

CITY OF COTTONWOOD SHORES, TEXAS

**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

September 30, 2009

**CITY OF COTTONWOOD SHORES, TEXAS
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ALTON D. THIELE, P. C.

Certified Public Accountant
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P.O. Box 808
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Cottonwood Shores, Texas, (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

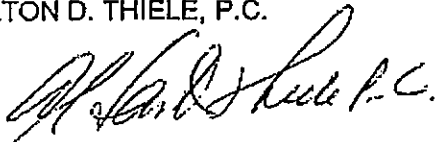
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood Shores, Texas, as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2012, on our consideration of the City of Cottonwood Shores, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The

purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Statement of Revenues, Expenditures, and Changes in Net Assets- Budget to Actual- General Fund, as presented on pages 3 through 9 and page 31, respectively are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ALTON D. THIELE, P.C.



Belton, TX
February 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As Mayor of the City of Cottonwood Shores, Texas (the City), I offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the Independent Auditors' Report, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's governmental net assets increased by \$24,872 or 3.7%, the net result of a \$(156,052) loss from operations, off-set by interfund transfers from the water and sewer fund of \$180,924.
- The City's business-type activities net assets decreased by \$5,767 or 0.03%, the net result of a \$47,878 gain from operations, grant receipts of \$127,279, off-set by \$(180,924), in transfers to the City's governmental funds referred to above.
- Total revenues from all sources were \$1,095,892, an increase of \$122,548 or 12.6% from the prior year. This was primarily due to increased property tax revenue and charges for services.
- During the year, the City's cost of all programs was \$1,204,066 which represents an increase of \$163,013 or 15.7% from the prior year. This was primarily due to an increase in public safety and public works personnel expense. This increase in costs off-set the revenue increase, referred to above, resulting in a reduction in net assets of \$(108,174) from operations.
- As of September 30, 2009, the General Fund reported an ending balance of \$23,831, of which (\$6,342) is unreserved and \$30,173 is reserved for debt service.(See page 12)

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets (on page 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

**Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009**

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These statements are presented using the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non financial factors as well, such as changes in property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities.

Governmental activities – Most of the City's basic services are reported here, including police, and general government. Property taxes, sales taxes, franchise and court fees finance most of these activities.

Business-type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer system activity are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds- governmental and proprietary- utilize different accounting approaches.

Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009

Governmental funds -The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions.

Proprietary funds -The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$2,387,260 as of September 30, 2009. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business type activities net assets are \$1,692,921. The analysis focuses on net assets (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009

Table I

NET Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current and other assets	\$ 78,143	\$ 208,528	\$ 295,687	\$ 278,723	\$ 373,830	\$ 487,251
Capital assets	711,848	714,352	2,092,729	1,960,323	2,804,577	2,674,675
Total assets	789,991	922,880	2,388,416	2,239,046	3,178,407	3,161,926
LIABILITIES						
Other liabilities	54,615	162,682	251,495	77,358	306,110	240,040
Long-term liabilities	41,037	90,731	444,000	463,000	485,037	553,731
Total liabilities	95,652	253,413	695,495	540,358	791,147	793,771
NET ASSETS						
Invested in capital assets, net of related debt	670,811	623,621	1,648,729	1,497,323	2,319,540	2,120,944
Restricted	30,173	54,890	103,071	94,104	133,244	148,994
Unrestricted	(6,645)	(9,044)	(58,879)	107,261	(65,524)	98,217
Total net assets	694,339	669,467	1,692,921	1,698,688	2,387,260	2,368,155
Total liabilities and net assets	\$ 789,991	\$ 922,880	\$ 2,388,416	\$ 2,239,046	\$ 3,178,407	\$ 3,161,926

**Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009**

**Table II
CHANGES IN ASSETS**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues						
Charges for services	\$ 82,243	\$ 59,596	\$ 648,400	\$ 591,717	\$ 730,643	\$ 651,313
General Revenues:						
Property tax	270,538	204,904	-	-	270,538	204,904
Sales tax	65,166	65,574	-	-	65,166	65,574
Franchise and other taxes	25,103	21,257	-	-	25,103	21,257
Miscellaneous	-	16,520	-	-	-	16,520
Gain on sale of asset	1,800	500	-	-	1,800	500
Investment earnings	2,616	12,362	26	914	2,642	13,276
Total Revenue	447,466	380,713	648,426	592,631	1,095,892	973,344
Expenses:						
General government	202,886	194,262	-	-	202,886	194,262
Public safety	222,405	98,790	-	-	222,405	98,790
Public works	172,839	125,302	-	-	172,839	125,302
Municipal court	5,388	10,017	-	-	5,388	10,017
Water and sewer	-	-	600,548	612,682	600,548	612,682
Total Expenses	603,518	428,371	600,548	612,682	1,204,066	1,041,053
Increase(decrease) in net assets						
Transfers	(156,052)	(47,658)	47,878	(20,051)	(108,174)	(67,709)
Contributed capital - grants	180,924	78,401	(180,924)	(78,401)	-	-
Increase in net assets	-	-	127,279	-	127,279	-
Net assets-beginning	24,872	30,743	(5,767)	(98,452)	19,105	(67,709)
Prior period adjustment	669,467	692,385	1,698,688	1,808,106	2,368,155	2,500,491
Net assets-ending	-	(53,661)	-	(10,966)	-	(64,627)
Net assets-ending	\$ 694,339	\$ 669,467	\$ 1,692,921	\$ 1,698,688	\$ 2,387,260	\$ 2,368,155

**Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

A large portion of the City's net assets (97 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (5.6 percent) represents resources that are subject to external restrictions on how they may be used.

For the fiscal year 2009, revenues from governmental activities totaled \$447,466. Property taxes and other taxes are the largest components of revenue (80.6 percent).

For fiscal year 2009, expenses for governmental activities totaled \$603,518. The City's two largest funded programs are public safety and general government.

Revenues of the City's business-type activities were \$648,426 for the fiscal year ending September 30, 2009. Expenses for the City's business-type activities were \$600,548. The City's business type activities largest expense is personnel expenses.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$23,831, which is less than last year's total of \$66,147.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the City had invested \$2,804,577 in capital assets, including equipment and land. This amount represents a net increase of \$129,902 due to current year additions, greater than depreciation. This year's major additions included:

Utility System	\$196,680
Public Safety	\$12,500

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements starting on page 25.

Debt

At year-end, the City had \$444,000 in bonds outstanding, versus \$463,000 last year, and the City had \$41,037 in lease purchase obligations outstanding, versus \$88,429 last year. The reduction in debt obligations is due to principal payments made by the City.

More detailed information about the City's long-term liabilities is presented in the Notes to the Financial Statements starting on page 26.

**Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2009**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered population growth and available resources from state revenues and tax revenues when setting the fiscal year budget and tax rate.

The City adopted a General Fund budget of \$428,645 and a Water and Sewer Fund budget of \$721,730 for the fiscal year 2009-2010. These will be primarily funded through property taxes (via a \$0.4999 rate), sales taxes, court fees and water and sewer revenue.

If the City does not incur any unforeseen expenditures or reductions in revenue, it should accomplish the task of providing services in the City within its available resources and not further reduce the current fund balance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's business office, at City of Cottonwood Shores, 3808 Cottonwood Drive, Cottonwood Shores, Texas 78657.

