

**Town of Cotton Valley  
Cotton Valley, Louisiana  
Financial Statement with Auditors' Report  
For the Year Ended December 31, 2016**

Town of Cotton Valley  
Cotton Valley, Louisiana  
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## Independent Auditors' Report

To the Mayor and Town Council  
Town of Cotton Valley  
Cotton Valley, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Cotton Valley, Louisiana, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***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, and each major fund of the Town of Cotton Valley, Louisiana, as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 29 - 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an 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 inquires, 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 the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

### ***Other Information***

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. The other supplementary information listed in the table of contents and shown on pages 32-33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the Town of Cotton Valley, Louisiana's internal control over financial reporting and on 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* in considering the Town of Cotton Valley's internal control over financial reporting and compliance.



Cook & Morehart  
Certified Public Accountants  
June 29, 2017

Town of Cotton Valley  
Cotton Valley, Louisiana  
Statement of Net Position  
December 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 21,518	\$ 8,007	\$ 29,525
Receivables	18,322	27,558	45,880
Restricted assets:			
Cash and cash equivalents		87,027	87,027
Capital assets:			
Depreciable, net	32,661	3,151,579	3,184,240
Non-depreciable	27,250	16,000	43,250
Total assets	99,751	3,290,171	3,389,922
<b>Liabilities</b>			
Accounts payable	7,733	465	8,198
Accrued liabilities	19,117		19,117
Accrued interest		1,089	1,089
Customer deposits		50,229	50,229
Non-current liabilities:			
Due within one year		27,112	27,112
Due in more than one year		521,017	521,017
Total liabilities	26,850	599,912	626,762
<b>Deferred inflows of resources</b>			
Unavailable revenue - property taxes	15,348		15,348
<b>Net Position (Deficit)</b>			
Net investment in capital assets	59,911	2,619,450	2,679,361
Restricted for:			
Debt Service		67,125	67,125
Public works	13,870		13,870
Unrestricted	(16,228)	3,684	(12,544)
Total net position (deficit)	\$ 57,553	\$ 2,690,259	\$ 2,747,812

See accompanying notes to the basic financial statements.

Town of Cotton Valley  
Cotton Valley, Louisiana  
Statement of Activities  
For the Year Ended December 31, 2016

Functions / Programs:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>						
General government	\$ 150,020	\$	\$	\$ (150,020)	\$	\$ (150,020)
Public safety	113,653	117,983		4,330		4,330
Highway and streets	19,881			(19,881)		(19,881)
Total governmental activities	<u>283,554</u>	<u>117,983</u>		<u>(165,571)</u>		<u>(165,571)</u>
<b>Business-type Activities</b>						
Water and sewer	386,557	265,604	61,080		(59,873)	(59,873)
Total business-type activities	<u>386,557</u>	<u>265,604</u>	<u>61,080</u>		<u>(59,873)</u>	<u>(59,873)</u>
Total Government	<u>\$ 670,111</u>	<u>\$ 383,587</u>	<u>\$ 61,080</u>	<u>(165,571)</u>	<u>(59,873)</u>	<u>(225,444)</u>
General revenues:						
Ad valorem taxes				15,184		15,184
Sales taxes				61,747		61,747
Franchise taxes				16,283		16,283
Licenses and permits				24,129		24,129
Intergovernmental				889		889
Investment earnings				42	94	136
Miscellaneous				23,997		23,997
Total general revenues				<u>142,271</u>	<u>94</u>	<u>142,365</u>
Change in net position				(23,300)	(59,779)	(83,079)
Net position - beginning				80,853	2,750,038	2,830,891
Net position - ending				<u>\$ 57,553</u>	<u>\$ 2,690,259</u>	<u>\$ 2,747,812</u>

See accompanying notes to the basic financial statements.



