

MINUTES OF THE REGULAR MEETING OF THE CITY COUNCIL  
OF THE CITY OF COTTONWOOD SHORES, TEXAS  
4111 COTTONWOOD DRIVE – CIVIC CENTER  
THURSDAY, JUNE 19, 2003 AT 7:00 P.M.

1. CALL TO ORDER AND ROLL CALL. Mayor Pickens called the meeting to order at 7:00 PM with Council Members Pfeifer and Hildebrand in attendance; a quorum as present.
2. CONSENT AGENDA:
  - A. MINUTES OF A REGULAR MEETING ON APRIL 17, 2003.
  - B. FINANCIAL STATEMENTS FOR THE MONTH OF MAY 2003.

Commissioner Pfeifer made a motion to approve the financial statement for the month of May, 2003. Commission Hildebrand seconded the motion and passed.

3. QUARTERLY PRESENTATION BY MR. GEORGE BIRD WITH PEDERNALES ELECTRIC COOPERATIVE.

Mr. Trey Grebe replaced Mr. Bird and wanted to remind everyone that HVAC rebate program. Mr. Grebe also talked about their charity program through payroll deduction and that they had distributed \$202,000 to nonprofit organizations. He also wanted to remind everyone about the annual meeting at the River Palace on Saturday, June 21, 2003, at 2:00 PM.

4. CONSIDER AND POSSIBLY TAKE ACTION ON APPOINTING A MAYOR PRO-TEM FOR THE CITY OF COTTONWOOD SHORES, TEXAS.

Mayor Pickens stated that this was required after an election to fill in the absence of the mayor. Mayor Pickens stated that the position required that they keep up with what was happening. Mayor Pickens read from the "Handbook for American Council Members".

Commissioner Hildebrand made the motion to appoint Commissioner Pfeifer as mayor protem for the City of Cottonwood Shores, Texas. Commissioner Pfeifer seconded the motion and passed.

5. CONSIDER AND POSSIBLY TAKE ACTION ON APPROVING THE ANNUAL FINANCIAL STATEMENT FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2002 AS PRESENTED BY MR. BURL LOWREY, C.P.A.

Mr. Burl Harper explained the audit and the financial statement in depth.

Commission Hildebrand made a motion to approve the annual financial statement for the fiscal year ending September 30, 2002, as presented by Mr. Burl Lowrey, CPA. Commissioner Pfeifer seconded the motion and passed.

6. CONSIDER AND POSSIBLY TAKE ACTION ON PRESENTATION FROM GRANT DEVELOPMENT SERVICES, THE PROJECT ADMINISTRATOR ON AWARD OF NEW C.D.B.G. GRANT IN THE AMOUNT OF \$250,000 FROM O.R.C.A. FOR WATER SYSTEM IMPROVEMENTS.

Ms. Katrina Dittmar spoke about the grant achieved, distributed some maps regarding the improvements to be made on the water line improvements to meet the basic requirements. No action required.

7. CONSIDER AND POSSIBLY TAKE ACTION ON PRESENTATION FROM THE PROCURED PROJECT ENGINEER, STEVE D. KALLMAN, ON THE TIME FRAME FOR IMPLEMENTING THE NEW C.D.B.G. GRANT FROM O.C.R.A. FOR WATER SYSTEM IMPROVEMENTS.

Ms. Courtney Dow presented a brief project schedule and stated that the project could be possibly within a year.

Commissioner Pfeiffer made the motion to approve the time frame for implementing the project for implementing the new C.D.B.G. grant from O.C.R.A. for water system improvements. Commissioner Hildebrand seconded the motion and passed.

8. CONSIDER AND POSSIBLY TAKE ACTION ON PRESENTATION FROM THE PROCURED PROJECT ENGINEER, STEVE D. KALLMAN, REGARDING LETTER OF AGREEMENT FOR PROFESSIONAL SERVICES IN CONNECTION WITH THE NEW C.D.B.G. GRANT FROM O.C.R.A. FOR WATER SYSTEM IMPROVEMENTS.

Commissioner Hildebrand made a motion to approve the letter of agreement from project engineer, Steve D. Kallman, for professional services in connection with the new C.D.B.G. grant from O.C.R.A. for water system improvements. Commissioner Pfeiffer seconded the motion and passed.

9. CONSIDER AND POSSIBLY TAKE ACTION ON A AMENDING ODINANCE NO. 041201-A, AN ORDINANCE OF THE CITY OF COTTONWOOD SHORES, TEXAS, PROVIDING REGULATIONS AND REQUIREMENTS FOR WATER, WASTEWATER AND SOLID WASTE SERVICES TO ALLOW

**CITIZENS WHO HAVE A PRIVATE WELL TO HAVE THEIR "WINTER AVERAGE" REDUCED FROM THE CURRENT 5,000 GALLONS.**

There was a lengthy discussion regarding the rate increase on the sewer charge increase.

Commissioner Hildebrand made a motion to approve amending Ordinance No. 041201-A, an ordinance of the City of Cottonwood Shores, Texas, providing regulations and requirements for water, wastewater and solid waste services to allow citizens who have a private well to have their "winter average" reduced from the current 5,000 gallons to 4,000 gallons. Commissioner Pfeifer Seconded the motion and passed.

Mayor Pickens stated that in the next year that the ordinance will change and go up because of the charges passed on to the city for costs of the sewer, electricity, chemicals and capital improvements to the process center.

**10. CONSIDER AND POSSIBLY TAKE ACTION ON THE EMPLOYMENT OF MR. NATHAN F. CANTRELL AS WATER/WASTEWATER SUPERVISOR FOR THE CITY OF COTTONWOOD SHORES.**

Mayor Pickens introduced Mr. Nathan F. Cantrell and stated his credentials and that he would be paid under a salary basis.

Commissioner Hildebrand went on record to state that he did not want the city to spread the employees so thin that the water and waste water would be neglected.

Commissioner Pfeifer made the motion to approve the employment of Mr. Nathan F. Cantrell as water/wastewater supervisor for the City of Cottonwood Shores. Commissioner Hildebrand seconded the motion and passed.

**11. CONSIDER AND POSSIBLY TAKE ACTION ON SELECTING AN OFFICIAL NEWSPAPER FOR THE CITY OF COTTONWOOD SHORES.**

Commissioner Hildebrand made a motion to selecting the River City Tribune as the official newspaper for the City of Cottonwood Shores for a period of one (1) year. Commissioner Pfeifer seconded the motion and passed.

**12. MONTHLY ACTIVITY REPORTS:**

**A. POLICE DEPARTMENT:  
(1) ACTIVITY LOG.**

Sergeant Steve Hallman reported that there were a total of 39 calls; 2 adult arrests and 1 juvenile arrest. Chief Reeh and Sergeant Hallman logged 410 hours, 2,469 miles and both police cars are operational. A citizen wanted the police to check Noah Thompson Park because of all the beer cans. Sergeant Hallman stated that they do catch the kids and that citations after dark. Mayor Pickens directed the police to check the parks more often.

**B. PUBLIC WORKS:  
(1) WATER & SEWER SYSTEM PERFORMANCE & USAGE.**

Nathan expounded further on his qualifications, but reported that he could not give up up-to-date because he had not really been hired for that long a period.

**(2) ANIMAL CONTROL.**

Mayor Pickens reported that the police department along with his self has picked up dogs; police and mayor have both fed and watered the captured dogs. The city is understaffed at the present time and there is no one else to do the job. The mayor also reported that there has been an increase of kittens and the city has no place to hold cats.

**C. CIVIC PRIDE: No report.  
(1) UPCOMING MEETING DATES.  
(3) FUTURE PROJECTS.**

**D. VOLUNTEER FIRE DEPARTMENT.**

Mr. Mike Butler reported that since October 1, that they had 56 calls and 33 were EMS assist calls; two (2) structure fires; six (6) grass fires; six (6) auto related incidents, two (2) were vehicle combustion, three (3) were auto accidents and one (1) with a power line; seven (7) mutual aids to other fire departments; and one (1) landing zone. Mr. Butler reported on the equipment of the volunteer fire department.

**13. CITIZEN COMMENTS.**

Mr. Euclid Phipps commented on the green house on Pecan Drive.

**14. ADJOURNMENT. Mayor Phipps adjourned the meeting at 8:42 PM.**

ATTEST:

TENA COLLIER, CITY SECRETARY

*Laurel Kant*  
City Secretary - Laurel Kant  
Replaces Original Minutes  
Dec. 21, 2005



**COTTONWOOD SHORES  
MONTHLY WATER/ WASTEWATER  
DEPARTMENT REPORT**

**May 2003**

**Raw water usage**

3,529,000 total  
118,000 average  
171,000 max  
74,000 min

**Treated water usage**

2,965,000 total  
99,000 average  
144,000 max  
67,000 min

1,701,000 gallons of wastewater was pumped to LBJ MUD for treatment.

Robert Pope resigned and went to work for the City of Burnet.

Lee Hildebrand resigned after being elected to Commissioner for the City of Cottonwood.

