

CITY OF COTTONWOOD SHORES, TEXAS

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

September 30, 2010

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

Certified Public Accountant
300 East Avenue C
P.O. Box 808
BELTON, TX 76513-0808

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, 2010, 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.

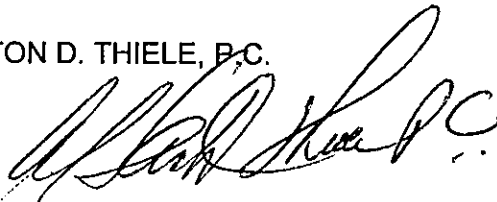
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood Shores, Texas, as of September 30, 2010, 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 June 15, 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
June 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
City of Cottonwood Shores, Texas
September 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Cottonwood Shores' financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the Independent Auditors' Report on page 1, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's net assets of the primary government were \$2,698,825 at September 30, 2010. This increase of \$311,565 over the prior year was attributable to an increase in the City's investment in capital assets.
- The City's governmental net assets increased by \$47,758 or 6.9%, the net result of a \$(115,593) loss from operations, off-set by interfund transfers from the water and sewer fund of \$63,351 and contributed grant capital of \$100,000.
- The City's business-type activities net assets increased by \$263,807 or 15.6%, the net result of a \$46,887 gain from operations, contributed grant capital of \$280,271, off-set by \$(63,351) in transfers to the City's governmental funds referred to above.
- Total revenues from all sources were \$1,465,041, an increase of \$241,870 or 19.8% from the prior year. This was primarily due to the receipt of capital grants.
- During the year, the City's cost of all programs was \$1,153,476 which represents a decrease of \$50,590 or 4.2% from the prior year. This was primarily due to a decrease in Public Safety and Public Works expenses, as well as a decrease in expenses associated with Water and Sewer.
- As of September 30, 2010, the City's governmental funds reported an ending balance of \$(29,416), of which \$(90,219) is unreserved and \$60,803 is reserved for debt service.

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**

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

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**

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 \$2,698,825 as of September 30, 2010. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business type activities net assets are \$1,956,728 and the governmental net assets are \$742,097. Our analysis below focuses on net assets (Table I) and changes in net assets of the City's governmental and business-type activities (Table II).

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

Table I

NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and other assets	\$ 145,660	\$ 78,143	\$ 163,935	\$ 295,687	\$ 309,595	\$ 373,830
Capital assets	960,029	711,848	2,356,292	2,092,729	3,316,321	2,804,577
Total assets	<u>1,105,689</u>	<u>789,991</u>	<u>2,520,228</u>	<u>2,388,416</u>	<u>3,625,916</u>	<u>3,178,407</u>
LIABILITIES						
Other liabilities	179,777	54,615	139,500	251,495	319,277	306,110
Long-term liabilities	183,815	41,037	424,000	444,000	607,815	485,037
Total liabilities	<u>363,592</u>	<u>95,652</u>	<u>563,500</u>	<u>695,495</u>	<u>927,092</u>	<u>791,147</u>
NET ASSETS						
Invested in capital assets, net of related debt	776,214	670,811	1,932,292	1,648,729	2,708,506	2,319,540
Restricted	60,803	30,173	43,490	103,071	104,293	133,244
Unrestricted	(94,920)	(6,645)	(19,054)	(58,879)	(113,974)	(65,524)
Total net assets	<u>742,097</u>	<u>694,339</u>	<u>1,956,728</u>	<u>1,692,921</u>	<u>2,698,825</u>	<u>2,387,260</u>
Total liabilities and net assets	<u>\$ 1,105,689</u>	<u>\$ 789,991</u>	<u>\$ 2,520,228</u>	<u>\$ 2,388,416</u>	<u>\$ 3,625,917</u>	<u>\$ 3,178,407</u>

A large portion of the City's net assets 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 (3.9 percent) represents resources that are subject to external restrictions on how they may be used.

