

**MINUTES OF THE REGULAR MEETING
CITY OF COTTONWOOD SHORES
THURSDAY - JANUARY 15, 1998**

1. MAYOR DALE PICKENS CALLED THE REGULAR MEETING TO ORDER AT 7:07 P.M. AND A ROLL CALL WAS CONDUCTED: COMMISSIONER FRANK PFEIFER AND COMMISSIONER RAY WHITIS WERE PRESENT.

2. CONSENT AGENDA:

A. THE MAYOR TABLED ITEM A, FINANCIAL STATEMENT FOR DECEMBER 1997 DUE TO SOME NECESSARY CORRECTIONS TO BE DONE.

B&C. COMMISSIONER PFEIFER MOVED TO APPROVE THE MINUTES OF THE REGULAR MEETING OF DECEMBER 18, 1997 AND THE SPECIAL MEETING JANUARY 5, 1998. THIS MOTION WAS SECONDED BY COMMISSIONER WHITIS AND PASSED ON VOTE.

3. DISCUSSION/ACTION AGENDA:

A. CITY AUDITOR BURL HARPER PRESENTED THE FY 1996-1997 ANNUAL AUDIT, OUTLINING BRIEFLY THE END-OF-THE-FISCAL-YEAR FINANCIAL POSITION OF THE CITY. HE CALLED IT A "CLEAN OPINION" AS ISSUED BY A 3RD PARTY SUB-CONTRACTED AUDITOR THROUGH THE LAMPASAS OFFICE OF HIS FIRM. THE MAYOR THANKED MR. HARPER FOR HIS PRESENTATION AND EXPLANATIONS, AS WELL AS FOR THE ASSISTANCE PROVIDED TO THE CITY BY HIS FIRM THROUGHOUT THE YEAR. COMMISSIONER FRANK PFEIFER MOVED TO ACCEPT THE AUDIT, SECONDED BY COMMISSIONER WHITIS. CARRIED ON VOTE.

B. JUDGE JOANNE AUSTIN REPORTED ON 1997 CALENDAR YEAR COURT ACTIVITIES. IT WAS A BUSY YEAR AND SHE WAS PLEASED TO REPORT FORMER PROBLEM AREAS BEING SOLVED, ESPECIALLY IN THE AREA OF ANIMAL CONTROL. SHE PRAISED THE CITY (ADMINISTRATION) FOR TAKING AN INTEREST IN DOING SOMETHING ABOUT LOOSE DOGS AND GETTING THE OFFENDERS IN LINE BEFORE IT GETS TO COURT. THOSE THAT HAVE GONE TO COURT, JUDGE AUSTIN CAUTIONED, HAVE BEEN RATHER HEAVILY FINED FOR THE ORDINANCE VIOLATION. SHE REPORTED 105 CASES FILED WITH THE COURT OF WHICH 98 WERE TRAFFIC VIOLATIONS, 6 ORDINANCE VIOLATIONS AND 1 A JUVENILE CASE. ALL 105 CASES WERE DISPOSED OF BY 12/31/97 (THIS MEANS ALL HAVE COME IN TO COURT AND ARE BEING RESOLVED). THERE WERE NO CASES PENDING AT THE END OF 1997. DISMISSALS TOTALED 26: 5 FOR CAUSE; 3 TOOK DRIVING SAFETY COURSES; 15 WERE ABLE TO PROVE THEY HAD INSURANCE ON THEIR VEHICLE; 1 SERVED COMMUNITY SERVICE TIME AND 1 CASE WAS DEFERRED, ADJUDICATED 6 MONTHS. TOTAL REVENUE \$5,787.25 (AVERAGING \$500 A MONTH): THIS IS AN INCREASE OF APPROXIMATELY \$900 OVER THE PRIOR YEAR. JUDGE AUSTIN ALSO COMMENTED ON THE IMPROVED POLICE SERVICE WITH THE NEW POLICE CHIEF, WALTER ELLIS.