Nathan Cantrell was hired to replace Robert Pope as plant supervisor.

Matt McClinton was hired to replace Lee Hildebrand as plant operator.

# COTTONWOOD SHORES POLICE DEPARTMENT

3915 COTTONWOOD DRIVE  
COTTONWOOD SHORES ,TEXAS 78654

MONTHLY REPORT FOR     MAY 2003    

|                                 |                   |
|---------------------------------|-------------------|
| SUSPICIOUS PERSON/VEHICLES:     | <u>    4    </u>  |
| ABANDONED VEHICLE               | <u>    </u>       |
| ACCIDENTS                       | <u>    1    </u>  |
| ASSAULTS/FAMILY VIOLENE         | <u>    </u>       |
| BURGLARIES                      | <u>    </u>       |
| CRIMINAL MISCHIEF               | <u>    1    </u>  |
| DISTURBANCES                    | <u>    </u>       |
| THEFT                           | <u>    1    </u>  |
| MISSING PERSONS                 | <u>    </u>       |
| OTHER AGENCY ASSISTS / EMS/FIRE | <u>    2    </u>  |
| HARASSMENT                      | <u>    </u>       |
| TRESPASS                        | <u>    1    </u>  |
| WELFARE CONCERN                 | <u>    3    </u>  |
| DEATHS                          | <u>    </u>       |
| MISCELLANEOUS CALLS             | <u>   26   </u>   |
| TOTAL CALLS                     | <u>   39   </u>   |
| <br>                            |                   |
| MUNICIPAL COURT CITATIONS       | <u>    4    </u>  |
| ARRESTS                         | <u>    2    </u>  |
| JUVENILE ARRESTS                | <u>    1    </u>  |
| <br>                            |                   |
| HOURS WORKED                    | <u>   410   </u>  |
| RES. HRS. WORKED                | <u>    12    </u> |
| TOTAL HRS                       | <u>   422   </u>  |
| <br>                            |                   |
| TOTAL MILES DRIVEN              | <u>  2469  </u>   |



**S.D. KALLMAN, L.P.  
ENGINEERS AND ENVIRONMENTAL CONSULTANTS**

1106 S. MAYS, SUITE 100  
ROUND ROCK, TEXAS 78664  
(512) 218-4404 voice  
(512) 218-1668 fax  
[courtney@sdkallman.com](mailto:courtney@sdkallman.com)

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TO: Mrs. Tena Collier

COMPANY: City of Cottonwood Shores

FAX: (830) 693-6436

FROM: Courtney Dow, Project Coordinator

DATE: June 18, 2003

SUBJECT: Engineering Contract – 2003 TCDP Project

# of PAGES INCLUDING COVER: 14

SDK JOB#: 572-977

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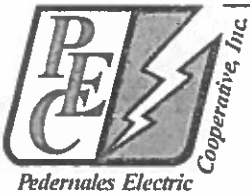
Tena,

I have attached our Engineering Contract to include in the council member packets for the meeting June 19, 2003. Please make sure that council members have a chance to review prior to the meeting. I will bring 2 originals for the Mayor's signature.

Would you please fax me a copy of the agenda?

Thanks!  
Courtney

*[Faint handwritten notes and scribbles, possibly including "copy" and "agenda"]*



P.O. Box 1 Johnson City, Texas 78636-0001  
(830) 868-7155 • 1-888-554-4732

May 27, 2003

The Honorable Dale Pickens  
City of Cottonwood Shores  
3808 Cottonwood Drive  
Cottonwood, Texas 78654

Dear Mayor Pickens:

Pedernales Electric requests that time be reserved on Cottonwood Shores' city council agenda for the meeting scheduled June 19, 2003, at 7:00 p.m. George Bird will be attending to provide the council with an update on the Cooperative's activities in your area as well as answer any questions you may have.

If there is a change in the date or time of the above scheduled meeting, please notify Ginny Bain at (830) 868-4921 or toll free at 1-888-554-4732, Extension 4921.

Sincerely,



Jeanell Davis  
Operations Manager

JD:GB:gb

cc: Trey Grebe  
✓ Ms. Tena Collier, Secretary





# City of Cottonwood Shores

Chartered 1987

3915 Cottonwood Drive  
Marble Falls, Texas 78654  
830/ 693-3830  
Fax 830/ 693-6436

Dale Pickens - Mayor

Tena Collier - City Secretary

## AGENDA ITEM REQUEST

I hereby request the following subject to be placed on the Agenda for the next Regular Meeting of the City Commissioners of the City of Cottonwood Shores, Texas:

Date of next Regular Meeting: 6-19-03

Subject to be addressed: Waiving Building Permit Fee for Cottonwood VFD Building Expansion

Informational Presentation: Yes X No \_\_\_\_\_

Requires Action by Commission: Yes X No \_\_\_\_\_

Name(s) of requester: Mike Butler

Address: 4327 OAK PARK DR

Phone No.: 693-7670

[Signature] 5-23-03  
Requester Date

[Signature] 5-23-03 4:10  
Received by City Employee Date Time a.m./p.m.

May 23, 2003

Burl D. Lowery  
Certified Public Accountant  
Post Office Box 626  
311 Center  
Brownwood, Texas 76804

We are providing this letter in connection with your audit of the general purpose financial statements of City of Cottonwood Shores as of September 30, 2002, and for the year then ended for the purpose of expressing an opinion as to whether the general purpose financial statements present fairly, in all material respects, the financial position of City of Cottonwood Shores and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the general purpose financial statements of financial position, results of operations, and cash flows of the proprietary and similar trust fund types in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 8, 2002, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles and include all properly classified funds and account groups of the primary government and all component units, if any, required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all --
  - a) Financial records and related data [and all audit or relevant monitoring reports, if any received from funding sources].
  - b) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements [or the schedule of expenditures of federal awards].
5. There has been no --
  - a) Fraud involving management or employees who have significant roles in internal control.

- b) Fraud involving others that could have a material effect on the financial statements.
6. The city has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
7. The following, if any, have been properly recorded or disclosed in the financial statements:
- a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the city is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
8. We are responsible for compliance with the laws, regulations, and provisions of contracts and [grant] agreements applicable to us; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and [grant] agreements that we believe have a direct and material effect on the determination of financial statement amounts.
9. There are no --
- a) Violations or possible violations of budget ordinances, laws, and regulations (including those pertaining to adopting and amending budgets), provisions of contracts and [grant] agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
  - d) Reservations or designation of fund equity that were not properly authorized and approved.
10. The city has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

11. The city has compiled with all aspects of contractual agreements that would have a material effect on the general purpose financial statements in the event of noncompliance.

12. With respect to federal award programs:

a) We are responsible for complying and have compiled with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

b) We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

c) We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

d) We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.

e) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program.

f) We have received no requests from a federal agency to audit one or more specific programs as a major program.

g) We have compiled, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known

noncompliance with the requirements of federal awards, including the result of other audits or program reviews.

h) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

i) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

j) We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

k) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards.

l) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

m) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings. We have taken appropriate action on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.

n) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

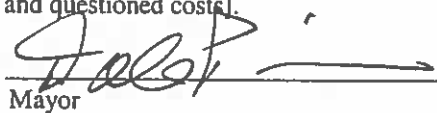
o) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

p) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133 and we are responsible for preparing and implementing a corrective action plan for each audit finding.

q) We have disclosed to you all contracts or other agreements with our service organizations if any, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

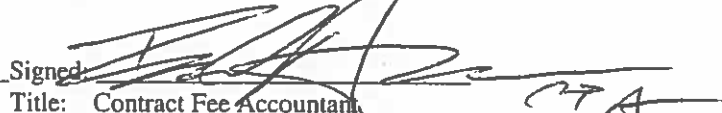
To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements [or in the schedule of findings and questioned costs].

Signed:



Title: Mayor

Signed:



Title: Contract Fee Accountant

May 23, 2003

Burl D. Lowery  
Certified Public Accountant  
Post Office Box 626  
311 Center  
Brownwood, Texas 76804

We are providing this letter in connection with your audit of the general purpose financial statements of City of Cottonwood Shores as of September 30, 2002, and for the year then ended for the purpose of expressing an opinion as to whether the general purpose financial statements present fairly, in all material respects, the financial position of City of Cottonwood Shores and the results of its operations and the cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the general purpose financial statements of financial position, results of operations, and cash flows of the proprietary and similar trust fund types in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 8, 2002, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles and include all properly classified funds and account groups of the primary government and all component units, if any, required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all --
  - a) Financial records and related data [and all audit or relevant monitoring reports, if any received from funding sources].
  - b) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements [or the schedule of expenditures of federal awards].
5. There has been no --
  - a) Fraud involving management or employees who have significant roles in internal control.

- b) Fraud involving others that could have a material effect on the financial statements.
6. The city has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
7. The following, if any, have been properly recorded or disclosed in the financial statements:
- a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the city is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
8. We are responsible for compliance with the laws, regulations, and provisions of contracts and [grant] agreements applicable to us; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and [grant] agreements that we believe have a direct and material effect on the determination of financial statement amounts.
9. There are no --
- a) Violations or possible violations of budget ordinances, laws, and regulations (including those pertaining to adopting and amending budgets), provisions of contracts and [grant] agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
  - d) Reservations or designation of fund equity that were not properly authorized and approved.
10. The city has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.