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

Table II

**CHANGES IN
NET ASSETS**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues						
Charges for services	\$ 67,267	\$ 82,243	\$ 632,433	\$ 648,400	\$ 699,700	\$ 730,643
Grants	100,000	-	280,271	127,279	380,271	127,279
General Revenues:						
Property tax	280,377	270,538	-	-	280,377	270,538
Sales tax	72,706	65,166	-	-	72,706	65,166
Franchise and other taxes	31,947	25,103	-	-	31,947	25,103
Other income	40	-	-	-	40	-
Gain on sale of asset	-	1,800	-	-	-	1,800
Investment earnings	-	2,616	-	26	-	2,642
Total Revenue	\$ 552,337	\$ 447,466	\$ 912,704	\$ 775,705	\$ 1,465,041	\$ 1,223,171
Expenses:						
General government	\$ 208,351	\$ 202,886	\$ -	\$ -	\$ 208,351	\$ 202,886
Public safety	195,758	222,405	-	-	195,758	222,405
Public works	163,821	172,839	-	-	163,821	172,839
Municipal court	-	5,388	-	-	-	5,388
Water and sewer	-	-	585,546	600,548	585,546	600,548
Total Expenses	567,930	603,518	585,546	600,548	1,153,476	1,204,066
Increase(decrease) in net assets	(15,593)	(156,052)	327,158	175,157	311,565	19,105
Transfers	63,351	180,924	(63,351)	(180,924)	-	-
Increase in net assets	47,758	24,872	263,807	(5,767)	311,565	19,105
Net assets-beginning	694,339	669,467	1,692,921	1,698,688	2,387,260	2,368,155
Net assets-ending	\$ 742,097	\$ 694,339	\$ 1,956,728	\$ 1,692,921	\$ 2,698,825	\$ 2,387,260

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

For the fiscal year 2010, revenues from governmental activities totaled \$552,337. This increase of \$104,871 came from the \$100,000 grant receipt. All other revenues sources were equivalent to prior year. Property taxes and other taxes are the largest components of revenue (69.7 percent). Expenses for governmental activities totaled \$567,930, a 5.9% reduction from prior year. This reduction came from public safety and public works. The City's two largest funded programs are general government and public safety.

Revenues of the City's business-type activities were \$912,704 for the fiscal year ending September 30, 2010. This increase of \$136,999 came from grant receipts. Revenue from utility services of \$632,433 was down slightly from the previous year (2.5%). Expenses of \$585,546 were also lower than the previous year by (2.5%). The City's business-type activities largest expenses are its cost of water, sewage treatment and solid waste.

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 \$(29,416), the result of expenditures in excess of revenues (as presented in the statement of revenue, expenditures, and changes in governmental funds on page 14).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$3,316,321 in broad range of capital assets, including equipment, buildings, park facilities, roads, and water and sewer lines. This amount represents a net increase of \$511,743 (current year additions less depreciation). This year's major additions included:

- Completion of the waste water system project. Total spent this year was \$213,116.
- Completion of the water plant project. Total spent this year was \$117,163.
- Purchased a motorgrader at a cost of \$183,815.
- Continued work on the park project. Total spent this year was \$63,350.
- Started the road paving project at a cost of \$33,851.

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 \$607,815 in bonds outstanding, versus \$485,037 last year. This \$122,778 increase was the net result of the \$183,815 finance contract issued for the purchase of the motorgrader less the payoff of the lease purchase obligation \$(41,037) and \$(20,000) in debt principal payments.

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**

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 \$498,694 and a Water and Sewer Fund budget of \$680,056 for the fiscal year 2011-2012. These will be primarily funded through property taxes (via a \$0.50000 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.

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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 5,940	\$ 14,959	\$ 20,899
Accounts receivable, net of allowance for doubtful accounts	47,660	44,192	91,852
Other current assets	1,257	1,415	2,672
Deferred charges	30,000	-	30,000
Capital assets, net	960,029	2,356,292	3,316,321
Restricted assets:			-
Cash and investments	60,803	43,490	104,293
Total assets	1,105,689	2,460,348	3,566,037
<u>Liabilities</u>			
Accounts payable	32,453	60,831	93,284
Accrued expenses	87,444	15,636	103,080
Customer deposits	-	63,033	63,033
Due to (from) other funds	59,880	(59,880)	
Noncurrent liabilities			
Due within one year	-	10,000	10,000
Due in more than one year	183,815	414,000	597,815
Total liabilities	363,592	503,620	867,212
<u>Net Assets</u>			
Invested in capital assets, net of related debt	776,214	1,932,292	2,708,506
Restricted for:			
Debt service	60,803	43,490	104,293
Unrestricted net assets	(94,920)	(19,054)	(113,974)
Total Net Assets	\$ 742,097	\$ 1,956,728	\$ 2,698,825