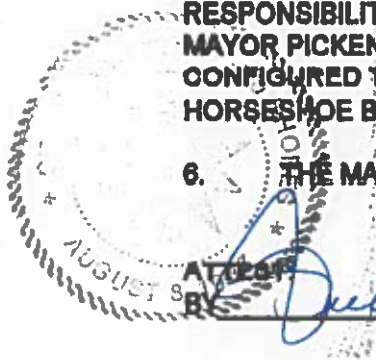
C. THE MAYOR CALLED ON THE ORDINANCE COMMITTEE REPORT AND BURT BURTON RESPONDED THAT THE COMMITTEE WAS WORKING WITH WALTER ELLIS, GRANITE SHOALS, MARBLE FALLS, BURNET AND JOHNSON CITY TO RESEARCH NON-STREET LEGAL VEHICLE ORDINANCE DATA. THE COMMITTEE WANTS TO INCLUDE BICYCLES AT NIGHT IN THE ORDINANCE - THE MAYOR CONCURRED WITH THIS INTENTION. SECONDLY, BURT BURTON READ A RESIGNATION GIVEN TO THE COMMITTEE BY BENTLEY MARTIN.

D. CHIEF OF POLICE WALTER ELLIS GAVE A MONTHLY REPORT OF THE POLICE ACTIVITIES, SPECIFICALLY THE WORK ON CRIMINAL JUVENILE CASES IN PROCESS. WORKING WITH THE MARBLE FALLS ISD TRUANT OFFICER NOW, THEY ARE TRYING TO REACH PARENTS TO COOPERATE AND WALTER ASKED RESIDENTS TO CONTINUE TO CALL CITY HALL WHEN YOUTHS ARE SEEN IN WHAT MIGHT BE A SUSPICIOUS SITUATION. HE ALSO BROUGHT TO THE GROUP'S ATTENTION THE CONCERN THAT THE CURFEW ORDINANCE DOES NOT COVER SCHOOL HOURS FOR KIDS NOT IN SCHOOL (FOR WHATEVER REASON) - SOMETHING BEING LOOKED INTO. CHIEF ELLIS ADVISED THAT THE CITY SUBMITTED A BID FOR A MARBLE FALLS PD VEHICLE - AN 1989 CHEV CAPRICE IN GOOD CONDITION BEING RETIRED. THE CAR HAS ALL EQUIPMENT EXCEPT THE RADIO. COMMISSIONER FRANK PFEIFER MOVED TO MAKE THIS BID. HE WAS SECONDED BY COMMISSIONER WHITIS AND THE MOTION PASSED ON VOTE. THE CITY'S BID WAS \$800 AND THE CAR HAS ALL EQUIPMENT EXCEPT THE RADIO. LASTLY, CHIEF ELLIS READ HIS "WISH LIST": A TYPEWRITER, 35 MM CAMERA, 2 HANDHELD RADIOS, USED PORTABLE TV, VCR, CAMCORDER, 25' STEEL TAPE, 100-300 FT. FIBERGLASS TAPE, CASSETTE RECORDER, FINGERPRINT PAD, NARCOTICS PORTAPACK...ANYTHING.... WHILE EVERYONE LAUGHED LIGHTLY, SEVERAL SPOKE UP VOLUNTEERING SOME OF THE ITEMS, MUCH TO WALTER'S GRATITUDE. THE POLICE DEPARTMENT APPRECIATES THE HELP OF THE CITIZENS VERY MUCH. THE MAYOR THANKED CHIEF ELLIS AND COMPLIMENTED HIM ON SPENDING A WHOLE LOT OF HOURS IN THE CITY DAY AND NIGHT.

4. MAYOR DALE PICKENS UPDATED THE CITIZENS ON THE PERSONNEL SITUATION - EDDIE PROCTOR BACK ON LIGHT DUTY, LABORERS...NEED VOLUNTEERS....PROJECTED ROAD MAINTENANCE IN NEAR FUTURE....ANIMAL CONTROL....GRANT WRITING CONTRACT BEING FINE-TUNED AND EXPECT THOSE EFFORTS TO BE UNDERWAY SOON (FOR STORAGE TANK AND LAST OF THE WATER LINES ON EAST SIDE OF THE CITY)...

5. OPEN DISCUSSION. BURT BURTON STATED THAT BEGINNING FEBRUARY 19, 1988, HE WOULD BE ABLE TO PROVIDE EMS SERVICE IN COTTONWOOD SHORES, WITH MARBLE FALLS EMS HAVING THE OVERALL RESPONSIBILITY TO RESPOND UNDER THE CHANGED AGREEMENT, WHICH, MAYOR PICKENS EXPLAINED, OCCURRED WHEN BURNET COUNTY RE-CONFIGURED THE OPERATION AND KNOCKED OUT RESPONSE FROM HORSESHOE BAY TEAMS.

