



City of Cottonwood Shores

3915 Cottonwood Drive
Marble Falls, Texas 78654
Tel: 512/693-3830

SPECIAL MEETING

October 8, 1993

6:00 p.m.

The meeting was called to order by Mayor Kathy Griffith at the City Hall located at 3915 Cottonwood Drive, Cottonwood Shores, Texas. All members of the City Council were present and confirmed by roll call, except for Councilor Patti Maugham.

The Mayor stated the meeting was being held to discuss the proposed tax increase for the fiscal year 1993-94 and take possible action.

Stan Hemphill, Chief Appraiser for Burnet County Appraisal District, was present. He explained that there had been several ads in the paper showing last year's effective rate at .222 percent. That rate would generate the same amount of levee that was generated in the prior year. This year is the first year that the City is going to have a debt rate on their certificates of obligation out of the property taxes. The Mayor stated that this was actually the debt against the water system. The debt rate has always been there, it just has never been shown on the budget as we are showing it this year. It is the debt against the purchase of the water system.

Councilor Wilson asked to see the contract on the water system purchase. He also wanted to know why the debt service has never been shown before. The Mayor said that he could not look at it tonight. She said that this was a meeting to discuss and vote on the tax increase. She was giving Stan Hemphill a chance to explain the tax increase to the people. We have had hearings on this. Councilor Wilson said, what you are telling me is that you are not going to accept questions on this. The Mayor said why didn't you ask the question at the hearings. He said he did not have this information at that time. He stated that if he was not allowed to ask questions and other people were not allowed to ask questions over information they have come up with, then I feel that it's a closed meeting. When you do that it is an illegal meeting. The Mayor said it is not because it is not anywhere on the agenda for open discussion. Councilor Wilson said it is not an open discussion. He happens to be a voter on this commission and he is not satisfied with what he is reading. He said he could see a number of discrepancies and wanted to get it straightened out before he voted. He said he could either get up and go home or we can answer some questions. The Mayor said she would let the rest of the Council members decide this. Councilor Smyrl said what difference would it make who we borrowed the money from. Councilor Wilson said he would like to see the contract. He said he would like to know if the water department has been supporting these payments up until now and has the revenue from the water been supporting the payments on the indebtedness against the water. The Mayor said no. Councilor Wilson said who has been supporting it. The Mayor said we've been having to draw from this account to pay this one. As you well know, the budget last year was way over. At this point the Mayor asked the City Secretary to get the contract so Councilor Wilson could review it. The Mayor then read the portion of the contract that pertained to the method of obligation of payment on the certificates of obligation for the water system.

Councilor Wilson then pointed out that there was a discrepancy in the amount of taxable income for the City. The amount for last year was \$27,184.00 and this year it is \$26,474.00.

Minutes October 8, 1993 Cont'd:

Stan Hemphill was then allowed to continue to explain the tax for the debt rate. The rate is .0733 per \$100.00 valuation. The Maintenance & Operation rate is .2397. The total of the two together is .31 for the total amount for the property tax rate. This is total amount the City can raise it's taxes without a rollback petition. If there was an election, it could limit a certain amount of increase on the Maintenance & Operation only. Truth in taxation, allows any entity to adopt a rate it needs to adopt to meet it's debt obligations.

Sandra Compton asked if this meets the four tests required by the state. She stated that number two and three were met, but number one and number four were not. Stan Hemphill reviewed the four tests and he said that the City has met the all of the requirements.

There were some comments about the water system from Councilor Smyrl and Wilson.

Leon Upshaw addressed the Councilmen about the purchasing of the water system. He said they were not on the Council at the time of the purchase of the water system and they do not understand what took place. They did not study the proposal and knew nothing about it. It was a good deal. The City needed it, and they still need it. We simply need to raise taxes which the City needed to do a long time ago.

Councilor Smyrl made a motion to adopt the tax increase. Councilor Wilson seconded the motion. All - Ayes, 0 - Noes. Motion carried with it the adoption of the tax rate of .31 per \$100.00 valuation.