11. The city has compiled with all aspects of contractual agreements that would have a material effect on the general purpose financial statements in the event of noncompliance.

12. With respect to federal award programs:

a) We are responsible for complying and have compiled with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

b) We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

c) We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

d) We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.

e) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program.

f) We have received no requests from a federal agency to audit one or more specific programs as a major program.

g) We have compiled, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known

noncompliance with the requirements of federal awards, including the result of other audits or program reviews.

h) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

i) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

j) We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

k) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards.

l) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

m) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings. We have taken appropriate action on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.

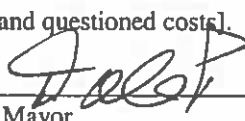
n) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

o) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

p) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133 and we are responsible for preparing and implementing a corrective action plan for each audit finding.

q) We have disclosed to you all contracts or other agreements with our service organizations if any, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements [or in the schedule of findings and questioned costs].

Signed:   
Title: Mayor

Signed:   
Title: Contract Fee Accountant



CITY OF  
COTTONWOOD SHORES

*ANNUAL FINANCIAL STATEMENTS*

FOR THE YEAR ENDED SEPTEMBER 30, 2002

City of Cottonwood Shores  
General Purpose Financial Statements  
For the Year Ended September 30, 2000

TABLE OF CONTENTS

|   | <u>Page<br/>Number</u> |
|---|------------------------|
| PART I – FINANCIAL SECTION  |                        |
| Independent Auditors' Report  | 1                      |
| <u>General Purpose Financial Statements</u>   |                        |
| Combined Balance Sheet - All Fund Types and Account Groups  | 2                      |
| Combined Statement of Revenue, Expenditures and Changes<br>in Fund Balances - All Governmental Fund Types                                   | 4                      |
| Combined Statement of Revenue, Expenditures and Changes<br>in Fund Balances – Budget (GAAP Basis) and<br>Actual - All Government Fund Types | 7                      |
| Combined Statement of Revenue, Expenses and Changes<br>in Retained Earnings – Proprietary Fund  | 9                      |
| Combined Statement of Cash Flows - Proprietary Fund   | 10                     |
| Combined Statement of Revenues, Expenses and Changes<br>in Retained Earnings – Budget and Actual - Proprietary Fund                         | 11                     |
| Notes to the Combined Financial Statements  | 12                     |
| Report on Compliance and Internal Control   | 18                     |
| TDHCA Grant Schedule  | 19                     |

BURL D. LOWERY, C.P.A.  
JOYCE CORNELIUS, C.P.A.

**BURL D. LOWERY**  
**CERTIFIED PUBLIC ACCOUNTANT**  
Member A.I.C.P.A. & T.S.C.P.A.  
Post Office Box 626  
311 Center  
Brownwood, Texas 76804

Telephone 915-646-8838  
Fax 915-643-2157

Independent Auditors' Report

Honorable Mayor and City Council  
City of Cottonwood Shores, Texas

I have audited the accompanying general-purpose financial statements of the City of Cottonwood Shores, Texas, as of and for the year ended September 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of City of Cottonwood Shores' management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the general-purpose 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 general-purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cottonwood Shores, Texas, as of September 30, 2002, and the results of its operations for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 23, 2003, on my consideration of the City of Cottonwood Shores' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Respectfully submitted,



Burl D. Lowery  
Certified Public Accountant  
May 23, 2003



| Proprietary<br>Fund Type | Account Group              |                              | Totals<br>(Memorandum<br>Only) |
|--------------------------|----------------------------|------------------------------|--------------------------------|
|                          | General<br>Fixed<br>Assets | General<br>Long-term<br>Debt | September 30,<br>2001          |
| \$129                    |                            |                              | \$25,223<br>\$27,000           |
|                          |                            |                              | \$14,774                       |
| \$40,342                 |                            |                              | \$40,342                       |
| \$271,129                |                            |                              | \$271,129                      |
| \$85,113                 |                            |                              | \$85,113                       |
| \$550                    |                            |                              | \$550                          |
| \$2,508,163              |                            |                              | \$2,508,163                    |
| (\$467,313)              |                            |                              | (\$467,313)                    |
|                          | \$364,785                  |                              | \$364,785                      |
|                          |                            | \$104,090                    | \$104,090                      |
| <u>\$2,438,113</u>       | <u>\$364,785</u>           | <u>\$104,090</u>             | <u>\$2,973,856</u>             |
| \$3,915                  |                            |                              | \$18,439                       |
| \$10,923                 |                            |                              | \$10,923                       |
| \$11,000                 |                            |                              | \$11,000                       |
| \$27,283                 |                            |                              | \$27,283                       |
|                          |                            |                              | \$14,774                       |
|                          |                            |                              | \$271,129                      |
| \$543,000                |                            |                              | \$543,000                      |
|                          |                            | \$104,090                    | \$104,090                      |
|                          |                            |                              | \$0                            |
| <u>\$596,121</u>         | <u>\$0</u>                 | <u>\$104,090</u>             | <u>\$1,000,638</u>             |
| \$1,833,954              |                            |                              | \$1,833,954                    |
|                          | \$364,785                  |                              | \$364,785                      |
| \$54,262                 |                            |                              | \$54,262                       |
|                          |                            |                              | \$0                            |
| (\$46,224)               |                            |                              | (\$279,783)                    |
| <u>\$1,841,992</u>       | <u>\$364,785</u>           | <u>\$0</u>                   | <u>\$1,973,218</u>             |
| <u>\$2,438,113</u>       | <u>\$364,785</u>           | <u>\$104,090</u>             | <u>\$2,973,856</u>             |



City of Cottonwood Shores  
 Combined Statement of Revenues, Expenditures, and  
 Changes in Fund Balance – All Governmental Fund Types  
 Year Ended September 30, 2002

|                                   | General<br>Fund  | Debt<br>Service<br>Fund | Special<br>Revenue<br>Fund | Totals<br>(Memorandum<br>Only)<br>Sept. 30, 2002 |
|-----------------------------------|------------------|-------------------------|----------------------------|--|
| <b>Revenues:</b>                  |                  |                         |                            |  |
| Ad Valorem Taxes                  | \$52,371         | \$39,651                |                            | \$92,022   |
| Penalty, Interest, and Fees       | \$4,882          |                         |                            | \$4,882  |
| Franchise Taxes                   | \$11,913         |                         |                            | \$11,913   |
| Sales Taxes                       | \$21,846         |                         |                            | \$21,846   |
| Mixed Beverage Tax                | \$5,087          |                         |                            | \$5,087  |
| Animal Control                    | \$1,170          |                         |                            | \$1,170  |
| Mowing Fees                       | \$1,065          |                         |                            | \$1,065  |
| Police Donations and Fees         |                  |                         |                            | \$0  |
| Permits and Inspection Fees       | \$8,848          |                         |                            | \$8,848  |
| Interest on Investments           | \$1,710          |                         |                            | \$1,710  |
| Court Cost                        | \$381            |                         |                            | \$381  |
| Fines and Forfeitures             | \$8,510          |                         |                            | \$8,510  |
| Technology Assessment             | \$370            |                         |                            | \$370  |
| Civic Center and Pool             | \$2,180          |                         |                            | \$2,180  |
| Rentals & Leases                  | \$5,405          |                         |                            | \$5,405  |
| Miscellaneous                     | \$4,845          |                         |                            | \$4,845  |
| Grant Funds – Police Education    | \$760            |                         |                            | \$760  |
| COPS Grant Funds                  |                  |                         |                            | \$0  |
| Community Development Block Grant |                  |                         | \$74,177                   | \$74,177   |
| <b>Total Revenue</b>              | <b>\$131,343</b> | <b>\$39,651</b>         | <b>\$74,177</b>            | <b>\$245,171</b>                                 |
| <b>Expenditures:</b>              |                  |                         |                            |  |
| City Administration Department:   |                  |                         |                            |  |
| Salaries and Benefits             | \$12,056         |                         |                            | \$12,056   |
| Payroll Tax                       | \$803            |                         |                            | \$803  |
| Advertising                       | \$75             |                         |                            | \$75   |
| Accounting and Auditing           | \$6,180          |                         |                            | \$6,180  |
| Attorney Fees                     | \$1,653          |                         |                            | \$1,653  |
| Telephone and Utilities           | \$1,520          |                         |                            | \$1,520  |
| Office Expense                    | \$908            |                         |                            | \$908  |
| Dues                              | \$622            |                         |                            | \$622  |
| Travel and Education              |                  |                         |                            | \$0  |
| Insurance and Bonds               | \$3,144          |                         |                            | \$3,144  |
| Election Cost                     | \$35             |                         |                            | \$35   |
| Repairs and Maintenance           | \$4,492          |                         |                            | \$4,492  |
| Appraisal District Fees           | \$2,539          |                         |                            | \$2,539  |
| Supplies                          | \$900            |                         |                            | \$900  |
| Capital Outlay                    | \$200            |                         |                            | \$200  |
| Transfer to Utility Debt Service  |                  | \$39,651                |                            | \$39,651   |
| Debt Service Payments             | \$10,102         |                         |                            | \$10,102   |
| <b>Total City Administration</b>  | <b>\$45,229</b>  | <b>\$39,651</b>         | <b>\$0</b>                 | <b>\$84,880</b>                                  |

The accompanying notes are an integral part of this statement.

