	11
Notes to the Financial Statements	12 – 25
Required Supplementary Information:	
Budgetary Comparison Schedules:	
General Fund For the Year Ended December 31, 2008	26
Sales Tax Fund For the Year Ended December 31, 2008	27
Notes to Required Supplementary Information For the Year Ended December 31, 2008	28

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana

Table of Contents
(Continued)

	Page
Other Supplementary Information:	
Schedule of Compensation Paid to Board Members For the Year Ended December 31, 2008	29
Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2008	30
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*	31–32
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	33–34
Summary Schedule of Prior Year Audit Findings	35
Schedule of Findings and Questioned Costs	35 – 39
Summary Schedules of Audit Findings for the Louisiana Legislative Auditor	
Summary Schedule of Prior Year Audit Findings	40 –42
Corrective Action Plan For Current Year Audit Findings	42

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Independent Auditors' Report

Town of Cotton Valley
Cotton Valley, Louisiana

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Cotton Valley, Louisiana, as of December 31, 2008, 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 of Cotton Valley'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 opinions.

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 of Cotton Valley, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

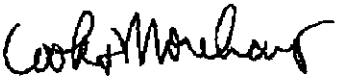
In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009 on our consideration of the Town of Cotton Valley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Cotton Valley's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The budgetary comparison information on pages 26 – 28, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Cotton Valley has not presented management's discussion and analysis, which is supplementary information, required by accounting principles generally accepted in the United States of America, but is not a required part of the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as whole. The accompanying financial information listed as supplementary information in the table of contents and shown on page 29 is presented for purposes of additional analysis and is not a required part of the financial statements of the Town of Cotton Valley. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



Cook & Morehart
Certified Public Accountants
December 7, 2009

Town of Cotton Valley
Cotton Valley, Louisiana
Statement of Net Assets
December 31, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 30,933	$ 15,554	$ 46,487
Receivables	26,575	19,380	45,955
Internal balances	(16,950)	16,950	
Restricted assets:			
Cash and cash equivalents		26,895	26,895
Capital assets, net	57,040	3,018,928	3,075,968
Total assets	97,598	3,097,707	3,195,305
Liabilities			
Accounts payable	8,394	11,870	20,264
Accrued liabilities	20,636	1,361	21,997
Payable from restricted assets:			
Revenue bonds - due within one year		23,086	23,086
Accrued interest		6,645	6,645
Customer deposits		29,976	29,976
Non-current liabilities:			
Due within one year	3,000	14,277	17,277
Due in more than one year	44,000	708,014	752,014
Total liabilities	76,030	795,229	871,259
Net Assets (Deficit)			
Invested in capital assets, net of related debt	10,040	2,273,551	2,283,591
Restricted for:			
Debt Service	29,954	12,671	42,625
Unrestricted	(18,426)	16,256	(2,170)
Total net assets (deficit)	$ 21,568	$ 2,302,478	$ 2,324,046

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Statement of Activities
For the Year Ended December 31, 2008

Functions / Programs:	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental Activities						
General government	$ 150,944	$	$ 31,774	$ (119,170)	$	$ (119,170)
Public safety	89,092	68,811		(20,281)		(20,281)
Highway and streets	25,062			(25,062)		(25,062)
Interest on long-term debt	2,500			(2,500)		(2,500)
Total governmental activities	267,598	68,811	31,774	(167,013)		(167,013)
Business-type Activities						
Water and sewer	306,535	227,435	64,300		(14,800)	(14,800)
Total business-type activities	306,535	227,435	64,300		(14,800)	(14,800)
Total Government	$ 574,133	$ 296,246	$ 96,074	(167,013)	(14,800)	(181,813)
General revenues:						
Ad valorem taxes				21,509		21,509
Sales taxes				92,444		92,444
Franchise taxes				24,489		24,489
Licenses and permits				22,338		22,338
Intergovernmental				3,054		3,054
Investment earnings				123	224	347
Miscellaneous				3,016		3,016
Total general revenues				166,973	224	167,197
Change in net assets				(40)	(14,576)	(14,616)
Net assets - beginning				21,608	2,317,054	2,338,662
Net assets - ending				$ 21,568	$ 2,302,478	$ 2,324,046

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Balance Sheet
Governmental Funds
December 31, 2008

	Major Funds		Non Major Fund	Total
	General	Sales Tax	Debt Service	Governmental Funds
Assets				
Cash and cash equivalents	$ 22,784	$ 3,687	$ 4,462	$ 30,933
Receivables	9,538	13,701	3,336	26,575
Due from other fund			22,156	22,156
Total assets	$ 32,322	$ 17,388	$ 29,954	$ 79,664
Liabilities and Fund Balances (Deficit)				
Liabilities:				
Accounts payable	$ 7,160	$ 1,234	$	$ 8,394
Accrued liabilities	18,734	1,902		20,636
Due to other fund	39,106			39,106
Total liabilities	65,000	3,136		68,136
Fund balances (deficit):				
Reserved - debt service			29,954	29,954
Unreserved	(32,678)	14,252		(18,426)
Total fund balances (deficit)	(32,678)	14,252	29,954	11,528
Total liabilities and fund balances (deficit)	$ 32,322	$ 17,388	$ 29,954	$ 79,664

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2008

Fund balances - total governmental funds	$	11,528
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		57,040
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		(47,000)
Net assets of governmental activities	$	21,568