BASIC FINANCIAL STATEMENTS

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF NET ASSETS
September 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 15,724	\$ 80,713	\$ 96,437
Accounts receivable, net of allowance for doubtful accounts	32,025	110,011	142,036
Other current assets	221	1,893	2,114
Capital assets, net	711,848	2,092,729	2,804,577
Restricted assets:			
Cash and investments	30,173	103,071	133,244
Total assets	789,991	2,388,418	3,178,408
<u>Liabilities</u>			
Accounts payable	45,116	177,778	222,894
Accrued expenses	9,499	13,545	23,044
Customer deposits	-	60,172	60,172
Noncurrent liabilities			
Due within one year	41,037	20,000	61,037
Due in more than one year	-	424,000	424,000
Total liabilities	95,652	695,495	791,147
<u>Net Assets</u>			
Invested in capital assets, net of related debt	670,811	1,648,729	2,319,540
Restricted for:			
Debt service	30,173	103,071	133,244
Unrestricted net assets	(6,645)	(58,879)	(65,524)
Total Net Assets	\$ 694,339	\$ 1,692,921	\$ 2,387,260

The accompanying notes are an integral part of the financial statements.

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total
Primary Government:					
Governmental activities:					
General government	\$ 202,886	\$ 71,474	\$ (131,412.00)	\$ -	\$ (131,412.00)
Public safety	222,405	1,090	(221,315)	-	(221,315)
Public works	172,839	1,442	(171,397)	-	(171,397)
Municipal court	5,388	8,237	2,849	-	2,849
Total governmental activities	603,518	82,243	(521,275)	-	(521,275)
Business-Type Activities					
Water and Sewer	600,548	648,400	-	47,852	47,852
Total business-type activities	600,548	648,400	-	47,852	47,852
Total primary government	\$ 1,204,066	\$ 730,643	(521,275)	47,852	(473,423)
General revenues:					
Property taxes			270,538	-	270,538
Sales tax			65,166	-	65,166
Franchise and other taxes			25,103	-	25,103
Sale of property			1,800	-	1,800
Investment earnings			2,616	26	2,642
Transfers			180,924	(180,924)	-
Total general revenues			546,147	(180,898)	365,249
Changes in net assets					
Contributed capital- grants			24,872	(133,046)	(108,174)
			-	127,279	127,279
Net assets - beginning of year			669,467	1,698,688	2,368,155
Net assets - end of year			\$ 694,339	\$ 1,692,921	\$ 2,387,260

The accompanying notes are an integral part of the financial statements.

**CITY OF COTTONWOOD SHORES, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2009**

	General	Total Governmental Funds
<u>ASSETS</u>		
Cash	\$ 15,724	\$ 15,724
Accounts receivable, net	32,025	32,025
Restricted assets:		
Cash	30,173	30,173
Other assets	221	221
	\$ 78,143	\$ 78,143
<u>LIABILITIES AND FUND BALANCES</u>		
Current Liabilities:		
Accounts payable	\$ 32,034	\$ 32,034
Accrued payroll	3,466	3,466
Deferred revenue	18,812	18,812
Total Liabilities	54,312	54,312
Fund Balances:		
Restricted assets	30,173	30,173
Unreserved	(6,342)	(6,342)
Total Fund Balances	23,831	23,831
Total Liabilities and Fund Balances	\$ 78,143	\$ 78,143

The accompanying notes are an integral part of the financial statements.

**CITY OF COTTONWOOD SHORES, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
September 30, 2009**

Total fund balance (deficit) – governmental funds (page 12) \$ 23,831

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$	196,646	
Buildings & Improvements		146,888	
Machinery & Equipment		110,145	
Infrastructure		425,665	
Accumulated depreciation		<u>(167,496)</u>	
Total Capital Assets			711,848

Revenues in the statement of activities that do not provide current financial resources are deferred in the fund. 18,812

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences		(6,033)	
Money held for others		(13,082)	
Long-term debt		<u>(41,037)</u>	
Total Liabilities			<u>(60,152)</u>

Net assets of governmental activities (page 10) \$ 694,339

The accompanying notes are an integral part of the financial statements.