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, 2010

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Primary Government Total</u>
Primary Government:						
Governmental activities:						
General government	\$ 208,351	\$ 61,663	\$ -	\$(146,688)	\$ -	\$ (146,688)
Public safety	195,758	5,604	-	(190,154)	-	(190,154)
Public works	163,821	-	100,000	(63,821)	-	(63,821)
Total governmental activities	567,930	67,267	100,000	(400,663)	-	(400,663)
Business-Type Activities						
Water and Sewer	585,546	632,433	280,271	-	327,158	327,158
Total business-type activities	585,546	632,433	280,271	-	327,158	327,158
Total primary government	\$ 1,153,476	\$ 699,700	\$ 380,271	(400,663)	327,158	(73,505)
General revenues:						
Property taxes				280,377	-	280,377
Sales tax				72,706	-	72,706
Franchise and other taxes				31,947	-	31,947
Other income				40	-	40
Transfers				63,351	(63,351)	-
Total general revenues				448,421	(63,351)	385,070
Changes in net assets				47,758	263,807	311,565
Net assets - beginning of year				694,339	1,692,921	2,387,260
Net assets - end of year				\$ 742,097	\$ 1,956,728	\$ 2,698,825

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

**CITY OF COTTONWOOD SHORES, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010**

	General	Total Governmental Funds
<u>ASSETS</u>		
Cash	\$ 5,940	\$ 5,940
Accounts receivable, net	47,660	47,660
Restricted assets:		
Cash	43,400	43,400
Investments	17,403	17,403
Other current assets	1,257	1,257
	\$ 115,660	\$ 115,660
<u>LIABILITIES AND FUND BALANCES</u>		
Current Liabilities:		
Accounts payable	\$ 32,453	\$ 32,453
Accrued payroll	19,127	19,127
Due to utility fund	59,880	59,880
Deferred revenue	31,367	31,367
Other current liabilities	2,249	2,249
Total Liabilities	145,076	145,076
Fund Balances:		
Restricted assets	60,803	60,803
Unreserved	(90,219)	(90,219)
Total Fund Balances	(29,416)	(29,416)
Total Liabilities and Fund Balances	\$ 115,660	\$ 115,660

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, 2010

Total fund balance (deficit) – governmental funds \$ (29,416)
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 fund. These
assets consist of:

Land	\$ 196,646	
Buildings & Improvements	146,888	
Machinery & Equipment	297,460	
Infrastructure	425,665	
Construction in process	97,201	
Accumulated depreciation	<u>(203,831)</u>	
Total Capital Assets		960,029

Some revenues in the governmental fund are deferred because they are
not collected within the prescribed time period after year end. On the
accrual basis, however, those revenues would be recognized, regardless
of when they are collected. 31,367

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

Compensated absences	(17,218)	
Money held for others	(12,360)	
Deferred interest on equipment financed	(6,490)	
Long-term debt	<u>(183,815)</u>	
Total liabilities		<u>(219,883)</u>

Net assets of governmental activities (page 10) \$ 742,097

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, 2010

	General	Total Governmental Funds
REVENUE		
Property tax	\$ 267,823	\$ 267,823
Sales taxes	72,706	72,706
Franchise and other taxes	31,947	31,947
Fines	5,604	5,604
Charges for services	54,138	54,138
Building permits	7,327	7,327
Total Revenue	439,545	439,545
EXPENDITURES		
General government	193,600	193,600
Public safety	186,752	186,752
Public works	132,178	132,178
Debt service:		
Principal	41,037	41,037
Interest	1,915	1,915
Capital outlay	284,516	284,516
Total Expenditures	839,998	839,998
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(400,453)	(400,453)
OTHER FINANCING SOURCES (USES)		
Proceeds from purchase agreement note	183,815	183,815
Grant receipts	100,000	100,000
Fund transfers	63,351	63,351
Other income	40	40
Total Other Financing Sources (Uses)	347,206	347,206
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(53,247)	(53,247)
FUND BALANCE, BEGINNING OF YEAR	23,831	23,831
FUND BALANCE, END OF YEAR	\$ (29,416)	\$ (29,416)