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

	Major Funds		Non Major Fund	Total
	General	Sales Tax	Debt Service	Governmental Funds
Revenues:				
Ad valorem taxes	$ 14,330	$	$ 7,179	$ 21,509
Franchise taxes	24,489			24,489
Intergovernmental	34,828			34,828
Sales tax		92,444		92,444
Licenses and permits	22,338			22,338
Fines and forfeitures	68,811			68,811
Investment earnings		76	47	123
Miscellaneous	3,016			3,016
Total revenues	167,812	92,520	7,226	267,558
Expenditures:				
Current:				
General government	130,393	17,966		148,359
Public safety	14,499	68,865		83,364
Highway and streets	22,700			22,700
Capital outlay	16,881			16,881
Debt service:				
Principal payments			3,000	3,000
Interest and other charges			2,500	2,500
Total expenditures	184,473	86,831	5,500	276,804
Excess (deficiency) of revenues over expenditures	(16,661)	5,689	1,726	(9,246)
Fund balances (defict) at beginning of year	(16,017)	8,563	28,228	20,774
Fund balances (deficit) at end of year	$ (32,678)	$ 14,252	$ 29,954	$ 11,528

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, 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 December 31, 2008

Net change in fund balances - total governmental funds	$	(9,246)
Amounts reported for governmental activities in the statement of activities are *different because*:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($16,881) exceeded depreciation ($10,675) in the current period.		6,206
The repayment of principal of long-term debt consumes current financial resources of governmental funds.		3,000
Change in net assets of governmental activities	$	(40)

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Balance Sheet
Proprietary Fund
December 31, 2008

	Business-Type Activities Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 15,554
Receivables	19,380
Due from other fund	16,950
Total current assets	51,884
Noncurrent assets:	
Restricted cash and cash equivalents	26,895
Capital assets:	
Land	16,000
Plant and equipment	4,013,328
Less: accumulated depreciation	(1,010,400)
Total noncurrent assets	3,045,823
Total assets	$ 3,097,707
Liabilities	
Current liabilities:	
Accounts payable	$ 11,870
Accrued liabilities	1,361
Notes payable	9,490
Current portion capital lease obligation	4,797
Payable from restricted assets:	
Revenue bonds	23,086
Accrued interest	6,645
Customer deposits	29,976
Total current liabilities	87,215
Noncurrent liabilities:	
Revenue bonds	705,804
Capital lease obligation	2,110
Total noncurrent liabilities	708,014
Total liabilities	795,229
Net assets	
Invested in capital assets, net of related debt	2,273,551
Restricted for debt service	12,671
Unrestricted	16,256
Total net assets	2,302,478
Total liabilities and net assets	$ 3,097,707

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2008

	Business-Type Activities Enterprise Fund
Operating revenues:	
Charges for service -	
Water and sewer sales	$ 227,416
Other charges and fees	19
Total operating revenues	227,435
Operating expenses:	
Salaries	53,677
Insurance	6,122
Truck expense	1,088
Maintenance and repairs	20,285
Miscellaneous expenses	27,435
Office expense	3,245
Materials and supplies	27,202
Utilities	32,347
Depreciation	101,789
Total operating expenses	273,190
Operating income (loss)	(45,755)
Non-operating revenues (expenses):	
Grant	64,300
Interest income	224
Interest expense	(33,345)
Total non-operating revenues (expenses)	31,179
Change in net assets	(14,576)
Net assets - beginning of year	2,317,054
Net assets - end of year	$ 2,302,478

See accompanying notes to the basic financial statements.

Town of Cotton Valley
Cotton Valley, Louisiana
Statement of Cash Flows
Proprietary Fund
For the Years Ended December 31, 2008

	Business-Type Activities Enterprise Fund 2008
Cash Flows From Operating Activities	
Receipts from customers	$ 231,146
Cash payments to suppliers for goods and services	(109,044)
Cash payments to employees for services	(52,316)
Net Cash From Operating Activities	69,786
Cash Flows From Non-Capital Financing Activities	
Operating grants	64,300
Net Cash From Non-Capital Financing Activities	64,300
Cash Flows From Capital and Related Financing Activities	
Principal paid on capital debt	(30,279)
Interest paid on capital debt	(33,345)
Purchase of property and equipment	(52,119)
Net Cash (used in) Capital and Related Financing Activities	(115,743)
Cash Flow From Investing Activities	
Interest income	224
Net Cash From Investing Activities	224
Net increase (decrease) in cash and cash equivalents	18,567
Cash, Beginning of year	23,882
Cash, End of year	$ 42,449
Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used In) Operating Activities	
Operating income (loss)	$ (45,755)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation expense	101,789
Accounts receivable	3,711
Accounts payable	8,081
Accrued expenses	4,190
Meter Deposits	3,270
Due from other funds	(5,500)
Net Cash Flows From Operating Activities	$ 69,786

See accompanying notes to the basic financial statements.

INTRODUCTION

The Town of Cotton Valley is incorporated under the provisions of the Lawrason Act. The Town operates under a Mayor–Council form of government.

(1) *Summary of Significant Accounting Policies*

The Town of Cotton Valley's financial statements are 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 of Cotton Valley are discussed below.

A. Reporting Entity

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

GASB Statement No. 14, as amended by GASB Statement No. 39, established criteria for determining which component units should be considered part of the Town of Cotton Valley for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and

   a. The ability of the Town to impose its will on that organization and/or

   b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Town.