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN GOVERNMENTAL FUNDS
GOVERNMENTAL FUNDS
For the Year Ended
September 30, 2009

	<u>General</u>	<u>Total Governmental Funds</u>
REVENUE		
Property tax	\$ 251,726	\$ 251,726
Sales taxes	65,166	65,166
Franchise and other taxes	25,103	25,103
Charges for services	61,638	61,638
Fines	8,237	8,237
Fees and permits	14,209	14,209
Total Revenue	<u>426,079</u>	<u>426,079</u>
EXPENDITURES		
General government	201,980	201,980
Municipal court	5,388	5,388
Public safety	220,340	220,340
Public works	149,845	149,845
Debt service:		
Principal	47,392	47,392
Interest	4,118	4,118
Capital outlay	24,672	24,672
Total Expenditures	<u>653,735</u>	<u>653,735</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(227,656)</u>	<u>(227,656)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	180,924	180,924
Sale of property	1,800	1,800
Investment income	2,616	2,616
Total Other Financing Sources (Uses)	<u>185,340</u>	<u>185,340</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(42,316)</u>	<u>(42,316)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>66,147</u>	<u>66,147</u>
FUND BALANCE, END OF YEAR	<u>\$ 23,831</u>	<u>\$ 23,831</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF COTTONWOOD SHORES, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended SEPTEMBER 30, 2009**

Net change in fund balances – total governmental funds	\$ (42,316)
Amounts reported for governmental activities in the statement of activities (page 14) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation was (higher) than capital outlays in the current period.	(2,504)
Governmental funds report repayment of debt as expenditures. In contrast, the statement of activities treats such repayments as a reduction of in long-term liabilities.	47,392
Compensated absences are not a current requirement of resources and therefore are not accrued for in the fund.	(2,518)
Net change in deferred property tax in the governmental fund.	24,818
Change in net assets of governmental activities (page 11)	<u>\$ 24,872</u>

The accompanying notes are an integral part of the financial statements.

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2009

	Business-type Activities
<u>Assets</u>	<u>Enterprise Fund</u>
Current assets:	
Cash	\$ 14,955
Cash- restricted	103,071
Investments	65,758
Accounts receivable, net	43,053
Grant receivable	66,958
Other	1,893
Total current assets	295,688
Noncurrent assets:	
Capital assets:	
Land	18,984
Buildings	8,805
Water and sewer system	2,711,098
Machinery and equipment	59,799
Construction in progress	196,680
Accumulated depreciation	(902,637)
Capital assets, net	2,092,729
Total assets	\$ 2,388,417
Liabilities	
Current liabilities:	
Accounts payable	\$ 177,778
Interest payable	10,084
Accrued expenses	3,462
Customer deposits	60,172
Current portion of bonds payable	20,000
Total current liabilities	271,496
Noncurrent liabilities	
Bonds payable	424,000
Total noncurrent liabilities	424,000
Net Assets	
Invested in capital assets, net of related debt	1,648,729
Restricted for debt service	103,071
Unrestricted	(58,879)
Total net assets	1,692,921
Total liabilities and net assets	\$ 2,388,417

The accompanying notes are an integral part of the financial statements.

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS - PROPRIETARY FUND
Year Ended September 30, 2009

	Business-Type Activities
	Enterprise Fund
OPERATING REVENUE	
Charges for services:	
Water	\$ 292,294
Sewer	204,931
Sanitation	129,086
Other	22,089
Total Operating Revenue	648,400
OPERATING EXPENSES	
Salary and wages	127,268
Employee benefits	40,063
Water purchased	38,878
Sewer expenses	118,452
Sanitation expense	114,156
Utility supplies and rentals	17,196
Repairs and maintenance	11,453
Utilities	25,266
Administration	7,068
Fuel	5,323
Insurance	1,438
Depreciation	69,570
Total Operating Expenses	576,131
OPERATING GAIN (LOSS)	72,269
NON-OPERATING REVENUE (EXPENSES)	
Interest income	26
Interest expense	(24,417)
Transfers	(180,924)
Total Non-operating Revenue (Expenses)	(205,315)
NET GAIN (LOSS)	\$ (133,046)
Contributed capital- grants	127,279
Net Assets - beginning of year	1,698,688
Net Assets - end of year	\$ 1,692,921

The accompanying notes are an integral part of the financial statements.