6. THE MAYOR ADJOURNED THE MEETING AT 8:20 P.M.



Dale Pickens

DALE PICKENS, MAYOR

Dale Pickens

DALE PICKENS, MAYOR

**REGULAR MEETING
OF THE CITY COUNCIL OF COTTONWOOD SHORES
4111 COTTONWOOD DRIVE - CIVIC CENTER BUILDING
THURSDAY - JANUARY 16, 1998 - 7:00 P.M.**

AGENDA

1. CALL TO ORDER AND ROLL CALL.
 2. CONSENT AGENDA:
 - A. FINANCIAL STATEMENT FOR DECEMBER 1997.
 - B. MINUTES OF THE REGULAR MEETING, DECEMBER 18, 1997.
 - C. MINUTES OF THE SPECIAL MEETING, JANUARY 5, 1998.
 3. DISCUSSION/ACTION AGENDA:
 - A. FY 1998-1997 ANNUAL AUDIT, PRESENTED BY CPA FIRM OF HARPER, ET AL.
 - B. ANNUAL REPORT OF MUNICIPAL COURT ACTIVITIES 1997 PRESENTED BY JUDGE JOANNE AUSTIN..
 - C. ORDINANCE COMMITTEE REPORT.
 - D. POLICE DEPARTMENT REPORT.
 4. MAYOR'S UPDATE.
 5. OPEN DISCUSSION.
- ADJOURNMENT.

I CERTIFY THAT THE ABOVE NOTICE WAS POSTED AT CITY HALL, 3915 COTTONWOOD DRIVE, COTTONWOOD SHORES, TEXAS ON THIS THE 12TH DAY OF JANUARY 1998 AT 4:45 P.M.

ATTEST:


SUE PORTER, CITY SECRETARY


DALE PICKENS, MAYOR

{THIS FACILITY IS WHEELCHAIR ACCESSIBLE WITH ACCESSIBLE PARKING. REQUESTS FOR ACCOMMODATIONS FOR INTERPRETIVE SERVICES MUST BE MADE 48 HRS PRIOR TO MEETING. CALL 693-3630.}

CITY OF COTTONWOOD SHORES

ANNUAL
MUNICIPAL COURT ACTIVITY REPORT
JANUARY 1997 thru december 1997

CASES FILED WITH THE COURT: 105
TRAFFIC: 98
ORDINANCE VIOLATIONS: 06
JUVENILE: 01

CASES DISPOSED OF: 105
TRAFFIC: 98
ORDINANCE VIOLATIONS: 06
JUVENILE: 01

CASES PENDING: 0
TRAFFIC: 0
NON TRAFFIC: 0

INACTIVE/DEADEND CASES:
Unable to locate/Moved etc.: 06
Filed in 1996: 03
Filed in 1997: 03

MUNICIPAL COURT TRIALS: 35
TRAFFIC: 32
ORDINANCE VIOLATIONS: 03
JUVENILE: 0

DISMISSALS: 26
DISMISSED FOR CAUSE: 05
DRIVER SAFETY COURSE: 03
Proof of INSURANCE: 15
COMMUNITY SERVICE: 01
DEFERRED ADJUDICATION: 01

TOTAL REVENUE: \$5787.25 (97) \$4812.50 (96) \$3252.50 (95)

WARRANTS/CAPIAS PRO FINES: 08 Felonies 6 MisDe. 2
SUMMONS: 02 Reports to DPS: 43
COURTESY LETTERS: 41 COMMUNITY SERVICE cases: 05

TRAFFIC FINES SCHEDULE REWORKED AND MOST WERE LOWERED TO BE MORE
IN LINE WITH SURROUNDING COMMUNITIES. STATE INCREASED COURT COST.

NUMEROUS CITIZEN COMPLAINTS WERE INVESTIGATED AND ABATED BEFORE
GOING TO COURT, IN REGARDS TO CITY ORDINANCE VIOLATIONS.

TRAFFIC ACTIVITY WAS BROUGHT TO A HALT FOR A PERIOD OF TIME DUE
TO NOT HAVING AN ON-DUTY POLICE OFFICER.

90% COURT COSTS PAID, GO TO THE STATE. FINES STAY IN CITY.



CLARK, HARPER, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JACK N. CLARK, CPA
BURL N. HARPER, CPA
DARRELL R. BROOKS, CPA
DAVID A. SHEPHERD, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

January 9, 1998

Honorable Mayor
and Members of the City Council
City of Cottonwood Shores, Texas

We have audited the statements of the City of Cottonwood Shores, Texas for the year ended September 30, 1997, and have issued our report thereon dated January 9, 1998. We have not performed any substantive auditing procedures since that date, and accordingly, this report is based upon our knowledge as of that date and should be read with that understanding.