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, 2010**

Net change in fund balances – total governmental funds		\$ (53,247)
Amounts reported for governmental activities in the statement of activities (page 14) are different because:		
Long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the statement of net assets.		41,037
The issuance of long-term debt (e.g., purchase agreement note) provides current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the statement of net assets.		(183,815)
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the governmental fund. This is the net change in deferred revenue from the previous period.		12,555
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 capital outlays exceeded depreciation in the current period.		248,181
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These are:		
Increase in compensated absences liability	\$ (11,186)	
Increase in noncurrent accrued interest	<u>(5,767)</u>	
Total adjustments	<u>\$ (16,953)</u>	<u>(16,953)</u>
Change in net assets of governmental activities (page 11)		<u>\$ 47,758</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, 2010

		<u>Business-type Activities</u>
<u>Assets</u>		<u>Enterprise Fund</u>
Current assets:		
Cash	\$	-
Cash- restricted		43,490
Investments		14,959
Accounts receivable, net		44,192
Due from general fund		59,880
Other		1,415
Total current assets		<u>163,935</u>
Noncurrent assets:		
Capital assets:		
Land		18,984
Buildings		8,805
Water and sewer system		2,960,292
Machinery and equipment		59,799
Construction in progress		280,825
Accumulated depreciation		(972,413)
Capital assets, net		<u>2,356,292</u>
Total assets	\$	<u>2,520,228</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$	60,831
Interest payable		8,127
Accrued expenses		7,509
Customer deposits		63,033
Current portion of bonds payable		10,000
Total current liabilities		<u>149,500</u>
Noncurrent liabilities		
Bonds payable		<u>414,000</u>
Total noncurrent liabilities		<u>414,000</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt		1,932,292
Restricted for debt service		43,490
Unrestricted		(19,054)
Total net assets		<u>1,956,728</u>
Total liabilities and net assets	\$	<u>2,520,228</u>

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, 2010

	Business-Type Activities
	Enterprise Fund
OPERATING REVENUE	
Charges for services:	
Water	\$ 268,053
Sewer	204,769
Sanitation	128,185
Other	31,425
Total Operating Revenue	632,433
OPERATING EXPENSES	
Salary and wages	100,113
Employee benefits	19,395
Water purchased	73,473
Sewer expenses	125,191
Sanitation expense	113,589
Utility supplies and rentals	15,642
Repairs and maintenance	8,530
Utilities	20,475
Administration	8,702
Fuel	2,787
Insurance	1,712
Depreciation	69,776
Other	5,000
Total Operating Expenses	564,385
OPERATING GAIN (LOSS)	68,048
NON-OPERATING REVENUE (EXPENSES)	
Capital grant receipts	280,271
Interest expense	(21,161)
Transfers	(63,351)
Total Non-operating Revenue (Expenses)	195,759
NET GAIN (LOSS)	263,807
Net Assets - beginning of year	1,692,921
Net Assets - end of year	\$ 1,956,728

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, 2010

	Business-Type Activities Enterprise Fund
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 586,632
Cash payments to suppliers	(425,798)
Cash payments to employees	(119,508)
Net Cash Provided by Operating Activities	41,326
<u>Cash Flows from Non-Capital Financing Activities</u>	
Transfers	(63,351)
(Increase) decrease in due to/due from general fund	(59,880)
Net cash (used)in non-capital financing activities	(123,231)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Contributed capital	280,271
Acquisition of capital assets	(333,339)
Payments on long-term bonds	(20,000)
Interest paid	(21,161)
Net Cash Provided (Used) by Capital and Related Financing Activities	(94,229)
<u>Cash Flows from Investing Activities</u>	
Interest received	-
(Increase) decrease in investments	50,799
Net Cash Provided by Investing Activities	50,799
Net Increase in Cash and Cash Equivalents	(125,335)
Cash and cash equivalents - beginning of year	183,784
Cash and cash equivalents - end of year	\$ 58,449
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>	
Operating income (loss)	\$ 68,048
Adjustments to reconcile operating loss to net cash provided by Operating Activities:	
Depreciation expense	69,776
(Increase) decrease in accounts receivable	(1,139)
(Increase) decrease in other assets	478
(Increase) decrease in accrued expenses	(6,004)
Increase (decrease) in accounts payable	(92,694)
Increase (decrease) in customer deposits	2,861
Total adjustments	(26,722)
Net Cash Provided by Operating Activities	\$ 41,326

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, 2010

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. Based on such criteria, there are no component units included in the financial reporting entity.

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, 2010

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, 2010

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, 2010

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, 2010

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. STEWARDHIP, 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, 2010, cash deposits were with a depository bank in interest bearing accounts. The carrying amounts of the City's General Funds deposits were \$124,984 and the bank balances were \$160,381, which is insured by the Federal Deposit Insurance Corporation. These assets are valued at cost which approximates market value.