City of Cottonwood Shores  
 Combined Statement of Revenues, Expenditures, and  
 Changes in Fund Balance – All Governmental Fund Types  
 Year Ended September 30, 2002

Continued

|  | General<br>Fund | Debt<br>Service<br>Fund | Special<br>Revenue<br>Fund | Totals<br>(Memorandum<br>Only)<br>Sept. 30, 2002 |
|--|-----------------|-------------------------|----------------------------|--|
| <b>Public Works Department:</b>        |                 |                         |                            |  |
| Salaries, Benefits, and Contract Labor | \$18,478        |                         |                            | \$18,478   |
| Payroll Taxes                          | \$1,454         |                         |                            | \$1,454  |
| Telephone and Utilities                | \$5,639         |                         |                            | \$5,639  |
| Travel and Education                   |                 |                         |                            | \$0  |
| Street Repair                          | \$1,393         |                         |                            | \$1,393  |
| Repairs and Maintenance                | \$4,914         |                         |                            | \$4,914  |
| Insurance and Bonds                    | \$2,331         |                         |                            | \$2,331  |
| Fuel and Oil                           | \$576           |                         |                            | \$576  |
| Animal Control                         | \$465           |                         |                            | \$465  |
| Capital Outlay                         | \$2,238         |                         |                            | \$2,238  |
| <b>Total Public Service Department</b> | <b>\$37,488</b> | <b>\$0</b>              | <b>\$0</b>                 | <b>\$37,488</b>                                  |
| <b>Police Department:</b>              |                 |                         |                            |  |
| Salaries, Benefits, and Contract Labor | \$44,844        |                         |                            | \$44,844   |
| Payroll Taxes                          | \$3,176         |                         |                            | \$3,176  |
| Telephone and Utilities                | \$1,739         |                         |                            | \$1,739  |
| Travel and Education                   | \$115           |                         |                            | \$115  |
| Radios                                 | \$285           |                         |                            | \$285  |
| Supplies                               | \$584           |                         |                            | \$584  |
| Dispatch Fee                           | \$3,014         |                         |                            | \$3,014  |
| Insurance and Bonds                    | \$4,041         |                         |                            | \$4,041  |
| Jail Fees                              | \$380           |                         |                            | \$380  |
| Capital Outlay                         | \$592           |                         |                            | \$592  |
| Fuel and Oil                           | \$3,127         |                         |                            | \$3,127  |
| Animal Control                         |                 |                         |                            | \$0  |
| Vehicle Expense                        | \$964           |                         |                            | \$964  |
| <b>Total Police Department</b>         | <b>\$62,861</b> | <b>\$0</b>              | <b>\$0</b>                 | <b>\$62,861</b>                                  |

The accompanying notes are an integral part of these statements.

City of Cottonwood Shores  
 Combined Statement of Revenues, Expenditures, and  
 Changes in Fund Balance – All Governmental Fund Types  
 Year Ended September 30, 2002

Continued

|  | General<br>Fund    | Debt<br>Service<br>Fund | Special<br>Revenue<br>Fund | Totals<br>(Memorandum<br>Only)<br>Sept. 30, 2002 |
|--|--------------------|-------------------------|----------------------------|--|
| Municipal Court:                               |                    |                         |                            |  |
| Salaries and Employee Benefits                 | \$1,500            |                         |                            | \$1,500  |
| Payroll Tax                                    | \$120              |                         |                            | \$120  |
| Dues & Subscriptions                           | \$59               |                         |                            | \$59   |
| Travel and Education                           | \$162              |                         |                            | \$162  |
| Office and Postage                             | \$233              |                         |                            | \$233  |
| Total Other Departments                        | <u>\$2,074</u>     | <u>\$0</u>              | <u>\$0</u>                 | <u>\$2,074</u>                                   |
| Community Development Block Grant              |                    |                         | \$74,177                   | \$74,177   |
| COPS Grant                                     |                    |                         |                            | \$0  |
| Total Expenditures                             | <u>\$147,652</u>   | <u>\$39,651</u>         | <u>\$74,177</u>            | <u>\$261,480</u>                                 |
| Excess (Deficit) of Revenues over Expenditures | (\$16,309)         | \$0                     | \$0                        | (\$16,309)                                       |
| Fund Balance – At Beginning of Year            | (\$220,149)        | \$3,427                 | \$0                        | (\$216,722)                                      |
| Other Changes                                  | <u>\$2,899</u>     | <u>(\$3,427)</u>        | <u>\$0</u>                 | <u>(\$528)</u>                                   |
| Fund Balance At End of year                    | <u>(\$233,559)</u> | <u>\$0</u>              | <u>\$0</u>                 | <u>(\$233,559)</u>                               |

The accompanying notes are an integral part of these statements.

City of Cottonwood Shores  
 Combined Statement of Revenues, Expenditures, and  
 Changes in Fund Balance – Budget (GAAP Basis) and Actual  
 General Fund and Debt Service Fund  
 Year Ended September 30, 2002

|                                   | General Fund     |                  |  | Debt Service Fund |                 |  |
|-----------------------------------|------------------|------------------|--|-------------------|-----------------|--|
|                                   | Budget           | Actual           | Variance<br>Favorable<br>(Unfavorable) | Budget            | Actual          | Variance<br>Favorable<br>(Unfavorable) |
| <b>Revenues:</b>                  |                  |                  |  |                   |                 |  |
| Ad Valorem Taxes                  | \$52,142         | \$52,371         | \$229                                  | \$41,381          | \$39,651        | (\$1,730)                              |
| Penalty, Interest, and Fees       | \$3,200          | \$4,882          | \$1,682                                |                   |                 | \$0                                    |
| Franchise Taxes                   | \$11,000         | \$11,913         | \$913                                  |                   |                 |  |
| Sales Taxes                       | \$25,000         | \$21,846         | (\$3,154)                              |                   |                 |  |
| Mixed Beverage Tax                | \$7,000          | \$5,087          | (\$1,913)                              |                   |                 |  |
| Animal Control                    | \$1,200          | \$1,170          | (\$30)                                 |                   |                 |  |
| Mowing Fees                       | \$4,000          | \$1,065          | (\$2,935)                              |                   |                 |  |
| Police Donations and Fees         |                  | \$0              | \$0                                    |                   |                 |  |
| Permits and Inspection Fees       | \$10,000         | \$8,848          | (\$1,152)                              |                   |                 |  |
| Interest on Investments           | \$2,500          | \$1,710          | (\$790)                                |                   |                 |  |
| Court Cost                        | \$600            | \$381            | (\$219)                                |                   |                 |  |
| Fines and Forfeitures             | \$12,000         | \$8,510          | (\$3,490)                              |                   |                 |  |
| Technology Assessment             | \$200            | \$370            | \$170                                  |                   |                 |  |
| Civic Center and Pool             | \$2,700          | \$2,180          | (\$520)                                |                   |                 |  |
| Rentals & Leases                  | \$300            | \$5,405          | \$5,105                                |                   |                 |  |
| Miscellaneous                     | \$200            | \$4,845          | \$4,645                                |                   |                 |  |
| Grant Funds – Police Education    | \$700            | \$760            | \$60                                   |                   |                 |  |
| COPS Grant Funds                  |                  |                  | \$0                                    |                   |                 |  |
| Community Development Block Grant |                  |                  | \$0                                    |                   |                 |  |
| <b>Total Revenue</b>              | <b>\$132,742</b> | <b>\$131,343</b> | <b>(\$1,399)</b>                       | <b>\$41,381</b>   | <b>\$39,651</b> | <b>(\$1,730)</b>                       |
| <b>Expenditures:</b>              |                  |                  |  |                   |                 |  |
| City Administration Department:   |                  |                  |  |                   |                 |  |
| Salaries and Benefits             | \$17,419         | \$12,056         | \$5,363                                |                   |                 |  |
| Payroll Tax                       | \$720            | \$803            | (\$83)                                 |                   |                 |  |
| Advertising                       | \$500            | \$75             | \$425                                  |                   |                 |  |
| Accounting and Auditing           | \$6,630          | \$6,180          | \$450                                  |                   |                 |  |
| Attorney Fees                     | \$2,500          | \$1,653          | \$847                                  |                   |                 |  |
| Telephone and Utilities           | \$3,500          | \$1,520          | \$1,980                                |                   |                 |  |
| Office Expense                    | \$2,200          | \$908            | \$1,292                                |                   |                 |  |
| Dues                              | \$300            | \$622            | (\$322)                                |                   |                 |  |
| Travel and Education              | \$600            | \$0              | \$600                                  |                   |                 |  |
| Insurance and Bonds               | \$3,351          | \$3,144          | \$207                                  |                   |                 |  |
| Election Cost                     | \$300            | \$35             | \$265                                  |                   |                 |  |
| Fuel and Oil                      | \$250            | \$0              | \$250                                  |                   |                 |  |
| Repairs and Maintenance           | \$950            | \$492            | \$458                                  |                   |                 |  |
| Service Contract                  | \$5,000          | \$4,000          | \$1,000                                |                   |                 |  |
| Appraisal District Fees           | \$2,202          | \$2,539          | (\$337)                                |                   |                 |  |
| Supplies                          | \$500            | \$900            | (\$400)                                |                   |                 |  |
| Capital Outlay                    | \$0              | \$200            | (\$200)                                |                   |                 |  |
| Transfer to Utility Debt Service  |                  |                  |  | \$41,381          | \$39,651        | \$1,730                                |
| Debt Service Payments             | \$9,500          | \$10,102         | (\$602)                                |                   |                 |  |
| <b>Total City Administration</b>  | <b>\$56,422</b>  | <b>\$45,229</b>  | <b>\$11,193</b>                        | <b>\$41,381</b>   | <b>\$39,651</b> | <b>\$1,730</b>                         |