Town of Cotton Valley  
Cotton Valley, Louisiana  
Balance Sheet  
Governmental Funds  
December 31, 2016

	Major Funds		Total Governmental Funds
	General	Sales Tax	
<b>Assets</b>			
Cash and cash equivalents	\$ 13,965	\$ 7,553	\$ 21,518
Receivables	12,005	6,317	18,322
Total assets	<u>\$ 25,970</u>	<u>\$ 13,870</u>	<u>\$ 39,840</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)</b>			
<b>Liabilities</b>			
Accounts payable	\$ 7,733	\$	\$ 7,733
Accrued liabilities	19,117		19,117
Total liabilities	<u>26,850</u>		<u>26,850</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue - property taxes	15,348		15,348
Total deferred inflows of resources	<u>15,348</u>		<u>15,348</u>
<b>Fund balances (deficit)</b>			
<b>Restricted:</b>			
Public works		13,870	13,870
<b>Unassigned</b>	<u>(16,228)</u>		<u>(16,228)</u>
Total fund balances (deficit)	<u>(16,228)</u>	<u>13,870</u>	<u>(2,358)</u>
Total liabilities, deferred inflows of resources, and fund balances (deficit)	<u>\$ 25,970</u>	<u>\$ 13,870</u>	<u>\$ 39,840</u>

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 Position  
December 31, 2016

Fund balances - total governmental funds	\$ (2,358)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	59,911
Net position of governmental activities	<u>\$ 57,553</u>

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, 2016

	Major Funds		Total Governmental Funds
	General	Sales Tax	
Revenues:			
Ad valorem taxes	\$ 15,184	\$	\$ 15,184
Franchise taxes	16,283		16,283
Intergovernmental	889		889
Sales tax		61,747	61,747
Licenses and permits	24,129		24,129
Fines and forfeitures	117,983		117,983
Investment earnings		42	42
Miscellaneous	23,997		23,997
Total revenues	<u>198,465</u>	<u>61,789</u>	<u>260,254</u>
Expenditures:			
Current:			
General government	139,583		139,583
Public safety	108,650		108,650
Highway and streets		19,881	19,881
Total expenditures	<u>248,233</u>	<u>19,881</u>	<u>268,114</u>
Excess (deficiency) of revenues over expenditures	(49,768)	41,908	(7,860)
Other financing sources (uses):			
Transfers in	60,000		60,000
Transfers out		(60,000)	(60,000)
Total other financing sources (uses)	<u>60,000</u>	<u>(60,000)</u>	<u></u>
Net change in fund balances	10,232	(18,092)	(7,860)
Fund balances (deficit) at beginning of year	<u>(26,460)</u>	<u>31,962</u>	<u>5,502</u>
Fund balances (deficit) at end of year	<u>\$ (16,228)</u>	<u>\$ 13,870</u>	<u>\$ (2,358)</u>

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, 2016

Net change in fund balances - total governmental funds \$ (7,860)

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 depreciation (\$9,518) exceeded capital outlays by (\$0)  
in the current period. (9,518)

The nonallocation method of accounting for prepayments is used in the  
fund statements, since the prepayment does not provide expendable  
financial resources. (5,922)

Change in net position of governmental activities \$ (23,300)

See accompanying notes to the basic financial statements.

Town of Cotton Valley  
Cotton Valley, Louisiana  
Statement of Net Position  
Proprietary Fund  
December 31, 2016

	Business-Type Activities <u>Enterprise Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 8,007
Receivables	27,558
Total current assets	<u>35,565</u>
Noncurrent assets:	
Restricted cash and cash equivalents	87,027
Capital assets:	
Land	16,000
Plant and equipment	5,149,521
Less: accumulated depreciation	<u>(1,997,942)</u>
Total noncurrent assets	<u>3,254,606</u>
Total assets	<u>3,290,171</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	465
Capital lease, due within one year	6,609
Revenue bonds, due within one year	20,503
Accrued interest	1,089
Customer deposits	<u>50,229</u>
Total current liabilities	<u>78,895</u>
Noncurrent liabilities:	
Revenue bonds	514,316
Capital lease	<u>6,701</u>
Total noncurrent liabilities	<u>521,017</u>
Total liabilities	<u>599,912</u>
<b>Net position</b>	
Net investment in capital assets	2,619,450
Restricted for debt service	67,125
Unrestricted	<u>3,684</u>
Total net position	<u>\$ 2,690,259</u>

See accompanying notes to the basic financial statements.