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

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>\$ 60,803</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>\$43,490</u>
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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, 2009 (fiscal year ended September 30, 2010) was \$252,752.

The tax assessment of October, 2009 sets a tax levy at \$.4999 per \$100 of assessed valuation at 100 percent of market value. The total rate consisted of \$.4999 for maintenance and operations (M&O) and \$.0000 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 in the government wide financial statements. At the fund level delinquent property taxes estimated to be collected in time to be a resource and therefore subject to accrual, have been recognized as revenue with the remaining balance recorded as deferred revenues.

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, 2010

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. CAPITAL ASSETS

Changes in capital assets during the year ended September 30, 2010, were as follows:

	Balance October 1, 2009	Additions	Transfers/ Retirements	Balance September 30, 2010
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 196,646	\$ -	\$ -	\$ 196,646
Construction in progress	-	97,201	-	97,201
Capital assets being depreciated:				
Buildings and improvements	146,888	-	-	146,888
Machinery and equipment	110,145	187,315	-	297,460
Infrastructure	425,665	-	-	425,665
Total capital assets being depreciated	682,698	187,315	-	870,013
Less accumulated depreciation	(167,496)	(36,335)	-	(203,831)
Total capital assets, being depreciated, net	515,202	150,980	-	666,182
Governmental activities capital assets, net	<u>\$ 711,848</u>	<u>\$ 248,181</u>	<u>\$ -</u>	<u>\$ 960,029</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 18,984	\$ -	\$ -	\$ 18,984
Construction in progress	196,680	217,116	(132,971)	280,825
Total Capital assets not being depreciated	215,664	217,116	-	299,809
Capital assets being depreciated:				
Water & sewer system	2,770,897	249,195	-	3,020,092
Building	8,805	-	-	8,805
Total capital assets, being depreciated	2,779,702	249,195	-	3,028,897
Less accumulated depreciation	(902,636)	(69,776)	-	(972,412)
Total capital assets, being depreciated, net	1,877,066	179,419	-	2,056,485
Business-type activities capital assets, net	<u>\$ 2,092,730</u>	<u>\$ 396,535</u>	<u>\$ -</u>	<u>\$ 2,356,292</u>

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 2,117
Public safety	2,575
Public works	31,643
Total depreciation expense - governmental activities	\$ 36,335
Business-type activities:	
Water and sewer	\$ 69,776

F. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Lease Purchase Obligations	\$ 41,037	\$ -	\$ (41,037)	\$ -
Government Capital Corporation Contract No. 5421	-	183,815	-	183,815
Total Long - Term Liabilities	\$ 41,037	\$ 183,815	\$ (41,037)	\$ 183,815
Business - type activities:				
Certificate of Obligation FmHA Series 1993	\$ 434,000	\$ -	\$ (10,000)	\$ 424,000
Certificate of Obligation Series 1990	10,000	-	(10,000)	-
Total Long - Term Liabilities	\$ 444,000	\$ -	\$ (20,000)	\$ 424,000

CITY OF COTTONWOOD SHORES, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2010

3. DETAILED NOTES ON ALL FUNDS (Continued)

F. LONG-TERM DEBT (Continued)

Long-term debt at September 30, 2010 is comprised of the following:

	<u>Governmental Type Activities</u>	<u>Business- Type Activities</u>
Obligation Bonds:		
<p>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.</p>	\$ -	\$ 424,000
Finance Contract:		
<p>The City entered into a Public Property Finance Act Contract for the purchase of a Holt Cat Motorgrader. The contract requires six annual payments beginning in January of 2011 and ending in January of 2016 at an interest rate of 4.638%.</p>	183,815 <u>\$ 183,815</u>	- <u>\$ 424,000</u>

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

3. DETAILED NOTES ON ALL FUNDS (Continued)

F. LONG-TERM DEBT (Continued)

The annual requirements to amortize business-type activities long term debt outstanding as of September 30, 2010, are as follows:

Year Ended September 30,	Principal	Interest	Total
2011	10,000	21,730	31,730
2012	11,000	21,218	32,218
2013	12,000	20,654	32,654
2014	12,000	20,039	32,039
2015-2019	75,000	89,944	164,944
2020-2024	97,000	68,624	165,624
2025-2029	123,000	40,898	163,898
2030-2032	84,000	8,610	92,610
Total	<u>\$ 424,000</u>	<u>\$ 291,717</u>	<u>\$ 715,717</u>