The accompanying notes are an integral part of this statement.

City of Cottonwood Shores  
 Combined Statement of Revenues, Expenditures, and  
 Changes in Fund Balance – Budget (GAAP Basis) and Actual  
 General Fund and Debt Service Fund  
 Year Ended September 30, 2002

Continued

|   | General Fund       |                    |  | Debt Service Fund |                  |  |
|---|--------------------|--------------------|--|-------------------|------------------|--|
|   | Budget             | Actual             | Variance<br>Favorable<br>(Unfavorable) | Budget            | Actual           | Variance<br>Favorable<br>(Unfavorable) |
| <b>Public Works Department:</b>                       |                    |                    |  |                   |                  |  |
| Salaries and Contract Labor                           | \$34,900           | \$18,478           | \$16,422                               |                   |                  |  |
| Payroll Taxes   | \$4,100            | \$1,454            | \$2,646                                |                   |                  |  |
| Telephone and Utilities                               | \$4,500            | \$5,639            | (\$1,139)                              |                   |                  |  |
| Travel and Education                                  | \$200              | \$0                | \$200                                  |                   |                  |  |
| Street Repair   | \$15,000           | \$1,393            | \$13,607                               |                   |                  |  |
| Repairs and Maintenance                               | \$6,200            | \$4,914            | \$1,286                                |                   |                  |  |
| Dues and Subscriptions                                | \$50               | \$0                | \$50                                   |                   |                  |  |
| Insurance and Bonds                                   | \$2,000            | \$2,331            | (\$331)                                |                   |                  |  |
| Fuel and Oil  | \$1,000            | \$576              | \$424                                  |                   |                  |  |
| Animal Control  | \$600              | \$465              | \$135                                  |                   |                  |  |
| Capital Outlay  | \$5,500            | \$2,238            | \$3,262                                |                   |                  |  |
| Debt Service  | \$679              | \$0                | \$679                                  |                   |                  |  |
| <b>Total Public Service Department</b>                | <b>\$74,729</b>    | <b>\$37,488</b>    | <b>\$37,241</b>                        | <b>\$0</b>        | <b>\$0</b>       | <b>\$0</b>                             |
| <b>Police Department:</b>                             |                    |                    |  |                   |                  |  |
| Salaries, Benefits, and Contract Labor                | \$30,800           | \$44,844           | (\$14,044)                             |                   |                  |  |
| Payroll Taxes   | \$1,183            | \$3,176            | (\$1,993)                              |                   |                  |  |
| Telephone and Utilities                               | \$1,250            | \$1,739            | (\$489)                                |                   |                  |  |
| Travel and Education                                  | \$700              | \$115              | \$585                                  |                   |                  |  |
| Radios  | \$100              | \$285              | (\$185)                                |                   |                  |  |
| Supplies  | \$200              | \$584              | (\$384)                                |                   |                  |  |
| Dispatch Fee  | \$3,050            | \$3,014            | \$36                                   |                   |                  |  |
| Insurance and Bonds                                   | \$2,000            | \$4,041            | (\$2,041)                              |                   |                  |  |
| Jail Fees   | \$200              | \$380              | (\$180)                                |                   |                  |  |
| Capital Outlay  | \$0                | \$592              | (\$592)                                |                   |                  |  |
| Fuel and Oil  | \$2,000            | \$3,127            | (\$1,127)                              |                   |                  |  |
| Vehicle Expense                                       | \$1,000            | \$964              | \$36                                   |                   |                  |  |
| <b>Total Other Departments</b>                        | <b>\$42,483</b>    | <b>\$62,861</b>    | <b>(\$20,378)</b>                      | <b>\$0</b>        | <b>\$0</b>       | <b>\$0</b>                             |
| <b>Municipal Court:</b>                               |                    |                    |  |                   |                  |  |
| Salaries and Benefits                                 | \$6,000            | \$1,500            | \$4,500                                |                   |                  |  |
| Payroll Tax   | \$480              | \$120              | \$360                                  |                   |                  |  |
| City Prosecutor                                       | \$200              | \$0                | \$200                                  |                   |                  |  |
| Telephone   | \$120              | \$0                | \$120                                  |                   |                  |  |
| Dues and Subscriptions                                | \$200              | \$59               | \$141                                  |                   |                  |  |
| Travel and Education                                  | \$500              | \$162              | \$338                                  |                   |                  |  |
| Office and Postage                                    | \$134              | \$233              | (\$99)                                 |                   |                  |  |
| <b>Total Municipal Court</b>                          | <b>\$7,634</b>     | <b>\$2,074</b>     | <b>\$5,560</b>                         | <b>\$0</b>        | <b>\$0</b>       | <b>\$0</b>                             |
| <b>Total Expenditures</b>                             | <b>\$181,268</b>   | <b>\$147,652</b>   | <b>\$33,616</b>                        | <b>\$41,381</b>   | <b>\$39,651</b>  | <b>\$1,730</b>                         |
| <b>Excess (Deficit) of Revenues over Expenditures</b> | <b>(\$48,526)</b>  | <b>(\$16,309)</b>  | <b>\$32,217</b>                        | <b>\$0</b>        | <b>\$0</b>       | <b>\$0</b>                             |
| <b>Fund Balance – At Beginning of Year</b>            | <b>(\$220,149)</b> | <b>(\$220,149)</b> | <b>\$0</b>                             | <b>\$3,427</b>    | <b>\$3,427</b>   | <b>\$0</b>                             |
| <b>Other Changes</b>                                  | <b>\$2,899</b>     | <b>\$2,899</b>     | <b>\$0</b>                             | <b>(\$3,427)</b>  | <b>(\$3,427)</b> | <b>\$1</b>                             |
| <b>Fund Balance At End of year</b>                    | <b>(\$265,776)</b> | <b>(\$233,559)</b> | <b>\$32,217</b>                        | <b>\$0</b>        | <b>\$0</b>       | <b>\$1</b>                             |

The accompanying notes are an integral part of these statements.

City of Cottonwood Shores  
 Combined Statement of Revenues, Expenses, and Changes  
 in Retained Earnings – All Proprietary Fund Types  
 Year Ended September 30, 2002