2. Organizations for which the Town does not appoint a voting majority but are fiscally dependent on the Town.

3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

In addition, the GASB 39 states that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

(Continued)

2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government.

Based on the criteria described above, there are no component units to be included as part of the reporting entity.

B. Basic Financial Statements – Government-Wide Statements

The Town of Cotton Valley's basic financial statements include both government-wide (reporting the funds maintained by the Town of Cotton Valley as a whole) and fund financial statements (reporting the Town of Cotton Valley's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's sales tax fund, debt service fund, and general fund are classified as governmental activities. The Town's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental activities and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations. The Town of Cotton Valley's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town of Cotton Valley's functions. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating, and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations of providing water and sewer services.

The net costs (by function) are normally covered by general revenue (property, sales and use taxes, certain intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the Town of Cotton Valley as an entity and the change in the Town of Cotton Valley's net assets resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

The financial transactions of the Town of Cotton Valley are recorded in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town of Cotton Valley:

1. Governmental Funds – the focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town of Cotton Valley:

    a. General fund is the general operating fund of the Town of Cotton Valley. It is used to account for all financial resources except those required to be accounted for in another fund.

    b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

    c. Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

2. Proprietary Funds – the focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

    a. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of fund category) for the determination of major funds.

The following major funds are presented in the fund financial statements:

General Fund – accounts for all financial resources except those required to be accounted for in another fund.

Sales Tax Fund – accounts for the proceeds of sales taxes levied for operations of the police department and maintenance of streets, and operations of street lights.

Water and Sewer Fund – accounts for the provision of water and sewer services of the Town.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements *made regardless of the measurement focus applied.*

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual: i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Budgets

The Town uses the following budget practices:

1. The Mayor and Town Council prepare a proposed budget.

2. After completion of all action necessary to finalize and implement the budget, the budget is adopted in an open meeting.

3. Budgetary amendments involving the transfer of funds from one department, program or function to another, or involving increases in expenditures resulting from revenues exceeding amounts estimated, require the approval of the Council.

4. All budgetary appropriations lapse at the end of each fiscal year.

5. Budgets for the General Fund, Sales Tax Fund and Debt Service Fund are adopted on the cash basis. Budgeted amounts in the accompanying required supplementary information schedules are as originally adopted, or as amended by the Council. There were no amendments to the budgets for the year ended December 31, 2008.

6. The Town's fiscal year is December 31.

F. Cash, Cash Equivalents, and Investments

Cash includes amounts in petty cash, demand deposits, interest bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the Town may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Investments are limited by R.S. 33:2955 and the Town's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

G. Capital Assets

Capital assets purchased or acquired with an original cost of $1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20–50 years
Other equipment	10 years
Vehicles	5 years
Water and sewer systems	5 – 40 years

GASBS No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required.

H. Revenues

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the Town in September or October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed. The Town bills and collects its own property taxes, using the assessed values determined by the tax assessor of Webster Parish. Sales tax revenues are recorded in the period in which the underlying exchange has occurred. Fines, forfeitures, licenses, and permits are recognized in the period they are collected. Interest income on demand and time deposits is recorded when earned. Federal and state grants are recorded when the Town is entitled to the funds.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Sales Taxes

The proceeds of the 1% sales and use tax passed by the voters of the Town of Cotton Valley may be used only for the operations of the police department and for the maintenance of streets and operations of street lights. The Webster Parish School Board collects the tax for the Town, remitting to the town on a weekly basis, for a fee of 1% of collections.

K. Compensated Absences

The Town allows up to two weeks vacation based upon years of service. No carryover or accrued vacation leave is allowed. Unused vacation time will be applied upon termination. In addition, unused accumulated sick pay will not be paid upon separation of service.

As of December 31, 2008, employee leave benefits were determined to be immaterial and are therefore not recorded as a liability.

L. Interfund Activity

Interfund activity is reported as loans, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

(Continued)

M. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

N. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities in the statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Bad Debts

The Town uses the direct charge-off method of accounting for uncollectible ad valorem taxes and water system receivables. Although this method is not in accordance with generally accepted accounting principles, the overall effect on the financial statements is immaterial.

P. Capitalized Interest

The Town capitalizes net interest costs and interest earned as part of the cost of constructing various water and sewer projects when material.

Q. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Water and Sewer Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

R. Postretirement Benefits

The Town provides no postretirement benefits to its employees.

(Continued)

(2) Ad Valorem Taxes

The distribution of the Town's levy (tax rate per $1,000 assessed value) for 2008 is as follows:

	Tax Roll 2008	Authorized Millage	Levied Millage	Expiration Date
General Fund	7.16	7.16	7.16	Statutory
Debt Service	3.95	3.95	3.95	2017
	11.11			

(3) Cash and Cash Equivalents

A. Cash and Cash Equivalents

At December 31, 2008, the Town has cash and cash equivalents (book balances) totaling $73,382, of which $26,895 is shown as a restricted asset. These deposits are stated at cost, which approximates market. 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.

B. Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a policy for custodial credit risk. As of December 31, 2008, the Town's bank balance was secured from custodial credit risk due to deposits (collected bank balances) of $76,875 being secured by federal deposit insurance.