The annual requirements to amortize the City's public property finance act contract as of September 30, 2010, are as follows:

Year Ended September 30,	Principal	Interest	Total
2011	\$ 27,680	\$ 8,653	\$ 36,334
2012	28,964	7,369	36,334
2013	30,308	6,026	36,334
2014	31,713	4,620	36,334
2015	33,184	3,150	36,334
2016	31,966	1,610	33,576
Total	<u>\$ 183,815</u>	<u>\$ 31,429</u>	<u>\$ 215,244</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, 2010

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 following grant programs were completed by the City as of September 30, 2010:

<u>COMPLETED</u>	<u>Budget</u>	<u>Current Year</u>	<u>Prior Years</u>	<u>Actual Total</u>
TDR CDB #728060- Waste water system improvements				
Funding:				
ORCA	\$ 250,000	\$ 208,687	\$ 29,250	\$ 237,937
City provided	25,000	4,429	16,935	21,364
Total	<u>\$ 275,000</u>	<u>\$ 213,116</u>	<u>\$ 46,185</u>	<u>\$ 259,301</u>
 TDR STEP#728026- Water plant improvements				
Funding:				
ORCA	\$ 170,633	\$ 71,584	\$ 98,029	\$ 169,613
City provided	6,000	45,579	34,942	80,521
Total	<u>\$ 176,633</u>	<u>\$ 117,163</u>	<u>\$ 132,971</u>	<u>\$ 250,134</u>

The following is the status of grant programs in process:

- **Cottonwood Shores Park Project-** the City received \$100,000 from the Lower Colorado River Authority and has expended \$63,350 as of September 30, 2010. Total grant funding under this contract is \$200,000. In August of 2010, the City contracted with the Texas Parks and Wildlife Department with approved state funding of \$500,000. No funding or expenditures have occurred for this grant as of the year ending September 30, 2010.

CITY OF COTTONWOOD SHORES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

4. OTHER INFORMATION (Continued)

C. Grant Funded Programs (Continued)

- **TDRA CDBG #710139-** the City entered into a contract on September 15, 2010 with the Texas Department of Rural Affairs which calls for certain improvements to the Clearwell water treatment plant. Funding of this project is not to exceed \$250,000 and calls for a City match of \$12,500. As of September 30, 2010, no funding had occurred. Expenditures for such period totaled \$4,000.
- **TDA CDBG #711036-** subsequent to the year ending September 30, 2010 but prior to the audit report date, the City entered into a contract on December 21, 2011 with the Texas Department of Agriculture. The contract will provide \$350,000 in funding for water system improvements at the Hedges Drive treatment facility. No funding or expenditures had occurred as of the year ending September 30, 2010.
- **SECO Contract #CS0681-** the City entered into an Energy Efficiency and Conservation Block Grant Program with the State Energy Conservation Office (SECO) on August 25, 2010 (amended on May 3, 2012) providing up to \$23,030 in funding. No funding or expenditures had occurred for this project as of the year ending September 30, 2010.

The City records grant receipts as program revenue and the expenditures to capital assets.

D. Water Purchase Agreement

The City entered into a firm water 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.

F. Wastewater Treatment Services

The City entered into an amended contract for the treatment and disposal of wastewater with Lake LBJ Municipal Utility District with a commencement date of October 1, 2000 and a termination date of October 1, 2032. Upon termination, the City will be required to design, construct and install (or otherwise secure) alternative or replacement wastewater treatment and disposal facilities.

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, City management has recorded a liability of \$30,000 and a deferred asset, accordingly.