Town of Cotton Valley  
Cotton Valley, Louisiana  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Fund  
For the Year Ended December 31, 2016

	<u>Business-Type Activities Enterprise Fund</u>
Operating revenues:	
Charges for service -	
Water and sewer sales	\$ 265,604
Total operating revenues	<u>265,604</u>
Operating expenses:	
Salaries	80,974
Insurance	26,853
Truck expense	14,353
Maintenance and repairs	21,442
Miscellaneous expenses	19,904
Contract labor	30,800
Office expense	6,249
Materials and supplies	2,719
Utilities	23,933
Depreciation	134,989
Total operating expenses	<u>362,216</u>
Operating income (loss)	<u>(96,612)</u>
Non-operating revenues (expenses):	
Interest income	94
Interest expense	(24,341)
Net non-operating revenues (expenses)	<u>(24,247)</u>
Income (loss) before capital contributions	(120,859)
Capital contributions	<u>61,080</u>
Change in net position	(59,779)
Net position - beginning of year	<u>2,750,038</u>
Net position - end of year	<u>\$ 2,690,259</u>

See accompanying notes to the basic financial statements.

Town of Cotton Valley  
Cotton Valley, Louisiana  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended December 31, 2016

	Business-Type Activities Enterprise Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 279,280
Cash payments to suppliers for goods and services	(161,195)
Cash payments to employees for services	(80,974)
Net Cash From Operating Activities	<u>37,111</u>
Cash Flows From Capital and Related Financing Activities	
Capital contributions	61,080
Purchases of plant and equipment	(61,080)
Principal paid on capital debt	(25,145)
Interest paid on capital debt	(25,516)
Net Cash (used in) Capital and Related Financing Activities	<u>(50,661)</u>
Cash Flow From Investing Activities	
Interest income	94
Net Cash From Investing Activities	<u>94</u>
Net (decrease) in cash and cash equivalents	(13,456)
Cash, Beginning of year	<u>108,490</u>
Cash, End of year	<u>\$ 95,034</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By/(Used In) Operating Activities	
Operating income (loss)	\$ (96,612)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation expense	134,989
Accounts receivable	(3,463)
Prepaid expenses	6,518
Accounts payable	(5,770)
Meter Deposits	1,449
Net Cash Flows From Operating Activities	<u>\$ 37,111</u>

See accompanying notes to the basic financial statements.

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016

## 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.

Governmental Accounting Standards Board, establishes 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 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)



Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(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 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 Position, 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 position is reported in three parts – net investment in capital assets, restricted net position, and unrestricted net position.

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, and 2) 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.).

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

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 position 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 not accounted for in another fund.
  - b. Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.
2. Proprietary Funds – the focus of proprietary fund measurement is upon determination of operating income, changes in net position, 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 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or **expenditures/expenses** of fund category) for the determination of major funds.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

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

General Fund – accounts for all financial resources not 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.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

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 was one amendment to the budgets for the year ended December 31, 2016.
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 requires the Town to report and depreciate new infrastructure assets, effective July 1, 2003. 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. Ad Valorem taxes are assessed on a calendar year basis, become due on November 15 of each year, and become delinquent on December 31. The 2016 tax levy is intended to fund the 2017 fiscal year; therefore, the levy has been recorded as a receivable and deferred inflows of resources. 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.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

I. Net Position

Net position represents the difference between assets and liabilities. Net position 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 position is 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 position is 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.

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.

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.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

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.

S. Fund Balance

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

1. Nonspendable - amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted – amounts that can be spent only for specific purposes due to constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

3. Committed - amounts that can be used only for the specific purposes as a result of constraints imposed by the Assessor (the Entity's highest level of decision making authority). Committed amounts cannot be used for any other purpose unless the judge removes those constraints by taking the same type of action (i.e. legislation, resolution, ordinance).
4. Assigned - amounts that are constrained by the Assessor's intent to be used for specific purposes, but are neither restricted nor committed.
5. Unassigned - all amounts not included in other spendable classifications

The Town's policy is to apply expenditures against restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

The calculation of fund balance amounts begins with the determination of nonspendable fund balances. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purpose amounts exceeds the positive fund balance for the non-general fund.

T. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

U. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At this time, the Town of Cotton Valley has no transactions that meet the definition of deferred outflows of resources.

The Town of Cotton Valley's governmental fund and governmental activities report a separate section for *deferred inflows of resources*. This separate financial statement element reflects an increase in net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town of Cotton Valley has one type of this item that meets this definition and qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet and statement of net position. The Town of Cotton Valley reports unavailable revenue from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period for which the amounts were levied and budgeted.

(Continued)

Town of Cotton Valley  
 Cotton Valley, Louisiana  
 Notes to Financial Statements  
 December 31, 2016  
 (Continued)

(2) Ad Valorem Taxes

The distribution of the Town's levy (tax rate per \$1,000 assessed value) for 2016 is as follows:

	<u>Tax Roll 2016</u>	<u>Authorized Millage</u>	<u>Levied Millage</u>	<u>Expiration Date</u>
General Fund	7.25	7.25	7.25	Statutory

(3) Cash and Cash Equivalents

A. Cash and Cash Equivalents

At December 31, 2016, the Town has cash and cash equivalents (book balances) totaling \$116,552, of which \$87,027 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, 2016, the Town's bank balance was secured from custodial credit risk due to deposits (collected bank balances) of \$118,912 being secured by federal deposit insurance.

(Continued)



Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

(4) Receivables

The following is a summary of receivables at December 31, 2016:

Class of Receivable		
Governmental activities –		
Sales taxes	\$	6,317
Ad valorem taxes		<u>12,005</u>
		<u>18,322</u>
Business-type activities –		
Accounts receivable – water and sewer charges		<u>27,558</u>
		<u>27,558</u>
Total	\$	<u>45,880</u>

(5) Restricted Assets – Proprietary Fund Type

Restricted assets were applicable to the following at December 31, 2016:

		Sewer Fund
Customer deposits	\$	19,901
Bond and interest sinking fund		25,894
Bond reserve fund		15,061
Contingency fund		<u>26,171</u>
		<u>\$ 87,027</u>

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

(6) Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance at January 1, 2016	Additions	Deletions	Balance at December 31, 2016
<u>Governmental Activities:</u>				
Capital assets, not being depreciated				
Land	\$ 27,250	\$	\$	\$ 27,250
Capital assets, being depreciated:				
Buildings	122,824			122,824
Other equipment	32,022		(5,000)	27,022
Vehicles	25,700			25,700
Total capital assets, being depreciated, at historical costs	<u>180,546</u>		<u>(5,000)</u>	<u>175,546</u>
Less accumulated depreciation:				
Buildings	(92,181)	(3,172)		(95,353)
Other equipment	(26,305)	(2,888)	5,000	(24,193)
Vehicles	(19,881)	(3,458)		(23,339)
Total accumulated depreciation	<u>(138,367)</u>	<u>(9,518)</u>	<u>5,000</u>	<u>(142,885)</u>
Total capital assets, being depreciated, net	<u>42,179</u>	<u>(9,518)</u>		<u>32,661</u>
Governmental activities capital assets, net	<u>\$ 69,429</u>	<u>\$ (9,518)</u>	<u>\$</u>	<u>\$ 59,911</u>