(4) Receivables

The following is a summary of receivables at December 31, 2008:

Class of Receivable	
Governmental activities –	
Sales taxes	$ 13,701
Ad valorem taxes	9,381
Other	3,493
	26,575
Business-type activities –	
Accounts receivable – water and sewer charges	19,380
Total	$ 45,955

(5) Restricted Assets – Proprietary Fund Type

Restricted assets were applicable to the following at December 31, 2008:

	Sewer Fund
Customer deposits	$ 14,225
Bond and interest sinking fund	3,253
Bond reserve fund	6,140
Contingency fund	3,277
	$ 26,895

(6) Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance at January 1, 2008	Additions	Deletions	Balance at December 31, 2008
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 20,000	$ –	$ –	$ 20,000
Capital assets, being depreciated:				
Buildings	103,000	–	(9,000)	94,000
Other equipment	8,141	16,881	–	25,022
Vehicles	37,444	–	–	37,444
Total capital assets, being depreciated, at historical cost	148,585	16,881	(9,000)	156,466
Less accumulated depreciation:				
Buildings	(84,940)	(2,585)	9,000	(78,525)
Other equipment	(4,070)	(2,362)	–	(6,432)
Vehicles	(28,741)	(5,728)	–	(34,469)
Total accumulated depreciation	(117,751)	(10,675)	9,000	(119,426)
Total capital assets, being depreciated, net	30,834	6,206	–	37,040
Governmental activities capital assets, net	$ 50,834	$ 6,206	$ –	$ 57,040

(Continued)

	Balance at January 1, 2008	Additions	Deletions	Balance at December 31, 2008
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	$ 16,000	$ –	$ –	$ 16,000
Total capital assets, not being depreciated	16,000	–	–	16,000
Capital assets, being depreciated:				
Water and sewer system:				
Vehicles	5,750	–	–	5,750
Distribution system	3,897,846	52,119	–	3,949,965
Other equipment	57,613	–	–	57,613
Total capital assets, being depreciated, at historical cost	3,961,209	52,119	–	4,013,328
Less accumulated depreciation:				
Water and sewer system:				
Vehicles	(5,653)	(96)	–	(5,749)
Distribution system	(862,051)	(98,943)	–	(960,994)
Other equipment	(40,907)	(2,750)	–	(43,657)
Total accumulated depreciation	(908,611)	(101,789)	–	1,010,400)
Total capital assets, being depreciated, net	3,052,598	(49,670)	–	3,002,928
Business-type activities capital assets, net	$ 3,068,598	$ (49,670)	$	$ 3,018,928

Depreciation expense was charged to Governmental and Business–type Activities as follows:

	Governmental Activities	Business–type Activities	Total
Public safety	$ 5,728	$ –	$ 5,728
Highway and streets	2,362	–	2,362
General government	2,585	–	2,585
Water and sewer	–	101,789	101,789
Total	$ 10,675	$ 101,789	$ 112,464

(Continued)

(7) Interfund Balances

Interfund balances at December 31, 2008 consisted of the following:

	Due From Other Fund	Due To Other Fund	Net
Governmental Funds:			
General	$ –	$ 39,106	$ (39,106)
Debt service	22,156	–	22,156
Total Governmental Funds	22,156	39,106	(16,950)
Proprietary Fund	16,950	–	16,950
Total	$ 39,106	$ 39,106	$ –

The interfund balances are the result of the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

(8) Customers' Deposits

Deposits held for customers that are currently active on the water system total $29,976 at December 31, 2008.

(9) Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 50,000	$ –	$ (3,000)	$ 47,000	$ 3,000
Business-type Activities:					
Sewer Revenue Bonds	$ 108,000	$ –	$ (6,000)	$ 102,000	$ 6,000
Water Revenue Bonds	5,715	–	(323)	5,392	390
Water Revenue Bonds	4,182	–	(612)	3,570	630
Water and Sewer Bonds	60,000	–	–	60,000	9,000
Water and Sewer Bonds	564,952	–	(6,924)	558,028	7,066
Note Payable	21,490	–	(12,000)	9,490	9,490
Capital Lease Obligation	11,317	–	(4,420)	6,897	4,787
Total Business-type Activities	$ 775,656	$ –	$ (30,279)	$ 745,377	$ 37,363

(Continued)

Governmental Activities:

General obligation bonds –	
$90,000 Public Improvement Bonds dated 7/29/80; due in annual installments of $1,000 – $5,000 through 7/29/20; interest at 5% – 12%. The debt redemption is paid from the Debt Service Fund.	$ 47,000

Business-type Activities:

$190,000 Sewer Revenue Bonds (Series A #92–02) and $35,000 Sewer Revenue Bonds (Series #92–05) dated 7/29/80; due in annual payments of $3,000 to $11,000, with the first payment (July 1982) being for interest only, and, thereafter the payments shall be equal in amount and consist of fully amortized installments of principal and interest, interest at 5%	$ 102,000
$8,905 Water Revenue Bonds dated June 15, 1993; due in annual installments of $609, which includes principal and interest; interest rate at 5%	5,392
$10,226 Water Revenue Bonds dated June 15, 1993; due in annual installments of $821, which includes principal and interest; interest rate at 5%	3,570
$180,000 Water and Sewer Revenue Bonds dated August 1, 1974; due annual installments of $1,000 through $11,000 which includes principal and interest; interest rate at 5%	60,000
$586,000 Water and Sewer Revenue Bonds dated August 12, 2003; due in 480 monthly installments beginning October, 2007 of $2,567 which includes principal and interest; interest rate at 4.25%; final payment in 2044	558,028
Notes payable to a Simmons Waterworks, Inc., with zero interest, payable in 200 monthly installments of $1,000, due December, 2009	9,490
Capital lease obligation, payable in monthly installments of $430, final payment February, 2010	6,897
	$ 745,377

Payments on general obligation bonds are made from debt service funds. Payments on the note payable are made from the general fund.