Our professional standards require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under generally accepted auditing standards has been described in our engagement letter addressed to you.

SIGNIFICANT ACCOUNTING POLICIES

The City's significant accounting policies are disclosed in the notes to the financial statements. During the year ended September 30, 1997, there were no significant changes in previously adopted policies or their application.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. There were no significant accounting estimates reflected in the City's 1997 financial statements.

INTERNAL CONTROL

We noted the following matters relating to internal control:

I. SEGREGATION OF DUTIES:

The basic elements of sound internal control include appropriate segregation of functional responsibilities. Segregation of responsibilities is based upon the principle that no one person should control all phases of a transaction without the interrelated functioning of

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One Highland Centre, P.O. Box 1268, Marble Falls, Texas 78654 (210) 693-6067 Fax (210) 693-6088

some other person or persons which affords a cross-check. Because of the limited number of accounting personnel, the desired segregation of responsibilities does not exist. We have not included specific comments and recommendations relative to all internal control weaknesses that result from improper segregation of functional responsibilities.

II. ACCOUNTS PAYABLE:

During our review of accounts payable we noted that the City send invoices, time sheets and other requests for payment to the accounting firm retained to do the City's accounting services. The following are areas of concern.

1. Timesheets for payroll purposes are sent without any supervisory approval.
2. Many invoices are sent without formal acknowledgement of receipt of the goods or services or approval for payment.
3. Some requests are made over the telephone without follow-up documentation or support.

We recommend all requests for payment include a formal approval from someone designated by the City. If circumstances require immediate payment then faxed requests should be approved or follow-up approval be sent as soon as possible.

III. AD VALOREM TAXES:

During the review of ad valorem tax revenue, it was noted that the City's assessed taxes, includes an amount for Maintenance and Operations, as well as, for Interest and Sinking Fund requirements.

It was further noted that the City utilizes all tax collections for general operations. However, we also determined that the two outstanding Certificates of Obligations provide that an Ad Valorem tax levy is not necessary, if there is sufficient revenues generated by the water and sewer departments.

There was a sufficient amount of revenue generated this year to meet all debt service requirements.

We recommend the City make a determination each year prior to setting the tax rate whether or not there will be sufficient revenue generated to make the debt service payments. That determination should then dictate the need for a separate Interest and Sinking Fund tax levy.

IV. BUDGETING:

We noted that when the City approves its budget for the Utility Fund that it does not budget for depreciation.

We recommend that depreciation be included as part of the budget process. From an accounting perspective this will make management's analysis of operations more understandable. It should also be noted that Certificates of Obligation covenants require the City to generate sufficient revenue to cover all costs including depreciation. Including depreciation in the budget process will that covenant easier to monitor.


DISAGREEMENTS WITH MANAGEMENT

We have no disagreements with management regarding the application of accounting principles, the scope of our audit, disclosures to be included in the financial statements or the wording of our report on such financial statements.

CONCLUSION

We would like to thank the Council for allowing us to perform this audit. We are available throughout the year to assist you in any manner possible.

Sincerely,


Clark, Harper, Brooks & Co., P.C.
Certified Public Accountants

CITY OF COTTONWOOD SHORES, TEXAS

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 1997

CITY OF COTTONWOOD SHORES

General Purpose Financial Statements Fiscal Year Ended September 30, 1997

TABLE OF CONTENTS

	Page Number
Part I - Financial Section	
Independent Auditors' Report	1
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups	2
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types	4
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget (GAAP Basis) and Actual - All Government Fund Types	6
Combined Statement of Revenue, Expenses and Changes in Retained Earnings - Proprietary Fund	8
Combined Statement of Cash Flows - Proprietary Fund	10
Combined Statement of Revenues, Expenses and Changes in Retained Earning - Budget and Actual - Proprietary Fund	11
Notes to the Combined Financial Statements	13
Report on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19



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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Cottonwood Shores

We have audited the accompanying general-purpose financial statements of City of Cottonwood Shores, Texas (the City) as of and for the year ended September 30, 1997, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of City of Cottonwood Shores, Texas as of September 30, 1997, and the results of its operations and the cash flows of the proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 9, 1998, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the City. These combining statements and schedules have been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, are fairly stated in all material respects, in relation to the general-purpose financial statements taken as a whole.

Clark, Harper, Brooks & Co., P.C.

Clark, Harper, Brooks & Co., P.C.