|   | Proprietary<br>Fund Type<br>Utility | Total<br>(Memorandum<br>Only)<br>Sept. 30, 2002 |
|---|-------------------------------------|---|
| <b>Revenues:</b>                            |                                     |   |
| Water Sales                                 | \$142,896                           | \$142,896                                       |
| Sewer Sales                                 | \$114,818                           | \$114,818                                       |
| Garbage Collection Fees                     | \$61,081                            | \$61,081  |
| Connection Fees and Other                   | \$50,026                            | \$50,026  |
| Interest on Investments                     | \$1,138                             | \$1,138   |
| Grinder Pump                                | \$22,781                            | \$22,781  |
|   | <b>\$392,740</b>                    | <b>\$392,740</b>                                |
| <b>Expenses:</b>                            |                                     |   |
| <b>Water Department:</b>                    |                                     |   |
| Accounting and Legal                        | \$4,860                             | \$4,860   |
| Advertising                                 | \$98                                | \$98  |
| Salaries and Benefits                       | \$91,844                            | \$91,844  |
| Payroll Taxes                               | \$6,727                             | \$6,727   |
| Water Taps                                  | \$2,540                             | \$2,540   |
| Telephone and Utilities                     | \$16,292                            | \$16,292  |
| Travel and Fuel                             | \$4,637                             | \$4,637   |
| Water Purchases                             | \$17,077                            | \$17,077  |
| Chemicals and Testing                       | \$5,725                             | \$5,725   |
| Repairs and Maintenance                     | \$9,580                             | \$9,580   |
| Dues and Subscriptions                      | \$738                               | \$738   |
| Fees and Licenses                           | \$1,085                             | \$1,085   |
| Supplies                                    | \$1,018                             | \$1,018   |
| Contract Labor                              | \$206                               | \$206   |
| Education                                   | \$636                               | \$636   |
| Depreciation Expense                        | \$19,044                            | \$19,044  |
| Interest                                    | \$30,659                            | \$30,659  |
| Insurance and Bonds                         | \$8,450                             | \$8,450   |
| Returned Checks                             | \$453                               | \$453   |
| Office Supplies and Expenses                | \$2,360                             | \$2,360   |
| <b>Total Water Department</b>               | <b>\$224,029</b>                    | <b>\$224,029</b>                                |
| <b>Sewer Department:</b>                    |                                     |   |
| Accounting and Audit                        | \$4,860                             | \$4,860   |
| Sewer Treatment                             | \$97,016                            | \$97,016  |
| Telephone and Utilities                     | \$3,632                             | \$3,632   |
| Supplies and Repairs                        | \$5,650                             | \$5,650   |
| Sewer Taps                                  | \$1,044                             | \$1,044   |
| Interest                                    | \$2,604                             | \$2,604   |
| Grinder Pump                                | \$17,192                            | \$17,192  |
| Depreciation Expense                        | \$45,612                            | \$45,612  |
| Office Supplies and Expenses                | \$63                                | \$63  |
| <b>Total Sewer Department</b>               | <b>\$177,673</b>                    | <b>\$177,673</b>                                |
| <b>Garbage Department:</b>                  |                                     |   |
| Contract Services                           | \$56,747                            | \$56,747  |
| <b>Total Garbage Department</b>             | <b>\$56,747</b>                     | <b>\$56,747</b>                                 |
| <b>Other Resources:</b>                     |                                     |   |
| Operating Transfer In                       | (\$39,651)                          | (\$39,651)                                      |
| <b>Total Expenses</b>                       | <b>\$418,798</b>                    | <b>\$418,798</b>                                |
| <b>Net Income</b>                           | <b>(\$26,058)</b>                   | <b>(\$26,058)</b>                               |
| <b>Retained Earnings, Beginning of Year</b> | <b>\$29,667</b>                     | <b>\$29,667</b>                                 |
| <b>Prior Period Adjustments</b>             | <b>\$4,429</b>                      | <b>\$4,429</b>                                  |
| <b>Retained Earnings, End of Period</b>     | <b>\$8,038</b>                      | <b>\$8,038</b>                                  |

The accompanying notes are an integral part of this statement.

City of Cottonwood Shores  
 Combined Statement of Cash Flows  
 All Proprietary Fund Types  
 Year Ended September 30, 2002

|  | <u>Proprietary<br/>Fund Types<br/>Utility Fund<br/>Sept. 30, 2002</u> | <u>Totals<br/>(Memorandum<br/>Only)<br/>Sept. 30, 2002</u> |
|--|---|--|
| <b>Cash Flows from Operating Activities:</b>   |   |  |
| Net Income (Loss)  | (\$26,058)  | (\$26,058)   |
| Adjustments to Reconcile Net Income to<br>Net Cash Provided from Operating Activities: |   |  |
| Depreciation   | \$64,656  | \$64,656   |
| (Increase) Decrease in Accounts Receivable   | (\$12,779)  | (\$12,779)   |
| (Increase) Decrease in Restricted Assets   | (\$17,157)  | (\$17,157)   |
| (Increase) Decrease in Due from Other Funds  | (\$30,298)  | (\$30,298)   |
| Increase (Decrease) in Accounts Payable  | \$1,238   | \$1,238  |
| Increase (Decrease) in Accrued Interest Payable  | (\$142)   | (\$142)  |
| Prior Period Adjustment  | \$4,429   | \$4,429  |
| Increase (Decrease) in Customer Deposits   | \$2,949   | \$2,949  |
| Total Adjustments  | <u>\$12,896</u>   | <u>\$12,896</u>  |
| Net Cash Provided from Operating Activities  | <u>(\$13,162)</u>   | <u>(\$13,162)</u>  |
| <b>Cash Flows from Capital and Other Financing Activities:</b>                         |   |  |
| Principle Payments on Bonds  | (\$11,000)  | (\$11,000)   |
| Contributed Capital – Distribution System  | \$250,662   | \$250,662  |
| Acquisition of Plant and Equipment   | <u>(\$227,182)</u>  | <u>(\$227,182)</u>   |
| Net Cash Used in Financing Activities  | <u>\$12,480</u>   | <u>\$12,480</u>  |
| Net Increase (Decrease) in Cash and Cash Equivalents                                   | (\$682)   | (\$682)  |
| Unrestricted Cash and Cash Equivalents, Beginning of Year                              | <u>\$811</u>  | <u>\$811</u>   |
| Unrestricted Cash and Cash Equivalents, End of Year                                    | <u><u>\$129</u></u>   | <u><u>\$129</u></u>  |

The accompanying notes are an integral part of this statement.

City of Cottonwood Shores  
 Combined Statement of Revenues, Expenses, and Changes  
 in Retained Earnings – Budget (GAAP Basis) and Actual – All Proprietary Fund Types  
 Year Ended September 30, 2002

|   | Proprietary Fund Types |                   |                                       |
|---|------------------------|-------------------|---------------------------------------|
|   | Utility Fund           |                   | Variance<br>Favorable<br>Unfavorable) |
|   | Budget                 | Actual            |                                       |
| <b>Revenues:</b>                        |                        |                   |                                       |
| Water Sales                             | \$170,000              | \$142,896         | (\$27,104)                            |
| Sewer Sales                             | \$163,000              | \$114,818         | (\$48,182)                            |
| Garbage Collection Fees                 | \$64,500               | \$61,081          | (\$3,419)                             |
| Connection Fees and Other               | \$51,500               | \$50,026          | (\$1,474)                             |
| Interest on Investments                 | \$2,500                | \$1,138           | (\$1,362)                             |
| Grinder Pump                            | \$27,000               | \$22,781          | (\$4,219)                             |
| <b>Total Revenues</b>                   | <b>\$478,500</b>       | <b>\$392,740</b>  | <b>(\$85,760)</b>                     |
| <b>Expenses:</b>                        |                        |                   |                                       |
| <b>Water Department:</b>                |                        |                   |                                       |
| Accounting and Legal                    | \$5,635                | \$4,860           | \$775                                 |
| Advertising                             | \$300                  | \$98              | \$202                                 |
| Salaries and Benefits                   | \$82,969               | \$91,844          | (\$8,875)                             |
| Payroll Taxes                           | \$4,700                | \$6,727           | (\$2,027)                             |
| Water Taps                              | \$3,000                | \$2,540           | \$460                                 |
| Telephone and Utilities                 | \$13,950               | \$16,292          | (\$2,342)                             |
| Travel and Fuel                         | \$3,900                | \$4,637           | (\$737)                               |
| Water Purchases                         | \$16,000               | \$17,077          | (\$1,077)                             |
| Chemicals and Testing                   | \$6,500                | \$5,725           | \$775                                 |
| Repairs and Maintenance                 | \$18,600               | \$9,580           | \$9,020                               |
| Dues and Subscriptions                  | \$400                  | \$738             | (\$338)                               |
| Fees and Licenses                       | \$1,200                | \$1,085           | \$115                                 |
| Supplies                                | \$800                  | \$1,018           | (\$218)                               |
| Contract Labor                          | \$0                    | \$206             | (\$206)                               |
| Education                               | \$400                  | \$636             | (\$236)                               |
| Depreciation Expense                    | \$26,053               | \$19,044          | \$7,009                               |
| Interest                                | \$0                    | \$30,659          | (\$30,659)                            |
| Insurance and Bonds                     | \$8,500                | \$8,450           | \$50                                  |
| Returned Checks                         | \$0                    | \$453             | (\$453)                               |
| Office Supplies and Expenses            | \$3,500                | \$2,360           | \$1,140                               |
| <b>Total Water Department</b>           | <b>\$196,407</b>       | <b>\$224,029</b>  | <b>(\$27,622)</b>                     |
| <b>Sewer Department:</b>                |                        |                   |                                       |
| Accounting and Audit                    | \$4,635                | \$4,860           | (\$225)                               |
| Sewer Treatment                         | \$96,000               | \$97,016          | (\$1,016)                             |
| Telephone and Utilities                 | \$4,000                | \$3,632           | \$368                                 |
| Supplies and Repairs                    | \$7,000                | \$5,650           | \$1,350                               |
| Sewer Taps                              | \$1,500                | \$1,044           | \$456                                 |
| Interest                                | \$2,795                | \$2,604           | \$191                                 |
| Grinder Pump                            | \$17,000               | \$17,192          | (\$192)                               |
| Depreciation Expense                    | \$45,657               | \$45,612          | \$45                                  |
| Office Supplies and Expenses            | \$500                  | \$63              | \$437                                 |
| <b>Total Sewer Department</b>           | <b>\$179,087</b>       | <b>\$177,673</b>  | <b>\$1,414</b>                        |
| <b>Garbage Department:</b>              |                        |                   |                                       |
| Contract Services                       | \$54,500               | \$56,747          | (\$2,247)                             |
| <b>Total Garbage Department</b>         | <b>\$54,500</b>        | <b>\$56,747</b>   | <b>(\$2,247)</b>                      |
| <b>Other Uses:</b>                      |                        |                   |                                       |
| Operating Transfer In                   | \$0                    | (\$39,651)        | \$39,651                              |
| <b>Total Expenses</b>                   | <b>\$429,994</b>       | <b>\$418,798</b>  | <b>\$11,196</b>                       |
| <b>Net Income</b>                       | <b>\$48,506</b>        | <b>(\$26,058)</b> | <b>(\$74,564)</b>                     |
| Retained Earnings, Beginning of Year    | \$29,667               | \$29,667          | \$0                                   |
| Prior Period Adjustments                | \$4,429                | \$4,429           | \$0                                   |
| <b>Retained Earnings, End of Period</b> | <b>\$82,602</b>        | <b>\$8,038</b>    | <b>(\$74,564)</b>                     |

The accompanying notes are an integral part of this statement.