The Water and Sewer Revenue Bonds constitute special obligations of the Town solely secured by a lien on and pledge of the net revenues of the water and sewer system. Payments on the notes payable of the Enterprise Fund are made from the Water and Sewer Fund.

(Continued)

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

Fiscal Year	Principal	Interest
2009	$ 3,000	$ 2,350
2010	3,000	2,200
2011	3,000	2,050
2012	3,000	1,900
2013	4,000	1,750
2014–2018	21,000	5,750
2019–2023	10,000	750
	$ 47,000	$ 16,750

Business-Type Activities

Fiscal Year	Principal	Interest
2009	$ 32,575	$ 32,245
2010	23,444	31,136
2011	25,818	30,012
2012	26,209	28,771
2013	28,701	27,513
2014–2018	107,862	119,842
2019–2023	80,886	96,765
2024–2028	72,801	81,200
2029–2033	90,004	63,997
2034–2038	111,272	42,729
2039–2043	137,566	16,435
2044–2048	1,341	18
	$ 738,480	$ 570,662

Business-Type Activities

Capital Lease Obligation

During the year ended December 31, 2006 the Town entered into a capital lease obligation to purchase a tractor. The lease requires 46 monthly payments of $430. The lease is a capital lease for accounting purposes because it provides for the transfer of ownership at the end of the lease term.

The asset acquired through this capital lease is as follows:

Equipment	$ 17,866
Less: Accumulated depreciation	(4,913)
Carrying value	$ 12,953

The following schedule details debt service requirements to maturity for the above mentioned capital lease at December 31, 2008:

Year Ending December 31,	Business-Type Activities
2009	$ 5,166
2010	2,149
Total minimum lease payments	7,315
Less amount representing interest	(418)
Present value of net minimum lease payments	$ 6,897

(10) Risk Management

The Town purchases commercial insurance to provide workers compensation coverage and general liability and property insurance. There were no significant reductions in insurance coverage from the previous year.

(11) Leases

The Town leases equipment under operating leases. The rental cost on the equipment paid during the year ended December 31, 2008 was $4,065.

Commitments under lease agreements having initial or remaining non-cancelable terms, except for a non-appropriation clause, in excess of one year is as follows:

Year Ending December 31,	Activities
2009	$ 3,924
2010	2,377
Total future minimum rentals	$ 6,301

(12) Subsequent Event – LCDBG

During 2008, the Town was awarded a Louisiana Community Development Block Grant (LCDBG) of $480,700 to upgrade its existing wastewater treatment plant. There was no financial activity on this grant as of December 31, 2008.

Town of Cotton Valley
Cotton Valley, Louisiana
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2008

	Budget Amounts Original & Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:			
Ad valorem taxes	$ 17,000	$ 15,482	$ (1,518)
Franchise taxes	28,000	24,489	(3,511)
Intergovernmental	2,900	34,828	31,928
Licenses and permits	25,700	22,338	(3,362)
Fines and forfeitures	115,000	68,811	(46,189)
Miscellaneous	3,230	3,016	(214)
Total revenues	191,830	168,964	(22,866)
Expenditures:			
Current:			
General government	149,870	124,298	25,572
Public safety	6,250	14,499	(8,249)
Highway and streets	14,400	22,700	(8,300)
Capital outlay		16,881	(16,881)
Total expenditures	170,520	178,378	(7,858)
Excess (deficiency) of revenues over expenditures	21,310	(9,414)	(30,724)
Fund balance (deficit) at beginning of year	(2,541)	(6,419)	(3,878)
Fund balance (deficit) at end of year	$ 18,769	$ (15,833)	$ (34,602)

See accompanying note to the required supplementary schedule.

Town of Cotton Valley
Cotton Valley, Louisiana
Required Supplementary Information
Budgetary Comparison Schedule
Sales Tax Fund
For the Year Ended December 31, 2008

	Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:			
Sales tax	$ 65,000	$ 85,517	$ 20,517
Fines and forfeitures	28,750		(28,750)
Investment earnings		75	75
Total revenues	93,750	85,592	(8,158)
Expenditures:			
Current:			
General government		17,966	(17,966)
Highway and streets	12,000		12,000
Public safety	79,325	66,489	12,836
Total expenditures	91,325	84,455	6,870
Excess (deficiency) of revenues over expenditures	2,425	1,137	(1,288)
Fund balance at beginning of year	2,549	2,549	
Fund balance at end of year	$ 4,974	$ 3,686	$ (1,288)

See accompanying note to the required supplementary schedule.