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

	January 1, 2016	Additions	Deletions	Transfers	December 31, 2016
<u>Business-Type Activities:</u>					
Capital assets, not being depreciated:					
Construction in progress	\$ 494,035	\$	\$	\$ (494,035)	\$
Land	16,000				16,000
Total capital assets, not being depreciated	<u>510,035</u>			<u>(494,035)</u>	<u>16,000</u>
Capital assets, being depreciated:					
Water and sewer system:					
Vehicles	4,500				4,500
Distribution system	4,497,993	61,080		494,035	5,053,108
Other equipment	91,913				91,913
Total capital assets, being depreciated, at historical cost	<u>4,594,406</u>	<u>61,080</u>		<u>494,035</u>	<u>5,149,521</u>
Less accumulated depreciation:					
Water and sewer system:					
Vehicles	(4,500)				(4,500)
Distribution system	(1,791,262)	(130,635)			(1,921,897)
Other equipment	(67,191)	(4,354)			(71,545)
Total accumulated depreciation	<u>(1,862,953)</u>	<u>(134,989)</u>			<u>(1,997,942)</u>
Total capital assets, being depreciated, net	<u>2,731,453</u>	<u>(73,909)</u>		<u>494,035</u>	<u>3,151,579</u>
Business-type activities capital assets, net	<u>\$ 3,241,488</u>	<u>\$ (73,909)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,167,579</u>

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

	Governmental Activities	Business-type Activities	Total
Public safety	\$ 5,003	\$	\$ 5,003
General government	4,515		4,515
Water and sewer		134,989	134,989
Total	<u>\$ 9,518</u>	<u>\$ 134,989</u>	<u>\$ 144,507</u>

(Continued)

Town of Cotton Valley  
 Cotton Valley, Louisiana  
 Notes to Financial Statements  
 December 31, 2016  
 (Continued)

(7) Customers' Deposits

Deposits held for customers that are currently active on the water system total \$50,229 at December 31, 2016.

(8) Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Sewer Revenue Bonds	\$ 51,000	\$	\$ (9,000)	\$ 42,000	\$ 10,000
Water Revenue Bonds	2,629		(478)	2,151	582
Water and Sewer Bonds	500,388		(9,720)	490,668	9,921
Equipment Capital Lease	19,257		(5,947)	13,310	6,609
Total Business-Type Activities	<u>\$ 573,274</u>	<u>\$</u>	<u>\$ (25,145)</u>	<u>\$ 548,129</u>	<u>\$ 27,112</u>

(Continued)

Town of Cotton Valley  
 Cotton Valley, Louisiana  
 Notes to Financial Statements  
 December 31, 2016  
 (Continued)

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%	\$ 42,000
\$8,905 Water Revenue Bonds dated June 15, 1993; due in annual installments of \$609, which includes principal and interest; interest rate at 5%	2,151
\$586,000 Water and Sewer Revenue Bonds dated August 12, 2003; due in 480 monthly installments beginning <b>October</b> , 2007 of \$2,567 which includes principal and interest; interest rate at 4.25%; final payment in 2044	490,668
\$29,800 Municipal Equipment Capital Lease; due in 60 monthly installments beginning December, 2013 of \$641.77, which includes principal and interest; interest rate at 10.579%; final payment November, 2018	13,310
	\$ 548,129

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 capital lease of the Enterprise Fund are made from the Water and Sewer Fund.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Notes to Financial Statements  
December 31, 2016  
(Continued)

Debt service requirements at December 31, 2016, were as follows:

Business-Type Activities-Water and Sewer Bonds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 20,503	\$ 23,007
2018	20,962	22,049
2019	22,682	21,100
2020	22,268	20,082
2021	11,756	19,044
2022-2026	66,879	89,900
2027-2031	82,682	74,753
2032-2036	102,220	56,027
2037-2041	126,375	32,875
2042-2044	58,492	3,068
	<u>\$ 534,819</u>	<u>\$ 361,905</u>

Business-type Activities – Capital Lease

The Town entered into a Municipal Lease-Purchase Agreement for financing equipment. The gross amount of assets recorded under this capital lease was \$29,800, the related accumulated depreciation was \$10,423, and the net book value was \$19,377 at December 31, 2016. The lease agreement qualifies as a capital lease for accounting purposes, and therefore has been recorded at the present value of their future minimum lease payments as of the inception date. The lease was dated October 28, 2013, for \$29,800, and is due in monthly installments of \$642 through November, 2018.