City of Cottonwood Shores  
Notes to the Financial Statements  
For the Year Ended September 30, 2002

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Cottonwood Shores conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

- A. Reporting Entity - The Mayor and City Council are the basic level of government which has oversight responsibility and control over all activities related to the City of Cottonwood Shores, Texas. The City of Cottonwood Shores receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since the Mayor and City Council are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.
- B. Fund Accounting - The accounts of the city are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped in the accompanying financial statements into the following categories:

Governmental Fund

General Fund - The general fund is the general operating fund of the city

Debt Service Fund

Debt Service Fund - This fund is established to make debt service payments.

Proprietary Fund

Enterprise Fund - The Utility Fund (Water, Sewer and Garbage) is operated as an enterprise fund.

Account Groups

General Fixed Assets - Fixed assets used in governmental fund type operations are accounted for in this account group.

General Long Term Debt - Governmental long-term obligations are accounted for in this account group.

- C. Basis of Accounting - Governmental fund type revenues and expenditures are recorded on the modified accrual basis. Revenues are recorded when they become available and measurable. Expenditures are recorded when the liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recorded when due.

The Proprietary Fund Type (Utility) revenues and expenditures are recorded on the full accrual basis.

- D. Taxes Receivable - Property taxes are recorded as revenue when collected and the amount of billed but uncollected taxes are deferred pending collection.

City of Cottonwood Shores  
Notes to the Financial Statements  
For the Year Ended September 30, 2002

E. Property, Plant and Equipment - Property, plant and equipment of the enterprise funds are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the asset. The estimated useful lives are as follows:

|                            |           |
|----------------------------|-----------|
| Water and Sewer Plant      | 40 years  |
| Buildings and Improvements | 20 years  |
| Equipment                  | 5-7 years |

Maintenance and repairs are charged to operations as incurred and improvements which extend the asset lives are capitalized.

F. General Fixed Assets - Purchases of fixed assets are capitalized at cost in the General Fixed Asset account group, offset by a similar invested fund-balance account. There is no provision for depreciation on assets in this account group. General Fixed Assets purchased from the General Funds are recorded as expenditures in the acquiring fund at the time of purchase. Infrastructure assets are not included.

G. Vacation and Sick Leave - Vacation and sick pay expenses are charged to operations when taken by the employees of the City. Accordingly, no accruals are reflected in accounts for unpaid amounts of vacation and sick pay earned by employees. In the event of termination, an employee is reimbursed for all accumulated vacation days. The liabilities for accumulated vacation and sick leave at September 30, 2002, are estimated to be insignificant, and are not reflected in the accompanying financial statements.

H. Budget - The official budget was prepared for adoption for all funds and formally adopted by the City Council prior to disbursement of funds.

I. Inventory of Supplies - cost of all supplies and materials is recorded as expenditures/expenses at the time of purchase. Quantity on hand is insignificant.

J. Cash Flows - For purposes of reporting cash flows, cash equivalents are considered to be temporary cash investments purchased with a maturity of three months or less (does not include restricted assets).

K. Inter-fund Charges - The City allocates a percentage of general administrative expenditures to the various accounts group, governmental fund and proprietary fund.

NOTE 2. DEPOSITS AND INVESTMENTS

The City maintains a cash pool that is available for use by all funds. All cash funds were held by local financial institutions in demand and interest bearing accounts which were secured at the balance sheet date by FDIC coverage.

The collateral for the City's deposits is categorized to give an indication of the level of risk assumed by the City at the year end. Category 1 includes deposits that are insured or for which the securities are held by the City or its agent in the City's name.

All of the deposits are classified as category 1. Cash balances on September 30, 2002, at the bank are \$141,955 while the carrying value is \$137,336.

City of Cottonwood Shores  
Notes to the Financial Statements  
For the Year Ended September 30, 2002

**NOTE 3. PROPERTY TAXES**

Property taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year.

The City contracts with the Burnet County Appraisal District for the appraisal and collection of taxes. For the tax roll for 2001 the assessed valuation was \$21,571,120 and a tax rate of \$.434 per \$100 valuation.

**NOTE 4. RESTRICTED ASSETS**

Restricted assets represent cash that has been set aside in the Utility Fund for future payments of certificates of obligation, customer deposits and for the purchase and improvements to the water and wastewater system, as follows:

|                                     |                         |
|-------------------------------------|-------------------------|
| Restricted for Customer Deposits    | \$ 27,064               |
| Restricted for Debt Service         | 54,262                  |
| Restricted for Capital Improvements | <u>3,787</u>            |
| <b>Total Restricted Assets</b>      | <b><u>\$ 85,113</u></b> |

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

A summary of fixed assets in the Utility Fund as follows:

|                                    | Balance<br>10/1/01         | Additions               | Deletions            | Balance<br>9/30/02         |
|------------------------------------|----------------------------|-------------------------|----------------------|----------------------------|
| Land                               | \$ 18,984                  | \$ -                    | \$ -                 | \$ 18,984                  |
| Water Plant                        | 352,498                    | 2,011                   | -                    | 354,509                    |
| Building & Improvements            | 8,805                      | -                       | -                    | 8,805                      |
| Office Furniture & Equipment       | 64,722                     | -                       | -                    | 64,722                     |
| Wastewater Collection System       | 1,535,337                  | -                       | -                    | 1,535,337                  |
| Water Distribution System          | 254,924                    | 270,382                 | -                    | 525,306                    |
| Vehicles                           | 500                        | -                       | -                    | 500                        |
| Construction in Progress           | 45,211                     | -                       | 45,211               | -                          |
| <b>Total Fixed Assets</b>          | <b><u>\$ 2,280,981</u></b> | <b><u>\$272,393</u></b> | <b><u>45,211</u></b> | <b><u>\$ 2,508,163</u></b> |
| <br>Less: Accumulated Depreciation |                            |                         |                      | <br><u>(501,171)</u>       |
| <b>Net Fixed Assets</b>            |                            |                         |                      | <b><u>\$2,206,992</u></b>  |

City of Cottonwood Shores  
Notes to the Financial Statements  
For the Year Ended September 30, 2002

**NOTE 6. GENERAL FIXED ASSETS**

A summary of changes in general fixed assets follows:

|                              | Balance<br>10/1/01 | Additions  | Deletions   | Balance<br>9/30/02 |
|------------------------------|--------------------|------------|-------------|--------------------|
| Buildings and Improvements   | \$ 123,055         | \$ -       | \$ -        | \$ 123,055         |
| Office Furniture & Equipment | 32,396             | -          | -           | 32,396             |
| Streets                      | 209,334            | -          | -           | 209,334            |
| Total                        | <u>\$364,785</u>   | <u>\$-</u> | <u>\$ -</u> | <u>\$364,785</u>   |

**NOTE 7. CERTIFICATES OF OBLIGATION**

A summary of changes in revenue bonds payable follows:

|   | Outstanding<br>10/1/01 | Issued      | Retired          | Outstanding<br>9/30/02 |
|---|------------------------|-------------|------------------|------------------------|
| Combination Tax &<br>Revenue Certificates of<br>Obligation Series #1990 | \$ 70,000              | \$ -        | \$ 5,000         | \$ 65,000              |
| Combination Tax &<br>Revenue Certificates of<br>Obligation Series #1993 | 495,000                | -           | 6,000            | 489,000                |
|   | <u>\$ 565,000</u>      | <u>\$ -</u> | <u>\$ 11,000</u> | <u>\$ 554,000</u>      |

The annual requirements to amortize the certificates of obligation outstanding at September 30, 2002, including interest payments of \$140,486 for the next five years follows:

| Year Ended<br>September 30, | FmHA             |                   |                    |
|-----------------------------|------------------|-------------------|--------------------|
|                             | Series #1990     | Series #1993      | Total              |
| 2002                        | 9,650            | 32,061            | 41,711             |
| 2003                        | 9,283            | 31,702            | 40,985             |
| 2004                        | 8,915            | 31,344            | 40,259             |
| 2005                        | 13,357           | 31,985            | 45,342             |
| 2006                        | 12,612           | 31,575            | 44,187             |
| Thereafter                  | <u>33,366</u>    | <u>811,827</u>    | <u>845,193</u>     |
| Totals                      | <u>\$ 87,183</u> | <u>\$ 970,494</u> | <u>\$1,057,677</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, 2002 at par.