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Required Supplementary Information
For the Year Ended December 31, 2008

For the year ended December 31, 2008, the Town adopted budgets on a cash basis for the general fund, sales tax fund, and debt service fund. There were no amendments to the budgets. The following schedule reconciles excess (deficiency) of revenues and other sources over expenditures and other uses on the statement of revenues, expenditures and changes in fund balances (budget basis) with the amounts shown on the statement of revenues, expenditures and changes in fund balances (GAAP basis):

	General Fund	Sales Tax Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses (budget basis)	$ (9,414)	$ 1,137
Adjustments:		
Revenue accruals – net	(1,152)	6,927
Expenditures accruals – net	(6,095)	(2,375)
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis)	$ (16,661)	$ 5,689

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Compensation Paid to Board Members
For the Years Ended December 31, 2008

Mayor - Keith Chanler	$	6,325
Alderman:		
Curtis Walker		2,664
Charlene Lewis		2,664
Chris Ridge		2,664
Lynn Guillot		2,664
Comerdis Phillips		2,664
	$	19,645

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Federal Grantor/Pass–Through Grantor/Program Title	Federal CFDA Number	Pass–Through Grantor's Number	Expenditures
U.S. Department of Agriculture –			
USDA Rural Development –			
Direct Program – Water and Waste			
Disposal Systems for Rural Communities	10.760	Loans	$ 775,990
	10.760	Grant	$ 64,300

Note 1: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Note 2: The Town had the following loan balances outstanding at December 31, 2008. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

On July 29, 1980, General Obligation Bonds issued by the Town totaling $90,000, with a remaining balance of $47,000 at December 31, 2008, were purchased by Rural Development.

On August 1, 1974, Water and Sewer Revenue Bonds issued by the Town totaling $180,000, with a remaining balance of $60,000 at December 31, 2008, were purchased by Rural Development.

On July 29, 1980, additional sewer revenue bonds issued by the Town totaling $225,000 (Series A, #92–02, $190,000; Series B, #92–05, $35,000), with a remaining balance of $102,000 at December 31, 2008, were purchased by Rural Development.

On June 15, 1993, Water Revenue Bonds totaling $8,905 and $10,226, with a remaining balance of $5,392 and $3,570 at December 31, 2008, were purchased by Rural Development.

On August 12, 2003, Water Revenue Bonds (#91–08) totaling $586,000, with a remaining balance of $558,028 at December 31, 2008 were issued by Rural Development.

COOK & MOREHART

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Town of Cotton Valley
Cotton Valley, Louisiana

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Cotton Valley as of December 31, 2008, which collectively comprise the Town of Cotton Valley's basic financial statements, and have issued our report thereon dated December 7, 2009. 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
In planning and performing our audit, we considered Town of Cotton Valley'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 Town of Cotton Valley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Town of Cotton Valley's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Town of Cotton Valley's financial statements that is more than inconsequential will not be prevented or detected by Town of Cotton Valley's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-B3, 2008-B4, and 2008-B7 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Town of Cotton Valley's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-B3 and 2008-B4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Cotton Valley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-B1, 2008-B2, 2008-B5, 2008-B6, 2008-B8 and 2008-B9.

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

This report is intended solely for the information and use of management and the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Cook & Morehart
Certified Public Accountants
December 7, 2009

COOK & MOREHART

Certified Public Accountants

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Town of Cotton Valley
Cotton Valley, Louisiana

Compliance

We have audited the compliance of Town of Cotton Valley, Louisiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for year ended December 31, 2008. Town of Cotton Valley, Louisiana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Town of Cotton Valley, Louisiana's management. Our responsibility is to express an opinion on Town of Cotton Valley, Louisiana's compliance based on our audit.

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

In our opinion, Town of Cotton Valley, Louisiana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for year ended December 31, 2008.

Internal Control Over Compliance

The management of Town of Cotton Valley, Louisiana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Town of Cotton Valley, Louisiana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Cotton Valley, Louisiana's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's' internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Cook & Morehart
Certified Public Accountants
December 7, 2009

Town of Cotton
Cotton Valley, Louisiana
Summary Schedule of Prior Year Audit Findings
December 31, 2008

There were no findings related to federal awards programs in the prior year audit for the year ended December 31, 2007.

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2008

A. *Summary of Audit Results*

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Town of Cotton Valley.

2. Three significant deficiencies are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Two significant deficiencies are reported as material weaknesses.

3. Six instances of noncompliance material to the financial statements of the Town of Cotton Valley were disclosed during the audit.

4. No significant deficiencies are reported in the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.

5. The auditor's report on compliance for the major federal award program for the Town of Cotton Valley expresses as unqualified opinion.

6. There are no audit findings relative to the major federal award program for the Town of Cotton Valley reported in Part C of this schedule.

7. The program tested as a major program was the United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities CFDA #10.760.

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Town of Cotton Valley did not qualify as a low-risk auditee.

(Continued)

B. Findings – Financial Statements Audit:

2008-B1: Use of Debt Service Ad Valorem Taxes

During our audit, we noted that the Town is not separating the voter approved debt service millage ad valorem taxes into a separate fund and is not limiting the use of those funds for retirement of general obligation bonds.

At December 31, 2008, the debt service fund was owed $22,156, from other funds that were transferred-loaned to the other funds of the Town.

The Town, upon collecting the ad valorem taxes and depositing them into a general fund checking account, is not transferring the debt service millage portion to a separate fund.

Recommendation:

1) The Town should transfer – deposit the debt service millage portion of the ad valorem taxes into the separate debt service fund immediately upon collecting the taxes.

2) The Town should pay back the amount loaned to the other funds from the debt service fund.

Response: The Town will deposit-transfer the debt service millage portion of the ad valorem taxes into the separate debt service fund (General Long Term Debt) immediately upon collecting the taxes.

The Town will pay back the amount loaned to other funds from the debt service fund.