The future minimum lease obligation and net present value of the minimum lease payments as of December 31, 2016, was as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 6,609	\$ 1,094
2018	6,701	360
	<u>\$ 13,310</u>	<u>\$ 1,454</u>

(Continued)

Town of Cotton Valley  
 Cotton Valley, Louisiana  
 Notes to Financial Statements  
 December 31, 2016  
 (Continued)

(9) 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.

(10) Leases

The Town leases equipment under operating leases. The rental cost on the equipment paid during the year ended December 31, 2016 was \$3,175.

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

<u>Year Ending December 31.</u>	<u>Amount</u>
2017	\$ 3,175
2018	3,175
2019	3,175
2020	<u>1,322</u>
	<u>\$ 10,847</u>

(11) Subsequent Events

Subsequent events have been evaluated through June 29, 2017, the date the financial statements were available to be issued.

(12) General Fund (Deficit)

At December 31, 2016, the General Fund's fund balance (deficit) was (\$16,228). Management's plan to correct the deficit is as follows:

- 1) Transfers from the proprietary fund to the general fund will be made, as funds are available, to offset expenditures now being paid by the general fund for the benefit of the proprietary fund.
- 2) The Town will adopt appropriate budgets which will include reduction of expenditures for the general fund in the future.

(13) Interfund Transfers

Interfund transfers for the year ended December 31, 2016 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Total</u>
General Fund	Sales Tax Fund	<u>\$ 60,000</u>

Transfers are used to (1) move revenues from fund that statute requires to collect them to the fund that budget requires to expend them (2) use unrestricted revenues to finance other operational expenditures in other funds.

Town of Cotton Valley  
Cotton Valley, Louisiana  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 12,000	\$ 12,000	\$ 15,184	\$ 3,184
Franchise taxes	12,000	21,000	16,283	(4,717)
Intergovernmental	1,000	1,300	889	(411)
Licenses and permits	30,000	24,000	24,129	129
Fines and forfeitures	120,000	120,000	117,983	(2,017)
Miscellaneous	2,800	7,300	23,997	16,697
Total revenues	177,800	185,600	198,465	12,865
Expenditures:				
Current:				
General government	93,350	115,350	139,663	(24,313)
Public safety	94,200	97,200	108,650	(11,450)
Total expenditures	187,550	212,550	248,313	(35,763)
Excess (deficiency) of revenues over expenditures	(9,750)	(26,950)	(49,848)	(22,898)
Other financing sources (uses):				
Transfer in	30,000	45,000	60,000	15,000
Total transfers	30,000	45,000	60,000	15,000
Net change in fund balance	20,250	18,050	10,152	(7,898)
Fund balance (deficit) at beginning of year			101	101
Fund balance (deficit) at end of year	\$ 20,250	\$ 18,050	\$ 10,253	\$ (7,797)

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, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 65,000	\$ 65,000	\$ 61,630	\$ (3,370)
Investment earnings			42	42
Total revenues	65,000	65,000	61,672	(3,328)
Expenditures:				
Current:				
Highway and streets	12,000	12,000	23,315	(11,315)
Total expenditures	12,000	12,000	23,315	(11,315)
Excess (deficiency) of revenues over expenditures	53,000	53,000	38,357	(14,643)
Other financing sources (uses):				
Transfers out	(30,000)	(45,000)	(60,000)	(15,000)
	(30,000)	(45,000)	(60,000)	(15,000)
Net change in fund balance	23,000	8,000	(21,643)	(29,643)
Fund balance at beginning of year			29,196	29,196
Fund balance at end of year	\$ 23,000	\$ 8,000	\$ 7,553	\$ (447)

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, 2016

For the year ended December 31, 2016, the Town adopted budgets on a cash basis for the general fund and sales tax 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
Net change in fund balance	\$ 10,152	\$ (21,643)
Adjustments:		
Revenue accruals – net		117
Expenditures accruals – net	80	3,434
Net change in fund balance (GAAP Basis)	\$ 10,232	\$ (18,092)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Schedule of Compensation Paid to Board Members  
For the Year Ended December 31, 2016