January 9, 1998

**Proprietary
Fund Type
Water/Sewer/
Garbage Fund**

**Account
Group
General
Fixed Assets**

**Totals
(Memorandum Only)
September, 30 1996**

\$ 45,678

\$

\$ 46,228
31,606

17,430
53,146

10,113
17,430
53,146

57,003
550
2,234,276
(144,370)

57,003
550
2,234,276
(144,370)
21,449

21,449

\$ 2,263,713

\$ 21,449

\$2,327,431

\$ 13,957

\$

\$ 18,516

11,622
9,000
15,252

11,622
9,000
15,252
10,113
53,146

596,000
\$ 645,831

596,000
\$ 713,649

\$ 1,583,292

\$

\$ 1,583,292

31,725
2,865

21,499

21,499
31,725
2,865
(25,549)

\$ 1,617,882

\$ 21,499

\$ 1,613,832

\$ 2,263,713

\$ 21,499

\$ 2,327,481

**CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED SEPTEMBER 30, 1997**

	General Fund	Totals (Memorandum Only) September 30, 1997
CONTINUED		
Other Departments:		
Volunteer Fire Department	\$ 1,000	\$ 1,000
Civic Center and Pool	2,352	2,352
Municipal Court	1,635	1,635
Building and Zoning	2,700	2,700
Animal Control	20	20
Miscellaneous	<u>1,278</u>	<u>1,278</u>
Total Other Departments	<u>8,985</u>	<u>8,985</u>
Total Expenditures	<u>128,887</u>	<u>128,887</u>
Excess of Revenues over Expenditures	<60,080>	<60,080>
Fund Balance - At Beginning of Year	<u>34,533</u>	<u>34,533</u>
Fund Balance - At End of Year	<u><u>\$ <25,547></u></u>	<u><u>\$ <25,547></u></u>

The accompanying notes are an integral part of these financial statements

CITY OF COTTONWOOD SHORES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - YEAR ENDED SEPTEMBER 30, 1997

	<u>1997</u>		<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
CONTINUED			
Other Departments:			
Volunteer Fire Department	\$ 1,000	\$ 1,000	\$ -
Streets and Drainage	2,300	2,352	(52)
Animal Control	150	20	130
Municipal Court	1,200	1,635	(435)
Building and Zoning	2,600	2,700	(100)
Miscellaneous	197	1,278	(1,081)
Total Other Departments	<u>7,447</u>	<u>8,985</u>	<u>(1,538)</u>
 Total Expenditures	 <u>122,707</u>	 <u>128,887</u>	 <u>(6,180)</u>
 Excess of Expenditures over Revenues	 (55,747)	 (60,080)	 (4,333)
 Fund Balance - At Beginning of Year	 <u>34,533</u>	 <u>34,533</u>	 <u>-0-</u>
 Fund Balance - At End of Year	 <u>\$ (21,214)</u>	 <u>\$ (25,547)</u>	 <u>\$ (4,333)</u>

The accompanying notes are an integral part of these financial statements

**CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
 YEAR ENDED SEPTEMBER 30, 1997**

	<u>Proprietary Fund Type Enterprise</u>	<u>Total (Memorandum Only) September 30, 1997</u>
CONTINUED		
Garbage Department:		
Contract Services	40,009	40,009
Sales Tax	<u>73</u>	<u>73</u>
Total Garbage Department	<u>40,082</u>	<u>40,082</u>
 Total Expenses	 <u>256,297</u>	 <u>256,297</u>
Excess of Revenues over(under) Expenditures	(3,805)	(3,805)
Retained Earnings, At Beginning of Year	<u>38,396</u>	<u>38,396</u>
Retained Earnings, At End of Year	<u>\$ 34,591</u>	<u>\$ 34,591</u>

The accompanying notes are an integral part of these financial statements

**CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES
 YEAR ENDED SEPTEMBER 30, 1997**

	<u>Proprietary Fund Type</u> <u>September 30, 1997</u>
<u>Cash Flows from Operations Activities</u>	
Net Income (Loss)	\$ (3,805)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	58,061
Decrease in Accounts Receivable	10,533
Increase in Restricted Assets	(11,529)
Decrease in Due from Other Funds	5,509
Increase in Prepaid Expenses	(550)
Increase (Decrease) in Accounts Payable	9,603
Increase (Decrease) Accrued Interest Payable	(143)
Decrease in Customer Deposits	(1,163)
Increase in Equity Grants	<u>224,732</u>
Total Adjustments	<u>295,053</u>
Net Cash Provided by Operating Activities	<u>291,248</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of Fixed Assets	<u>(236,570)</u>
<u>Cash Flows from Financing Activities</u>	
Principle and Bonds	<u>(9,000)</u>
Net Increase (Decrease) in Cash Balances	45,678
Unrestricted Cash - Beginning of Year	<u>0</u>
Unrestricted Cash - End of Year	<u>\$ 45,678</u>