The Mayor read the caption of Ordinance No. 100893, levying taxes for fiscal year 1993-94. Councilor Smyrl made a motion to adopt the Ordinance. Councilor Wilson seconded the motion. All - ayes, 0 - Noes. Motion carried with it the adoption of the Ordinance.

Councilor Smyrl made a motion to adjourn.

The meeting adjourned at 6:22 p.m..

Respectfully,


Shirley Pitts, City Secretary


Kathy Griffith, Mayor





City of Cottonwood Shores

3915 Cottonwood Drive
Marble Falls, Texas 78654
Tel: 512/693-3830

SPECIAL MEETING
OF THE CITY COUNCIL
October 8, 1993

6:00 P.M.

SUPPLEMENT AGENDA

1. Discussion and possible action on Ordinance No.100893, approving a tax increase for the fiscal year beginning October 1, 1993 and ending September 30, 1994.

I certify that the above notice was posted on the bulletin board located at 3915 Cottonwood Drive, Cottonwood Shores, Texas this 7th day of October, 1993.

Respectfully,

Shirley Pitts
City Secretary/Clerk



City of Cottonwood Shores

3915 Cottonwood Drive
Marble Falls, Texas 78654
Tel: 512/693-3830

SPECIAL MEETING OF THE CITY COUNCIL

October 8, 1993

6:00 P.M.

CITY HALL

3915 Cottonwood Drive
Cottonwood Shores, Texas

AGENDA

1. Discussion and possible action on tax increase for the 1993-94 fiscal year.

I certify that the above notice was posted on the bulletin board located at 3915 Cottonwood Drive, Cottonwood Shores, Texas this 5th day of October, 1993.

Respectfully,

A handwritten signature in cursive script that reads 'Shirley Pitts'.

Shirley Pitts
City Secretary/Clerk

**CITY OF COTTONWOOD SHORES
GENERAL PURPOSE FINANCIAL STATEMENTS
SEPTEMBER 30, 1993**

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MEMBERS:

Texas Society of
Certified Public Accountants

American Institute of
Certified Public Accountants

Benton, Baker & Lewis, P. C.

*Certified Public Accountants
Offices in Burnet and Marble Falls*

212 East Jackson
Burnet, Texas 78611
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705 First Street, Suite # 208
Marble Falls, Texas 78654
(210) 693-4365

Independent Auditor's Report

Honorable Mayor and Commissioners
City of Cottonwood Shores
Marble Falls, Texas

We have audited the accompanying general purpose financial statements of the City of Cottonwood Shores as of September 30, 1993, and for the year then ended. These financial statements are the responsibility of the City of Cottonwood's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cottonwood Shores at September 30, 1993, and the results of its operations and the cash flows of its proprietary fund type for the year then ended, in conformity with generally accepted accounting principles.

Benton, Baker & Lewis, P.C.

BENTON, BAKER & LEWIS, P. C.
Burnet, Texas

June 20, 1994

CITY OF COTTONWOOD SHORES
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 SEPTEMBER 30, 1993

	<u>Governmental</u> <u>Fund Type</u> <u>General Fund</u>
ASSETS	
Cash in Bank	\$ 5,504
Money Market Account	26,288
Receivable:	
Taxes	5,269
Customers	
Other	
Due from Other Funds	9,818
Restricted Assets:	
Cash in Bank-Interest & Sinking Fund	
Property, Plant & Equipment	
Accumulated Depreciation	
General Fixed Assets	-----
TOTAL ASSETS	\$ 46,879 =====
 LIABILITIES AND FUND EQUITY	
<u>Liabilities</u>	
Accounts Payable	\$ 941
Payable from Restricted Assets:	
Accrued Interest on Certificate of Obligation	
Current Portion of Certificates of Obligation	
Deferred Revenues-Property Taxes	5,270
Due to Other Funds	
Certificates of Obligation	
Total Liabilities	\$ 6,211
 <u>Commitments and contingencies (Note 9)</u>	
<u>Fund Equity</u>	
Invested In General Fixed Assets	\$
Retained Earnings:	
Reserved for Bond Retirement	
Unreserved	
Fund Balance - Unreserved	40,668
Total Fund Equity	\$ 40,668
TOTAL LIABILITIES AND FUND EQUITY	\$ 46,879 =====

The accompanying notes are an integral part of this financial statement.