2008-B2: Budgetary Control

During the year ended December 31, 2008, the Town did not amend the budgets which caused the revenues and sources for the general fund and the sales tax fund to fail to meet total budgeted revenues and other sources by five percent or more.

Also, the budgets for all funds for 2008, were adopted in January, 2008.The Local Government Budget Act requires those budgets to be adopted no later than 15 days prior to the beginning of each fiscal year.

Recommendation: We recommend that the Town adopt, monitor, and amend budgets in order to be in compliance with state law.

Response: The Town will adopt, monitor, and amend budgets in order to be in compliance with state law.

2008-B3: Material Weakness – Control of Utility Accounts and Customer Deposits

During our audit for the two years ended December 31, 2008, we note the following concerning control of utility accounts receivable and utility customer deposits:

The Town does not reconcile an aged accounts receivable trial balance and the customer deposit detail listing to the general ledger on a monthly basis.

The Town does not maintain bank account balances that correspond to the utility deposit amounts.

The assistant clerk was performing almost all procedures without approval or review by the Town Clerk.

Recommendation: We recommend that the Town reconcile the aged accounts receivable trial balance and the customer deposit detail listing to the general ledger or to each report and listing on a monthly basis.

We recommend that the Town maintain a bank account that corresponds to the customer deposits on a monthly basis.

We recommend the Town Clerk or other qualified individual review and approve on a routine basis the activity of the utility billing and collection process.

Response: The Town will reconcile the aged accounts receivable trial balance and the customer deposit detail listing to the general ledger or to each report and listing on a monthly basis.

The Town will maintain a bank account that corresponds to the customer deposits on a monthly basis.

The Town Clerk or other qualified individual will review and approve on a routine basis the activity of the utility billing and collection process.

2008-B4: Material Weakness – Control Over Traffic/Misdemeanor Tickets

The Town's procedures in regards to traffic/misdemeanor ticket, during our audit was that the Assistant Town Clerk was performing almost all of the procedures without much if any approval or review by the Town Clerk or other qualified individuals.

Recommendation: We recommend the Town Clerk or other qualified individuals review and approve on a routine basis the activity of traffic tickets to allow for proper segregation of duties and to strengthen controls, including the Town Clerk or other qualified individuals reconciling the receipt book for cash payments to the deposits made.

Response: The Town Clerk or other qualified individuals will review and approve on a routine basis, the activity of traffic tickets to allow for proper segregation of duties and to strengthen controls, including the Town Clerk or other qualified individuals reconciling the receipt book for cash payments to the deposits made.

(Continued)

2008-B5: Late Submission of Audit Report

The Town's audit report was not submitted timely in accordance with state audit law.

Recommendation: We recommend the Town implement procedures to ensure the timely submission of its audit report in the future.

Response: The Town will implement procedures to ensure the timely submission of its audit report in the future.

2008-B6: Loans to Town Employees

During the audit we noted that loans that had been made out of the Town's general fund to certain Town employees were still outstanding. The outstanding balances of the loans were approximately $3,493 at December 31, 2008, which represents an amount due from the former police chief. This violates Article 7, Section 14 of the Louisiana Constitution and the Code of Ethics Law for Public Officials and Public Employees which prohibits employees or officials accepting/receiving loans from the Town.

Recommendation: We recommend the Town obtain repayment of this loan from the former police chief.

Response: The Town will contact the city attorney for instructions in order to obtain repayment of this loan from the former police chief.

2008-B7: Significant Deficiency – Financial Statement Preparation

Deficiency: As is common in small organizations, management has chosen to engage the auditor to propose certain year-end adjusting journal entries and to prepare their annual financial statements. This condition is intentional by management based upon the Town's financial complexity, along with the cost effectiveness of acquiring the ability to prepare financial statements in accordance with generally accepted accounting principles. Consistent with this decision, internal controls over the preparation of year-end adjusting entries and annual financial statements, complete with notes, in accordance with generally accepted accounting principles, have not been established. Under generally accepted auditing standards, this condition represents a significant deficiency in internal controls.

Recently issued Statement on Auditing Standards (SAS) 112 requires that we report the above condition as a control deficiency. The SAS does not provide exceptions to reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive or otherwise impractical.

Recommendation: As mentioned above, whether or not it would be cost effective to cure a control deficiency is not a factor in applying SAS 112's reporting requirements. Because prudent management requires that the potential benefit from an internal control must exceed its cost, it may not be practical to correct all the deficiencies an auditor reports under SAS 112. In this case we do not believe that curing the significant deficiency describe above would be cost effective or practical and accordingly do not believe any corrective action is necessary.

Management Response: The Town concurs with the audit findings.

2008-B8: Travel Expenditures

During the audit we noted that travel expenditures for registration, mileage and other expenditures did not always have invoices or documents to support the payments to individuals and/or payments on the credit card statements.

Recommendation: We recommend the Town develop a written travel policy which details the required documentation for travel. Also, the Town should obtain appropriate invoices/receipts to substantiate the charges on the Town's credit card.

Response: The Town will develop a written travel policy which details the required documentation for travel. The Town will obtain appropriate invoices/receipts to substantiate the changes on the Town's credit card.

2008-B9: Distribution of Court Costs

The Town is not distributing the court costs associated with collections made from the Mayor's Court. Various state statues require that certain amounts collected by the Town's Mayor's Court be remitted to different agencies.