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2009

	Business-Type Activities
	Enterprise Fund
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 654,627
Cash payments to suppliers	(235,857)
Cash payments to employees	(163,870)
Net Cash Provided by Operating Activities	254,900
<u>Cash Flows from Non-Capital Financing Activities</u>	
Transfers	(180,924)
Net cash (used) in non-capital financing activities	(180,924)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Contributed capital	127,279
Acquisition of capital assets	(201,977)
Payments on long-term bonds	(19,000)
Interest paid	(24,417)
Net Cash Provided (Used) by Capital and Related Financing Activities	(118,115)
<u>Cash Flows from Investing Activities</u>	
Interest received	27
Net Cash Provided by Investing Activities	27
Net Increase in Cash and Cash Equivalents	(44,112)
Cash and cash equivalents - beginning of year	227,896
Cash and cash equivalents - end of year	\$ 183,784
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>	
Operating income (loss)	\$ 72,269
Adjustments to reconcile operating loss to net cash provided by Operating Activities:	
Depreciation expense	69,570
(Increase) decrease in accounts receivable	(61,077)
Increase (decrease) in accrued expenses	13,546
Increase (decrease) in accounts payable	160,592
Total adjustments	182,631
Net Cash Provided by Operating Activities	\$ 254,900

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Cottonwood Shores, Texas (the City), is a Texas general law city, which operates under a Council form of government and provides such services as public safety (police and fire), public works, sanitation, recreation and waterworks as are authorized by its code of ordinances and its citizens.

The City Council consists of a Mayor and five Council members, constituting an ongoing entity and is the level of government which has governing responsibilities over all activities related to the City. The City is not included in any other government reporting entity. The Mayor and Council members are elected by the public for two year staggered terms and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include a potential component unit was made set forth in GASB Statement No. 14. The component unit discussed below has been included based on this criteria.

B. FINANCIAL REPORTING MODEL

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. This statement known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis- GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

Government-wide Financial Statements- The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets- The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense- the cost of "using up" capital assets- in the Statement of Activities. The net asset of

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL REPORTING MODEL (Continued)

the government will be broken down in three categories- 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities- The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

C. MEASUREMENT OF FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines and miscellaneous revenues are considered to be measurable and available only when cash is received by the City.

D. FUND ACCOUNTING

The City reports the following major governmental fund:

General Fund-The general fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water and Sewer Fund-The water and sewer fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and collections systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are following in both the government-wide and proprietary fund

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING (Continued)

financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, all general revenues include all taxes.

Proprietary fund distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. ASSETS, LIABILITIES, AND NET ASSETS

a. Deposits and Investments

The City's cash and cash equivalents for purposes of reporting cash flows of the proprietary fund consist of cash on hand and demand deposits, short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

State statutes authorize the City to invest in obligations of the United States or its agencies and instrumentalities and state or local governments, fully insured certificates of deposit, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in obligations of the United States or its agencies and instrumentalities, fully insured certificates of deposit, fully collateralized repurchase agreements by obligations of the United States or its agencies and instrumentalities, money market mutual funds, and local government investment pools.

b. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds."

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND NET ASSETS (Continued)

c. Restricted Assets

Certain resources of the City's enterprise fund are set aside for the repayment of its revenue bonds and are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

d. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and water and sewer facilities are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. The City has elected not to report major general infrastructure assets retroactively as permitted by GASB Statement No. 34 for smaller governments. The City will report newly acquired or constructed general infrastructure assets subsequent to October 1, 2003 in the statement of net assets in the period they acquire or construct those assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-75
Machinery and equipment	5-15
Utility Systems	10-15
Infrastructure	25-50

e. Compensated Absences

The City accrues a liability for compensated absences which meet the following criteria:

- (a) The City's obligation relating to employees' rights to receive compensation for future absences is attributable to the employees' services already rendered.
- (b) The obligation relates to rights that vest or accumulate.
- (c) Payment of the compensation is probable.
- (d) The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by employees in the government-wide and proprietary fund financial statements.