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, 2010

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
General property taxes	\$ 266,660	\$ 266,660	\$ 263,079	\$ (3,581)
Sales taxes	69,700	61,000	71,252	10,252
Franchise	26,000	26,000	26,462	462
Penalties and interest on taxes	4,000	4,000	4,744	744
Fines	9,135	6,455	5,604	(851)
Licenses and permits	16,000	16,000	7,327	(8,673)
Interest	4,000	400	379	(21)
Rents and royalties	18,000	19,500	13,800	(5,700)
Charges for services	15,150	29,580	46,938	17,358
Total Revenue	<u>\$ 428,645</u>	<u>\$ 429,595</u>	<u>\$ 439,585</u>	<u>\$ 9,990</u>
EXPENDITURES				
General government	\$ 178,557	\$ 170,652	\$ 193,600	\$ (22,948)
Public safety	169,159	161,670	186,752	(25,082)
Public works	122,171	116,763	132,178	(15,415)
Total Expenditures	<u>\$ 469,887</u>	<u>\$ 449,085</u>	<u>\$ 512,530</u>	<u>\$ (63,445)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(41,242)	(19,490)	(72,945)	(53,455)
OTHER FINANCING SOURCES (USES)				
Proceeds from purchase agreement note	-	-	183,815	183,815
Grants	-	-	100,000	100,000
Debt service	(42,952)	(42,952)	(42,952)	-
Capital outlay	(17,600)	(17,600)	(284,516)	(266,916)
Transfers	-	-	63,351	63,351
Total Other financing Sources (Uses)	<u>(60,552)</u>	<u>(60,552)</u>	<u>19,698</u>	<u>80,250</u>
FUND BALANCE - BEGINNING	<u>101,794</u>	<u>80,042</u>	<u>23,831</u>	<u>(56,211)</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,416)</u>	<u>\$ (29,416)</u>

The accompanying note is an integral part of the Required Supplementary Information.

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, 2010

1. Budgetary Highlights

The City's original budget and amended budget were prepared on an operational basis and therefore, grant funds received and expended, proceeds from debt issuance and interfund transfers are not included as in the actual fund results.

The City's actual revenue from operations was \$439,585 or 2.3% more than the amended budgeted. This was attributable to an increase in charges for services. The City's actual expenses from operations were \$512,530 or 14.1% more than the amended budgeted. This was attributable to increases in general government, public safety and public works of \$22,948, \$25,082 and \$15,415, respectively. The largest components of the unfavorable variances were payroll related expenditures and maintenance expenses.

Off-setting the operating loss variance of \$(53,455), were non-budgeted loan proceeds of \$183,815, grant proceeds of \$100,000, transfers from the enterprise fund of \$63,351, less \$(266,916) in capital outlays, attributable to grant program expenditures.

The amendment date of the budget was June 17, 2010.

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, 2010, which collectively comprise of the City's basic financial statements and have issued our report thereon dated June 15, 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.

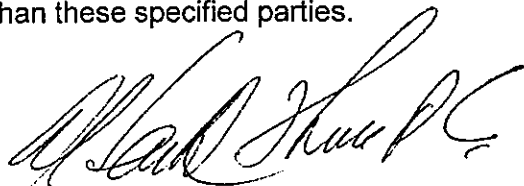
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material 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
Belton, Texas
June 15, 2012

CITY OF COTTONWOOD SHORES, TEXAS

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES
AND MATERIAL WEAKNESSES AS REQUIRED BY
STATEMENT ON AUDITING STANDARDS 115**

SEPTEMBER, 2010

ALTON D. THIELE, P.C.

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P.O. Box 808

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ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVENUE C

P.O. BOX 808

BELTON, TX 76513-0808

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

In planning and performing our audit of the financial statements of the City of Cottonwood Shores, Texas (the City) as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

This communication is intended solely for the information and use of management, the City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



ALTON D. THIELE, PC

Belton, Texas

June 15, 2012

CITY OF COTTONWOOD SHORES, TEXAS

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

FOR THE YEAR ENDING SEPTEMBER 30, 2010

ALTON D. THIELE, P.C.

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ALTON D. THIELE, P.C.

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June 15, 2012

To the Honorable Mayor and 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 for the year ended September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 29, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Cottonwood Shores are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was:

Management's estimate of the estimated useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop the lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed due to several general ledger accounts that were maintained on a consolidated basis. This required additional time to segregate transactions to the appropriate fund. In addition, the conversion project of the City's utility billing system limited access to accounting personell during the audit. However, we encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 15, 2012.

Management Consultations with Other Independent Accountants

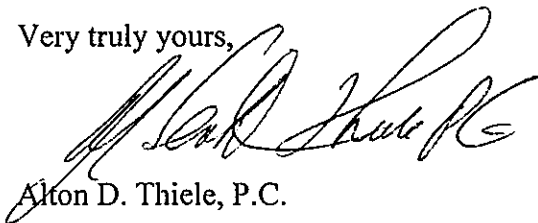
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our response were not a condition of our retention.

This information is intended solely for the use of the city council and management of the City of Cottonwood Shores, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Alton D. Thiele, P.C.