The accompanying notes are an integral part of these financial statements

**CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN RETAINED EARNINGS - BUDGET AND ACTUAL PROPRIETARY FUND
 YEAR ENDED SEPTEMBER 30, 1997**

	1996		Variance Favorable (Unfavorable)
	Budget	Actual	
CONTINUED			
Garbage Department:			
Contract Services	40,000	40,009	(9)
Sales Tax	<u>35</u>	<u>73</u>	<u>(38)</u>
Total Garbage Department	<u>40,035</u>	<u>40,082</u>	<u>(47)</u>
Total Expenses	<u>213,593</u>	<u>256,297</u>	<u>(42,704)</u>
Excess of Revenues over(under)			
Expenditures	25,548	(3,805)	(29,353)
Retained Earnings, At Beginning of Year	<u>38,396</u>	<u>38,396</u>	<u>-0-</u>
Retained Earnings, At End of Year	<u>\$ 63,944</u>	<u>\$ 34,591</u>	<u>\$ (29,353)</u>

The accompanying notes are an integral part of these financial statements

CITY OF COTTONWOOD SHORES
Notes to the Financial Statements
For the Year Ended September 30, 1997

NOTE 7. CERTIFICATES OF OBLIGATION

A summary of changes in revenue bonds payable follows:

	<u>Outstanding 10/1/96</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 9/30/97</u>
Combination Tax & Revenue Certificates of Obligation Series #1990	\$ 92,000	\$ -0-	\$ 4,000	\$ 88,000
Combination Tax & Revenue Certificates of Obligation Series #1993	<u>522,000</u>	<u>-0-</u>	<u>5,000</u>	<u>517,000</u>
	<u>\$ 614,000</u>	<u>\$ -0-</u>	<u>\$ 9,000</u>	<u>\$ 605,000</u>

The annual requirements to amortize the certificates of obligation outstanding at September 30, 1997, including interest payments of \$158,306 for the next five years follows:

<u>Year Ended September 30,</u>	<u>Series #1990</u>	<u>FmHA Series #1993</u>	<u>Total</u>
1998	\$ 10,308	\$ 31,496	\$ 41,804
1999	10,035	31,240	41,275
2000	10,723	31,984	42,707
2001	10,370	31,676	42,046
2002	10,105	31,369	41,474
Thereafter	<u>87,088</u>	<u>970,494</u>	<u>1,057,582</u>
Totals	<u>\$ 138,629</u>	<u>\$ 1,128,259</u>	<u>\$ 1,266,888</u>

The Certificates of Obligation Series 1990 are payable on March 1 and September 1 (interest only) at interest rates which range from 5.65% to 7.5%. The City has the option to redeem the certificates on or after March 1, 2001 at par.

The Certificates of Obligation, FmHA Series 1993 were issued in conjunction with an FmHA Grant of \$1,170,000 for the purpose of constructing a Wastewater Collections System. The obligations have an annual rate of interest of 5 1/8%, payable semi-annually on May 1 and November 1, with principle installments payable May 1 each year.

Since the City anticipates the Water, Sewer and Garbage Fund will provide the annual debt service on the certificates of obligation, they are considered to be liabilities of the Utility Fund. The certificates of obligation are payable from a continuing ad valorem tax levied on all taxable property which may be reduced to the extent and by the amount of gross revenues of the City's utility fund on deposit in the interest and sinking fund in advance of the time when taxes are levied. Although the certificates are reported on the balance sheet of the Utility Fund, they are backed by the full faith credit of the City and are a contingent liability to the general government.



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CERTIFIED PUBLIC ACCOUNTANTS

**Report on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Cottonwood Shores, Texas

We have audited the financial statements of the City of Cottonwood Shores, Texas as of and for the year ended September 30, 1997, and have issued our report thereon dated January 9, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance


As part of obtaining reasonable assurance about whether the City of Cottonwood Shores' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the administration of the City of Cottonwood Shores in a letter dated January 9, 1998.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cottonwood Shores' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management, and appropriate federal agencies. However, this report is a matter of public record and its distribution is not limited.


Clark, Harper, Brooks & Co., P.C.

January 9, 1998