City of Cottonwood Shores  
Notes to the Financial Statements  
For the Year Ended September 30, 2002

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 Utility Fund (Water, Sewer and Garbage) 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.

**NOTE 8. LEASE PURCHASE OBLIGATION**

On September 1, 1999, the City entered into a lease - purchase agreement to acquire land and a building to serve as a City Hall. The term of the lease is seven (7) years with the option to purchase the property at the end of the term. The lease calls for monthly installments of \$785.13, with a balloon payment in the eighty-fourth (84<sup>th</sup>) month of \$99,075. The effective rate of interest is 8% per annum.

The annual payments under the terms of the lease - purchase agreement, for the next five years are as follows:

| Year Ended<br>September 30, | Principal         | Interest         | Total             |
|-----------------------------|-------------------|------------------|-------------------|
| 2002                        | \$1,135           | \$ 8,286         | \$ 9,421          |
| 2002                        | 1,300             | 8,191            | 9,421             |
| 2003                        | 1,332             | 8,089            | 9,421             |
| 2004                        | 100,323           | 5,975            | 106,298           |
| 2005                        |                   |                  |                   |
| Thereafter                  | <u>\$ 104,090</u> | <u>\$ 30,541</u> | <u>\$ 134,561</u> |

**NOTE 9. NOTE PAYABLE**

On April 11, 2000, the City executed a note payable to the Marble Falls National Bank for \$11,500 to purchase a maintainer. That note is payable in eighteen (18) cash payments of \$679.42, including interest at 7.75%. The balance at September 30, 2002, was \$-0-.

**NOTE 10. STATEMENT OF CASH FLOWS**

The City has adopted the indirect method of reporting cash flows for its proprietary fund activity. For purpose of reporting cash flow, all highly liquid investments (excluding restricted assets) with a maturity date of three (3) months or less are considered to be cash equivalents.

City of Cottonwood Shores  
Notes to the Financial Statements  
For the Year Ended September 30, 2002

NOTE 11. COMMITMENTS AND CONTINGENCIES

The City entered into a standard water sale contract for municipal uses with the Lower Colorado River Authority in January 1991 for a term of 25 years (through December 2015).

The City entered into a solid waste collection and disposal contract with Browning-Ferris Industries. The initial term of this contract was May 1, 1994, through April 30, 1997, with an automatic extension of the contract annually for three (3) additional years.

The City entered into a Wastewater Treatment Disposal contract in the Lake LBJ Municipal Utility District, effective November 10, 1993, for a term of forty (40) years and may be mutually extended by agreement of the parties. The City annexed additional development real estate which will create additional capacity for wastewater treatment in the future. Under the terms of the wastewater disposal contract, the City will be required to pay the Lake LBJ Municipal Utility District \$25,000 in March of 2002 and \$17,000 in March of 2003, for the increase in wastewater treatment.

NOTE 12. DEFICIT FUND BALANCES

The City had the following deficit fund balances at September 30, 2002:

|   |             |
|---|-------------|
| General Fund                                | \$(233,559) |
| Utility Fund - Unreserved Retained Earnings | (80,082)    |

BURL D. LOWERY, C.P.A.  
JOYCE CORNELIUS, C.P.A.

**BURL D. LOWERY**  
**CERTIFIED PUBLIC ACCOUNTANT**  
Member A.I.C.P.A. & T.S.C.P.A.  
Post Office Box 626  
311 Center  
Brownwood, Texas 76804

Telephone 915-646-8838  
Fax 915-643-2157

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

Honorable Mayor and City Council  
City of Cottonwood Shores

I have audited the financial statements of the City of Cottonwood Shores Texas, for the year ended September 30, 2002, and have issued my report thereon dated May 23, 2003. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Cottonwood Shores' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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. I noted no matters involving the internal control over financial reporting that I consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

  
Burl D. Lowery  
Certified Public Accountant  
May 23, 2003

City of Cottonwood Shores  
Schedule of Expenditures  
TDHCA Block Grant  
From Inception to September 30, 2002

TDHCA Contract Number: 719201  
Project Beginning Date: August 27, 1999

|                        | Grant<br>Funds | Local<br>Match | Total     |
|------------------------|----------------|----------------|-----------|
| Water Facilities       | \$215,494      |                | \$215,494 |
| Engineering            | \$30,900       |                | \$30,900  |
| Administrative         | \$3,606        | \$25,000       | \$28,606  |
| Total Expended to Date | \$250,000      | \$25,000       | \$275,000 |

The accompanying notes are an integral part of these statements.



REGULAR MEETING OF THE CITY COUNCIL  
OF THE CITY OF COTTONWOOD SHORES, TEXAS  
4111 COTTONWOOD DRIVE – CIVIC CENTER  
THURSDAY, JUNE 19, 2003 AT 7:00 P.M.

**AGENDA**

1. CALL TO ORDER AND ROLL CALL.
2. CONSENT AGENDA:
  - A. MINUTES OF A REGULAR MEETING ON APRIL 17, 2003.
  - B. FINANCIAL STATEMENTS FOR THE MONTH OF MAY 2003.
3. QUARTERLY PRESENTATION BY MR. GEORGE BIRD WITH PEDERNALES ELECTRIC COOPERATIVE.
4. CONSIDER AND POSSIBLY TAKE ACTION ON APPOINTING A MAYOR PRO-TEM FOR THE CITY OF COTTONWOOD SHORES, TEXAS.
5. CONSIDER AND POSSIBLY TAKE ACTION ON APPROVING THE ANNUAL FINANCIAL STATEMENT FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2002 AS PRESENTED BY MR. BURL LOWREY, C.P.A.
6. CONSIDER AND POSSIBLY TAKE ACTION ON PRESENTATION FROM GRANT DEVELOPMENT SERVICES, THE PROJECT ADMINISTRATOR ON AWARD OF NEW C.D.B.G. GRANT IN THE AMOUNT OF \$250,000 FROM O.R.C.A. FOR WATER SYSTEM IMPROVEMENTS.
7. CONSIDER AND POSSIBLY TAKE ACTION ON PRESENTATION FROM THE PROCURED PROJECT ENGINEER, STEVE D. KALLMAN, ON THE TIME FRAME FOR IMPLEMENTING THE NEW C.D.B.G. GRANT FROM O.C.R.A. FOR WATER SYSTEM IMPROVEMENTS.
8. CONSIDER AND POSSIBLY TAKE ACTION ON PRESENTATION FROM THE PROCURED PROJECT ENGINEER, STEVE D. KALLMAN, REGARDING LETTER OF AGREEMENT FOR PROFESSIONAL SERVICES IN CONNECTION WITH THE NEW C.D.B.G. GRANT FROM O.C.R.A. FOR WATER SYSTEM IMPROVEMENTS.
9. CONSIDER AND POSSIBLY TAKE ACTION ON A AMENDING ODINANCE NO. 041201-A, AN ORDINANCE OF THE CITY OF COTTONWOOD SHORES, TEXAS, PROVIDING REGULATIONS AND REQUIREMENTS FOR WATER, WASTEWATER AND SOLID WASTE SERVICES TO ALLOW CITIZENS WHO HAVE A PRIVATE WELL TO HAVE THEIR "WINTER AVERAGE" REDUCED FROM THE CURRENT 5,000 GALLONS.
10. CONSIDER AND POSSIBLY TAKE ACTION ON THE EMPLOYMENT OF MR. NATHAN F. CANTRELL AS WATER/WASTEWATER SUPERVISOR FOR THE CITY OF COTTONWOOD SHORES.
11. CONSIDER AND POSSIBLY TAKE ACTION ON SELECTING AN OFFICIAL NEWSPAPER FOR THE CITY OF COTTONWOOD SHORES.
12. MONTHLY ACTIVITY REPORTS:
  - A. POLICE DEPARTMENT:
    - (1) ACTIVITY LOG.
  - B. PUBLIC WORKS:
    - (1) WATER & SEWER SYSTEM PERFORMANCE & USAGE.
    - (2) ANIMAL CONTROL.
  - C. CIVIC PRIDE:
    - (1) UPCOMING MEETING DATES.
    - (2) FUTURE PROJECTS.
  - D. VOLUNTEER FIRE DEPARTMENT.
13. CITIZEN COMMENTS.
14. ADJOURNMENT.

I CERTIFY THAT THE ABOVE NOTICE WAS POSTED AT CITY HALL, 3808 COTTONWOOD DRIVE, COTTONWOOD SHORES, TEXAS ON THIS 16<sup>TH</sup> DAY OF JUNE, 2003 AT 5:00 P.M.

ATTETST:

  
TENNA COLLIER, CITY SECRETARY



  
DALE PICKENS, MAYOR