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND NET ASSETS (Continued)

f. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to September of each fiscal year, the City Secretary submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data from the preceding year.

Public hearings are conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. The Council may authorize supplemental appropriations during the year.

The final amended budget is used in this report. Unused appropriations lapse at the end of the year unless carried forward to the next year by Council action. No encumbrances are recognized or recorded. The operating budget includes proposed expenditures for the General Fund. The City adopted the current year budget on a line item basis.

3. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS

As of September 30, 2009, cash deposits were with a depository bank in interest bearing accounts. The carrying amounts of the City's General Funds deposits were \$229,398 and the bank balances were \$248,935, which is insured by the Federal Deposit Insurance Corporation. These assets are valued at cost which approximates market value.

As of September 30, 2009, the City's depository bank for these funds had pledged securities sufficient to cover the amount above FDIC limits.

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

3. DETAILED NOTES ON ALL FUNDS (Continued)

B. RESTRICTED TEMPORARY INVESTMENTS

Governmental Activities Assets Restricted

Temporary investments consist of cash and other highly liquid investments that are dedicated to the following:

Debt Service	<u>\$30,173</u>
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Business Type Activities Assets Restricted

Temporary investments consist of cash and other highly liquid investments that are dedicated to the following:

Debt Service	<u>\$103,071</u>
--------------	------------------

C. PROPERTY TAXES AND RECEIVABLES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The lien date is January 1 of that year and they become delinquent after January 31. The tax levy for October, 2008 (fiscal year ended September 30, 2009) was \$229,992.

The tax assessment of October, 2008 sets a tax levy at \$.4638 per \$100 of assessed valuation at 100 percent of market value. The total rate consisted of \$.2943 for maintenance and operations (M&O) and \$.1695 for interest and sinking (I&S) to service outstanding debt.

Delinquent property taxes estimated to be collected within the next fiscal year are recognized as revenues. Other delinquent property taxes receivable at year end net of those deemed uncollectible are recorded as deferred revenues in the governmental fund balance sheet.

D. SALES TAXES

The City has a Crime Control and Prevention District that is funded by \$.005 of the City's sales tax.

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. CAPITAL ASSETS

Changes in capital assets during the year ended September 30, 2009, were as follows:

	Balance October 1, 2008	Additions	Transfers/ Retirements	Balance September 30, 2009
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 196,646	\$ -	\$ -	\$ 196,646
Capital assets being depreciated:				
Buildings and improvements	146,888	-	-	146,888
Machinery and equipment	94,500	15,645	-	110,145
Infrastructure	416,638	9,027	-	425,665
Total capital assets being depreciated	658,026	24,672	-	682,698
Less accumulated depreciation	(140,320)	(27,176)	-	(167,496)
Total capital assets, being depreciated, net	517,706	(2,504)	-	515,202
Governmental activities capital assets, net	<u>\$ 714,352</u>	<u>\$ (2,504)</u>	<u>\$ -</u>	<u>\$ 711,848</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 18,984	\$ -	\$ -	\$ 18,984
Construction in progress	-	196,680	-	196,680
Total Capital assets not being depreciated	18,984	196,680	-	215,664
Capital assets being depreciated:				
Water & sewer system	2,765,600	5,297	-	2,770,897
Building	8,805	-	-	8,805
Total capital assets, being depreciated	2,774,405	5,297	-	2,779,702
Less accumulated depreciation	(833,066)	(69,570)	-	(902,636)
Total capital assets, being depreciated, net	1,941,339	(64,273)	-	1,877,066
Business-type activities capital assets, net	<u>\$ 1,960,323</u>	<u>\$ 132,407</u>	<u>\$ -</u>	<u>\$ 2,092,730</u>

**CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009**

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 2,117
Public safety	2,065
Public works	<u>22,994</u>
Total depreciation expense - governmental activities	<u>\$ 27,176</u>
Business-type activities:	
Water and sewer	<u>\$ 69,570</u>

D. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2009:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Lease Purchase Obligations	\$ 88,429	\$ -	\$ (47,392)	\$ 41,037
Total Long - Term Liabilities	<u>\$ 88,429</u>	<u>\$ -</u>	<u>\$ (47,392)</u>	<u>\$ 41,037</u>
Business - type activities:				
Certificate of Obligation				
FmHA Series 1993	\$ 443,000	\$ -	\$ (9,000)	\$ 434,000
Certificate of Obligation				
Series 1990	20,000	-	(10,000)	10,000
Total Long - Term Liabilities	<u>\$ 463,000</u>	<u>\$ -</u>	<u>\$ (19,000)</u>	<u>\$ 444,000</u>

**CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009**

3. DETAILED NOTES ON ALL FUNDS (Continued)

F. LONG-TERM DEBT (Continued)

Long-term debt at September 30, 2009 is comprised of the following:

	Governmental Type Activities	Business- Type Activities
Obligation Bonds:		
The City has Certificates of Obligation Series 1990 that are payable on March 1st and September 1st (interest only) at interest rates that range from 5.65% to 7.50%. The City has an option to redeem or retire the certificates on or after March 1, 2002 at par. The certificates will mature March 1, 2010	\$ -	\$ 10,000
The City had Certificates of Obligation, FmHA Series 1993 issued in conjunction with a United States Department of Agriculture FmHA grant of \$1,170,000 for the purpose of constructing a wastewater collections system. The obligations have an annual rate of 5.75% payable semi annually on May 1st and November 1st, with principle installments payable May 1st of each year. The certificates will mature in 2032.	-	434,000
Lease Purchase Obligations:		
On September 1, 1999 the City entered into a lease purchase agreement to acquire land and a building to serve as City Hall. The term of the lease is seven years with an option to purchase the property at the end of the term. The lease calls for nine monthly installments of \$785 and three monthly installments of \$5,785 each year. The effective interest rate is 8% per annum.	15,348	-
The City entered into a lease purchase agreement to acquire equipment. The term of the lease is two years with an option to purchase. The lease calls for quarterly payments of \$6,647. The effective interest rate is 5% per annum.	25,689	-
	\$ 41,037	\$ 444,000

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. LONG-TERM DEBT (Continued)

The annual requirements to amortize business-type activities long term debt outstanding as of September 30, 2009, are as follows:

Year Ended September 30,	Principal	Interest	Total
2010	\$ 20,000	\$ 22,583	\$ 42,583
2011	10,000	21,320	31,320
2012	11,000	20,808	31,808
2013	12,000	20,244	32,244
2014	12,000	19,629	31,629
2015-2019	75,000	87,894	162,894
2020-2024	97,000	66,574	163,574
2025-2029	123,000	38,848	161,848
2030-2032	84,000	7,380	91,380
Total	<u>\$ 444,000</u>	<u>\$ 305,280</u>	<u>\$ 749,280</u>

The annual requirements to amortize the City's lease purchase obligations as of September 30, 2009, are as follows:

Year Ended September 30,	Principal	Interest	Total
2010	\$ 41,037	\$ 1,044	\$ 42,081
Total	<u>\$ 41,037</u>	<u>\$ 1,044</u>	<u>\$ 42,081</u>

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workmen's compensation coverage. The City pays a quarterly contribution to the Pool for its insurance coverage. The agreement for formation of the Pool provides that the Pool will be

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

4. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the last three years.

B. Commitments and Contingencies

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

C. Grant Funded Programs

The City entered into the following grants with the Office of Rural Community Affairs:

<u>Grants</u>	<u>Grant Funds</u>	<u>City Provided Funds</u>	<u>Total</u>
Waste Water System Improvements	\$ 250,000	\$ 25,000	\$ 275,000
Raw Water Intake Improvements	170,633	6,000	176,633
Total	<u>\$ 420,633</u>	<u>\$ 31,000</u>	<u>\$ 451,633</u>

As of the year ending September 30, 2009, the City has received and expended \$127,279 of the above grants. The City has recorded the receipts as additions to net assets and the expenditures to capital assets as construction in progress.