<u>Proprietary Fund Type</u> Water and Garbage Fund	<u>Account Group</u> General Fixed Assets	<u>Totals</u> (Memorandum Only) September 30,	
		<u>1993</u>	<u>1992</u>
\$	\$	\$ 5,504	\$ 5,776
		26,288	13,178
		5,269	5,577
16,429		16,429	17,080
		-0-	930
		9,818	11,671
2,300		2,300	2,248
120,053		120,053	116,713
(10,546)		(10,546)	(6,173)
	17,299	17,299	13,818
<u>\$128,236</u>	<u>\$ 17,299</u>	<u>\$192,414</u>	<u>\$180,818</u>
=====	=====	=====	=====
\$ 6,206	\$	\$ 7,147	\$ 5,952
487		487	596
1,000		1,000	1,000
		5,270	5,577
9,818		9,818	11,671
97,000		97,000	98,000
<u>\$114,511</u>	<u>\$</u>	<u>\$120,722</u>	<u>\$122,796</u>
\$	\$ 17,299	\$ 17,299	\$ 13,818
2,248		2,248	2,248
11,477		11,477	11,022
		40,668	\$ 30,934
<u>\$ 13,725</u>	<u>\$ 17,299</u>	<u>\$ 71,692</u>	<u>\$ 58,022</u>
<u>\$128,236</u>	<u>\$ 17,299</u>	<u>\$192,414</u>	<u>\$180,818</u>
=====	=====	=====	=====

CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED SEPTEMBER 30, 1993

	General Fund
<u>Revenues</u>	
Ad Valorem Taxes	\$ 27,917
Penalty, Interest and Fees	2,274
Franchise Tax	5,709
Mixed Beverage Tax	2,415
Permits and Inspection Fees	1,218
Interest on Investments	967
Maintenance and POA Fees	20,055
Miscellaneous	790
Total Revenue	\$ 61,345
<u>Expenditures</u>	
City Administration Department:	
Salaries and Labor	\$ 8,237
Payroll Tax	713
Advertising	304
Accounting and Auditing	565
Attorney Fees	198
Telephone and Utilities	736
Office Expense	343
Dues	766
Travel and Seminars	1,247
Insurance and Bonds	1,447
Election Costs	558
Engineering and Grant Service	6,820
Appraisal District Fees	2,936
Miscellaneous	707
Capital Outlay:	
Office Furniture and Equipment	3,481
Total City Administration	\$ 29,058
Public Service Department:	
Salaries and Labor	\$ 7,021
Payroll Taxes	602
Advertising	252
Accounting and Auditing	380
Attorney Fees	113
Telephone Utilities	2,800
Office Expense	917
Total Public Service	\$12,085

The accompanying notes are an integral part of this financial statement.

Other Departments:	
Volunteer Fire Department	\$ 3,000
Streets and Drainage	1,653
Municipal Court	-0-
Building and Zoning	560
Maintenance & Capital Improvements	2,764
Animal Control	509
Miscellaneous	<u>1,982</u>
Total Other Departments	<u>\$ 10,468</u>
Total Expenditures	<u>\$ 51,611</u>
Excess of Revenues over Expenditures	\$ 9,734
Fund Balance - October 1, 1992	<u>30,934</u>
Fund Balance - September 30, 1993	<u>\$ 40,668</u> =====

The accompanying notes are an integral part of this financial statement.