Mayor - Comerdis Phillips	\$ 7,275
Alderman:	
Clarence Cox	2,664
Naomi Houston	2,664
Evelyn Parish	2,664
Toby Sinclair	2,664
Brandon DeHart	1,332
Thomas Smith	1,110
	<u>\$ 20,373</u>

Town of Cotton Valley  
Cotton Valley, Louisiana  
Schedule of Compensation, Benefits, and Other Payments to Agency Head  
For the Year Ended December 31, 2016

Agency Head: Comerdis Phillips - Mayor

<u>Purpose</u>		<u>Amount</u>
Salary	\$	7,275
Reimbursements		230

# COOK & MOREHART

*Certified Public Accountants*

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STUART L. REEKS, CPA  
J. PRESTON DELAUNE, CPA

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*

Independent Auditors' Report

To the Mayor and Town Council  
Town of Cotton Valley  
Cotton Valley, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the Town of Cotton Valley, Louisiana, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town of Cotton Valley's basic financial statements, and have issued our report thereon dated June 29, 2017.

### Internal Control over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of current year audit findings as item 2016-2 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Cotton Valley's financial statements are free from 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current year audit findings as item 2016 -1.

### **Town of Cotton Valley's Response to Findings**

Town of Cotton Valley's response to the findings identified in our audit is described in the accompanying schedule of current year audit findings. Town of Cotton Valley's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Cook & Morehart  
Certified Public Accountants  
June 29, 2017

Town of Cotton Valley  
Cotton Valley, Louisiana  
Summary Schedule of Prior Year Audit Findings  
December 31, 2016

**2015-1: Budgetary Control**

During the year ended December 31, 2015, the Town did not amend the budget resulting in expenditures and transfers for the sales tax fund exceeding total budgeted expenditures and transfers by five percent or more. The Town did not amend the budget for the general fund which caused the expenditures to exceed budgeted expenditures by five percent or more.

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

*Current Status:* See finding in current year audit.

**2015-2: Significant Deficiency – Controls Over Revenue Collections**

*Criteria:* Internal controls should be in place to provide adequate segregation of duties over collections of the Town's various revenue sources.

*Conditions:* Collections of the various revenue sources, such as utility billing, ad valorem, fines-tickets, etc., are generally done by the Town Clerk or Assistant Town Clerk. Sometimes the same person collecting also makes the deposits and reconciles the bank statements.

*Cause:* Due to small size of the Town and available resources, there is a lack of segregation of duties.

*Effect:* Due to the lack of segregation of duties, errors or irregularities could occur and not be detected.

*Recommendation:* The Town should consider implementing controls whereby the duties concerning collection of the various revenues can be properly segregated.

*Current Status:* See finding in current year audit.

(Continued)

Town of Cotton Valley  
Cotton Valley, Louisiana  
Schedule of Current Year Audit Findings  
For the Year Ended December 31, 2016

**2016-1: Budgetary Control**

During the year ended December 31, 2016, the Town did not amend the budget resulting in expenditures and transfers for the sales tax fund exceeding total budgeted expenditures and transfers by five percent or more. Also, budgeted revenue exceeded actual revenue by more than five percent. The Town did not amend the budget for the general fund which caused the expenditures to exceed budgeted expenditures by five percent or more.

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

*Management's Response:* The Town will monitor and amend the budget as needed in the future.

**2016-2: Significant Deficiency – Controls Over Revenue Collections**

*Criteria:* Internal controls should be in place to provide adequate segregation of duties over collections of the Town's various revenue sources.

*Conditions:* Collections of the various revenue sources, such as utility billing, ad valorem, fines-tickets, etc., are generally done by the Town Clerk or Assistant Town Clerk. Sometimes the same person collecting also makes the deposits and reconciles the bank statements.

*Cause:* Due to small size of the Town and available resources, there is a lack of segregation of duties.

*Effect:* Due to the lack of segregation of duties, errors or irregularities could occur and not be detected.

*Recommendation:* The Town should consider implementing controls whereby the duties concerning collection of the various revenues can be properly segregated.

*Management's Response:* The Town will consider controls where they can, but due to the small size of the Town, personnel duties will not always be totally segregated.