D. Water Purchase Agreement

The City entered into a standard water sale contract for municipal uses with the Lower Colorado River Authority in August 2010 for a term of 40 years through December 2050.

E. Sanitation Services

The City entered into a solid waste collection and disposal contract with IESI TX Corporation. The initial term of the contract was November 1, 2007 through October 31, 2012 with an automatic extension of the contract annually for one additional year.

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2009

4. OTHER INFORMATION (Continued)

F. Wastewater Treatment Services

The City entered into a wastewater treatment disposal contract with the Lake LBJ Municipal Utility District effective November 10, 1993 for a term of 40 years that 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.

G. Future Commitments

In 2007 the City entered into a Utility Commitment Agreement with New Castle Rock Partners, L.P. (the Developer), to provide water and waste water access for a planned condominium development. As of the date of this report, the Developer has not completed the requirements of the agreement and accordingly the City has not extended its utility services to the development area. City management does not consider the potential future costs of providing such utility services to be material and accordingly has not recorded a contingent liability.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COTTONWOOD SHORES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE- BUDGET TO ACTUAL-
GENERAL FUND
For the Year Ended September 30, 2009

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
General property taxes	\$ 236,000	\$ 225,703	\$ 251,726	\$ 26,023
Sales taxes	56,000	61,281	65,166	3,885
Franchise	30,000	24,800	25,103	303
Penalties and interest on taxes	5,000	5,500	5,437	(63)
Fines	24,417	10,771	8,237	(2,534)
Licenses and permits	15,575	15,800	14,209	(1,591)
Interest	16,000	3,130	2,616	(514)
Rents and royalties	14,800	13,950	13,875	(75)
Other revenue	54,330	42,820	44,126	1,306
Transfers	226,613	246,965	180,924	(66,041)
Total Revenue	<u>\$ 678,735</u>	<u>\$ 650,720</u>	<u>\$ 611,419</u>	<u>\$ (39,301)</u>
EXPENDITURES				
General government	\$ 274,501	\$ 311,564	\$ 201,980	\$ 109,584
Municipal court	30,141	30,354	5,388	24,966
Public safety	177,532	187,832	220,340	(32,508)
Public works	174,541	184,751	149,845	34,906
Debt service	53,699	50,071	51,510	(1,439)
Capital outlay	1,000	8,870	24,672	(15,802)
Total Expenditures	<u>\$ 711,414</u>	<u>\$ 773,442</u>	<u>\$ 653,735</u>	<u>\$ 119,707</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(32,679)	(122,722)	(42,316)	80,406
FUND BALANCE - BEGINNING	<u>32,679</u>	<u>122,722</u>	<u>66,147</u>	<u>(56,575)</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,831</u>	<u>\$ 23,831</u>

The accompanying notes are an integral part of the financial statements.

City of Cottonwood Shores, Texas
Note to Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual-
General Fund

For the Year Ended September 30, 2009

1. Budgetary Highlights

The City's original budget was amended during the year ended September 30, 2009.

The City's overall actual revenue (before fund transfers) was \$26,740, or 6.6% more than budgeted. This was primarily generated from increases in property taxes and sales taxes. The City's overall actual expenses were \$119,707, or 15.5% less than budgeted. This is primarily due to a reallocation of personnel expenses (to the Utility Fund) in order to reflect the most accurate allocation within the City's general government expenses. Actual personnel expenses (including the Utility Fund) were \$517,477 in total, compared to a budgeted total of \$503,465 (including Utility Fund personnel expenses).

The accompanying notes are an integral part of the financial statements.

COMPLIANCE AND INTERNAL CONTROL SECTION

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVE. C

P.O. BOX 808

BELTON, TX 76513-0808

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood Shores, Texas (the City) as of and for the year ended September 30, 2009, which collectively comprise of the City's basic financial statements and have issued our report thereon dated February 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, City Council and any federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ALTON D. THIELE, PC
Bellon, Texas
February 24, 2012