CITY OF COTTONWOOD SHORES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
<u>Revenues</u>			
Ad Valorem Tax	\$ 26,054	\$ 27,917	\$ 1,863
Penalty, Interest and Fees	1,000	2,274	1,274
Franchise Tax	6,500	5,709	(791)
Mixed Beverage Tax	2,500	2,415	(85)
Permits and Inspection Fees	1,200	1,218	18
Interest on Investments	1,200	967	(233)
Maintenance and POA Fees	18,600	20,055	1,455
Miscellaneous	399	790	391
Total Revenues	\$ 57,453	\$ 61,345	\$ 3,892
<u>Expenditures</u>			
City Administration Department:			
Salaries and Labor	\$ 7,791	\$ 8,237	\$ 446
Payroll Taxes	705	713	8
Advertising	88	304	216
Accounting and Auditing	525	565	40
Attorney Fees	105	198	93
Telephone and Utilities	585	736	151
Maintenance and Repairs	35	-	(35)
Office Expense	700	343	(357)
Dues	275	766	491
Travel and Seminars	1,750	1,247	(503)
Insurance and Bonds	1,480	1,447	(33)
Election Costs	750	558	(192)
Engineering and Grant Service	6,500	6,820	320
Appraisal District Fees	1,150	2,936	1,786
Miscellaneous	535	707	172
Capital Outlay:			
Office Furniture and Equipment	3,500	3,481	(19)
Total City Administration	\$ 26,474	\$ 29,058	\$ 2,584
Public Service Department:			
Salaries and Labor	\$ 10,653	\$ 7,021	\$ (3,632)
Payroll Tax	810	602	(208)
Advertising	50	252	202
Accounting and Auditing	300	380	80
Attorney Fees	60	113	53
Telephone and Utilities	3,009	2,800	(209)
Office Expense	1,160	917	(243)
Total Public Service	\$ 16,042	\$ 12,085	\$ (3,957)

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Other Departments:			
Volunteer Fire Department	\$ 3,000	\$ 3,000	\$ -0-
Streets and Drainage	4,500	1,653	(2,847)
Animal Control	800	509	(291)
Municipal Court	700	-0-	(700)
Building and Zoning	1,000	560	(440)
Maintenance and Capital Improvements	4,370	2,764	(1,606)
Miscellaneous	720	1,982	1,262
Total Other Departments	<u>\$ 15,090</u>	<u>\$ 10,468</u>	<u>\$ (4,622)</u>
 Total Expenditures	 <u>\$ 57,606</u>	 <u>\$ 51,611</u>	 <u>\$ (5,995)</u>
 Excess of Revenues over Expenditures	 \$ (153)	 \$ 9,734	 \$ 9,887
 Fund Balance - October 1, 1992	 <u>30,934</u>	 <u>30,934</u>	 <u>-0-</u>
 Fund Balance - September 30, 1993	 \$ 30,781 =====	 \$ 40,668 =====	 \$ 9,887 =====

The accompanying notes are an integral part of this financial statement.

**CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS - WATER AND GARBAGE FUND
 YEAR ENDED SEPTEMBER 30, 1993**

Revenues

Water Sales	\$ 89,761
Garbage Collection Fees	41,225
Connection Fees and Other	11
Interest on Investments	83
Total Revenues	\$ 131,080

Expenses

Water Department:	
Salaries and Labor	\$ 32,337
Payroll Tax	2,751
Advertising	379
Accounting and Auditing	570
Attorney Fees	170
Telephone and Utilities	8,316
Office Expense	1,484
Insurance	3,119
Travel and Fuel	2,122
Postage	290
Water Purchases	14,541
Chemicals	2,678
Repairs and Maintenance	8,590
Fees and Licenses	520
Depreciation	4,373
Interest	7,009
Miscellaneous	997
Total Water Department	\$ 90,246

Garbage Department:	
Salaries and Labor	\$ 3,532
Payroll Tax	305
Advertising	189
Accounting and Auditing	285
Attorney Fees	85
Telephone and Utilities	315
Office Expense	597
Postage	58
Contract Services	32,553
Sales Tax	2,361
Miscellaneous	99
Total Garbage Department	\$ 40,379
Total Expenses	\$ 130,625

Excess of Revenues over (under) Expenditures	\$ 455
Retained Earnings, October 1, 1992	13,270
Retained Earnings, September 30, 1993	\$ 13,725
	=====

The accompanying notes are an integral part of this financial statement.