Recommendation: We recommend the Town follow the various state statues in regards to remitting the court costs collected by the Mayor's Court.

Response: The Town is in the process of collecting the required amounts of traffic tickets and Mayor's Court fines to be distributed to the various state agencies.

C. Findings and Questioned Costs – None

Summary Schedule of Prior Audit Findings

Current status of prior year findings related to the financial statements are shown below. There were no management letter comments for the audit for the years ended December 31, 2007 and 2006.

2007-B1: Use of Debt Service Ad Valorem Taxes

During our audit, we noted that the Town is not separating the voter approved debt service millage ad valorem taxes into a separate fund and is not limiting the use of those funds for retirement of general obligation bonds.

At December 31, 2007 and 2006, the debt service fund was owed $19,752 and $15,758, respectively, from other funds that were transferred-loaned to the other funds of the Town.

The Town, upon collecting the ad valorem taxes and depositing them into a general fund checking account, is not transferring the debt service millage portion to a separate fund.

Recommendation:

1) The Town should transfer – deposit the debt service millage portion of the ad valorem taxes into the separate debt service fund immediately upon collecting the taxes.

2) The Town should pay back the amount loaned to the other funds from the debt service fund.

Current Status: See current year finding.

2007-B2: Budgetary Control

During the year ended December 31, 2007 and 2006, the Town did not amend the budgets which caused the actual expenditures and other uses to exceed the budgeted amounts by more than 5% for the general fund and the sales tax fund.

Also, the revenues and other sources for the sales tax fund for 2006 failed to meet total budgeted revenue and other sources by five percent or more.

Recommendation: We recommend that the Town monitor its budgets and amend those budgets in order to be in compliance with state law.

Current Status: See current year finding.

(Continued)

2007-B3: Material Weakness – Control of Utility Accounts and Customer Deposits

During our audit for the two years ended December 31, 2007, we note the following concerning control of utility accounts receivable and utility customer deposits:

The Town does not reconcile an aged accounts receivable trial balance and the customer deposit detail listing to the general ledger on a monthly basis.

The Town does not maintain bank account balances that correspond to the utility deposit amounts.

The assistant clerk was performing almost all procedures without review or approval by the Town Clerk.

Recommendation: We recommend that the Town reconcile the aged accounts receivable trial balance and the customer deposit detail listing to the general ledger or to each report and listing on a monthly basis.

We recommend that the Town maintain a bank account that corresponds to the customer deposits on a monthly basis.

We recommend the Town Clerk review and approve on a routine basis the activity of the utility billing and collection process.

Current Status: See current year finding.

2007-B4: Material Weakness – Control Over Traffic/Misdemeanor Tickets

The Town's procedures in regards to traffic/misdemeanor tickets, during our audit was that the Assistant Town Clerk was performing almost all of the procedures without much if any approval or review by the Town Clerk.

Recommendation: We recommend the Town Clerk review and approve on a routine basis the activity of traffic tickets to allow for proper segregation of duties and to strengthen controls, including the Town Clerk reconciling the receipt book for cash payments to the deposits made.

Current Status: See current year finding.

2007-B5: Late Submission of Audit Report

The Town's audit report was not submitted timely in accordance with state audit law.

Recommendation: We recommend the Town implement procedures to ensure the timely submission of its audit report in the future.

Current Status: See current year finding.

(Continued)

2007-B6: *Loans to Town Employees*

During the audit we noted that loans that had been made out of the Town's general fund to certain Town employees were still outstanding. The amount of the outstanding balances of the loans were approximately $3,493 at December 31, 2005, which represents an amount due from the former police chief. This violates Article 7, Section 14 of the Louisiana Constitution and the Code of Ethics Law for Public Officials and Public Employees which prohibits employees or officials accepting/receiving loans from the Town.

Recommendation: We recommend the Town obtain repayment of this loan from the former police chief.

Current Status: See current year finding.

2007-B7: Significant Deficiency – Financial Statement Preparation

Deficiency: As is common in small organizations, management has chosen to engage the auditor to propose certain year-end adjusting journal entries and to prepare their annual financial statements. This condition is intentional by management based upon the Town's financial complexity, along with the cost effectiveness of acquiring the ability to prepare financial statements in accordance with generally accepted accounting principles. Consistent with this decision, internal controls over the preparation of year-end adjusting entries and annual financial statements, complete with notes, in accordance with generally accepted accounting principles, have not been established. Under generally accepted auditing standards, this condition represents a significant deficiency in internal controls.

Recently issued Statement on Auditing Standards (SAS) 112 requires that we report the above condition as a control deficiency. The SAS does not provide exceptions to reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive or otherwise impractical.

Recommendation: As mentioned above, whether or not it would be cost effective to cure a control deficiency is not a factor in applying SAS 112's reporting requirements. Because prudent management requires that the potential benefit from an internal control must exceed its cost, it may not be practical to correct all the deficiencies an auditor reports under SAS 112. In this case we do not believe that curing the significant deficiency describe above would be cost effective or practical and accordingly do not believe any corrective action is necessary.

Current Status: See current year finding.

Corrective Action Plan for the Current Year Audit Findings

Current year findings are detailed in the attached schedule of findings and questioned costs as items 2008-B1, 2008-B2, 2008-B3, 2008-B4, 2008-B5, 2008-B6, 2008-B7, 2008-B8 and 2008-B9.

There were no management letter comments for the audit for the year ended December 31, 2008.