**CITY OF COTTONWOOD SHORES
 COMBINED STATEMENT OF CASH FLOWS-
 WATER AND GARBAGE FUND
 YEAR ENDED SEPTEMBER 30, 1993**

Cash Flows from Operations Activities

Net Income (Loss)		\$	<u>455</u>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation		\$	4,373
Decrease in Accounts Receivable			651
Increase in Restricted Assets			(52)
Increase in Accounts Payable and Accrued Payroll Taxes			875
Decrease in Due to Other Funds			(1,853)
Decrease in Accrued Interest Payable			(109)
Total Adjustments		\$	<u>3,885</u>
Net Cash Provided by Operating Activities		\$	<u>4,340</u>

Cash Flows from Investing Activities

Purchase of Fixed Assets		\$	<u>(3,340)</u>
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Cash Flows from financing Activities

Principal Payment - Certificate of Obligation		\$	<u>(1,000)</u>
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Net Decrease in Cash		\$	-0-
Cash Balance - October 1, 1992			<u>-0-</u>
Cash Balance - September 30, 1993		\$	-0- =====

The accompanying notes are an integral part of this financial statement.

**CITY OF COTTONWOOD SHORES
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1993**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The City of Cottonwood Shores was incorporated August 8, 1987, as a general "Class C" city. The city operated under a Mayor-Council form of government.

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 is 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 Funds

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

Proprietary Fund

Enterprise Fund - The Water and Garbage Fund 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.

- 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.
- D. Taxes Receivable - Property taxes are recorded as revenue when collected and the amount of billed but uncollected taxes are deferred pending collection.
- 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 assets. The estimated useful lives are as follows:

Water Plant	25 years
Buildings and Improvements	25 years
Equipment	10 years

Maintenance and repairs are charged to operations as incurred and improvements which extend 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, 1993, 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 the 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 one year or less (does not include restricted assets).
- K. Interfund Charges - The City allocates a percentage of general administrative expenditures to the various accounts group, governmental funds 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 City's deposits are classified as category 1.

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 1992 the assessed valuation was \$12,523,515 and a tax rate of \$.22 per \$100 valuation.

NOTE 4. RESTRICTED ASSETS

Restricted assets represent cash that has been set aside in the Water and Garbage Fund for future payment of certificates of obligation and for the purchase and improvements to the water system.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

A summary of fixed assets in the Water and Garbage Fund follows:

	<u>Balance 10/1/92</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/93</u>
Land	\$ 10,500	\$ -	\$ -	\$ 10,500
Water Plant	95,894	3,340	-	99,234
Building & Improvements	8,805	-	-	8,805
Office Furniture & Equipment	<u>1,514</u>	<u>-</u>	<u>-</u>	<u>1,514</u>
Total Fixed Assets	<u>\$116,713</u>	<u>\$ 3,340</u>	<u>\$ -</u>	<u>\$120,053</u>
Less: Reserve for Depreciation				<u>10,546</u>
Net Fixed Assets				<u>\$109,507</u> =====

NOTE 6. GENERAL FIXED ASSETS

A Summary of changes in general fixed assets follows:

	<u>Balance 10/1/92</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/93</u>
Buildings & Improvements	\$ 11,275	\$ -	\$ -	\$ 11,275
Office Furniture & Equipment	<u>2,543</u>	<u>3,481</u>	<u>-</u>	<u>6,024</u>
Total	<u>\$ 13,818</u> =====	<u>\$ 3,481</u> =====	<u>\$ -</u> =====	<u>\$ 17,299</u> =====

NOTE 7. CERTIFICATES OF OBLIGATION

A summary of changes in revenue bonds payable follows:

	<u>Outstanding 10/1/92</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 9/30/93</u>
Combination Tax & Revenue Certificates of Obligation Series #1990	<u>\$ 99,000</u> =====	<u>\$ -</u> =====	<u>\$ 1,000</u> =====	<u>\$ 98,000</u> =====

The annual requirements to amortize the certificates of obligation outstanding at September 30, 1993 for the next five years follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1994	\$ 1,000	\$ 7,058	\$ 8,058
1995	1,000	6,997	7,997
1996	4,000	6,837	10,837
1997	4,000	6,576	10,576
1998	4,000	6,309	10,309
Thereafter	<u>84,000</u>	<u>44,324</u>	<u>128,324</u>
Totals	\$ 98,000 =====	\$ 78,101 =====	\$176,101 =====

The certificates of obligation are payable on March 1 and September 1 (interest only) at interest rates which range from 5.65% to 7.5%. The City has the option to redeem the certificates on or after March 1, 2001, atpar. Since the City anticipates that the Water and Garbage Fund will provide the annual debt service on these certificates of obligation, they are considered to be liabilities of the Water 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 Water 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 Water Fund, they are backed by the full faith and credit of the City and are a contingent liability to the general government.

NOTE 8. CASH FLOWS STATEMENT - SUPPLEMENTAL DISCLOSURE

Since the City is tax exempt, no income tax has been paid. The City paid interest in the amount of \$7,118 in 1993 on their outstanding debt.

NOTE 9. 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 October 1, 1991, through September 30, 1992, with an automatic extension of the contract annually for two additional years.

The City has incurred engineering and bond attorney fees for a proposed wastewater project in excess of \$80,000. If approved, the project would be funded through the Farmers Home Administration and would include the engineering and bond attorney fees already incurred. If the project is not approved, the fees would have to be paid by the City and are in excess of City funds available. The City would have to obtain financing from another source to cover these outstanding debts.

AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS
AND INTERNAL ACCOUNTING CONTROL

MEMBERS:

Texas Society of
Certified Public Accountants

American Institute of
Certified Public Accountants

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**REPORT ON INTERNAL CONTROL STRUCTURE IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and Commissioners
City of Cottonwood Shores
Marble Falls, Texas 78654

We have audited the general purpose financial statements of the City of Cottonwood Shores, Texas, as of and for the year ended September 30, 1993, and have issued our report thereon dated June 20, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of the City of Cottonwood Shores, Texas for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the City of Cottonwood Shores, Texas is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by administrators are required to assess the expected benefits and related costs of control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedure may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Financial statement captions:

- .Cash and Investments
- .Receivables/Revenues
- .Property, equipment and capital expenditures
- .Payables/Expenditures
- .Payroll and Related Liabilities

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operations that we have reported to the management of the City of Cottonwood Shores, Texas in a separate letter dated June 20, 1994.

This report is intended for the information of management of the City of Cottonwood Shores, Texas, and appropriate state and federal agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Benton, Baker & Lewis, P. C.
BENTON, BAKER & LEWIS, P. C.
Burnet, Texas

June 20, 1994

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
BASED ON AN AUDIT OF GENERAL PURPOSE OR BASIC
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and
Commissioners
City of Cottonwood Shores
Marble Falls, Texas 78654

We have audited the general purpose financial statement of the City of Cottonwood Shores, Texas, as of and for the year ended September 30, 1993, and have issued our report thereon dated June 20, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Cottonwood Shores, Texas, is the responsibility of the City of Cottonwood Shores, Texas' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Cottonwood, Texas' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express an opinion.

The results of our tests indicate that, with respect to the items tested, the City of Cottonwood Shores, Texas, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Cottonwood Shores, Texas, had not complied, in all material respects, with those provisions.

This report is intended for the information of management of the City of Cottonwood Shores, Texas. However, this report is a matter of public record and its distribution is not limited.

Benton, Baker & Lewis, P.C.

BENTON, BAKER & LEWIS, P. C.
Burnet, Texas

June 20, 1994

**CITY OF COTTONWOOD SHORES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1993**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
General Fund	None	-0-
Water & Garbage Fund	None	-0-