

TOWN OF CROSS ROADS, TX

FINANCIAL STATEMENTS

September 30, 2012

TABLE OF CONTENTS

	PAGE #
INDEPENDENT AUDITOR'S REPORT	1
TOWN OFFICIALS	2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3-7
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	11
Notes to Financial Statements	12-19
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule	20
OTHER SUPPLEMENTARY INFORMATION	
Comparative Schedule of Revenues & Expenditures - General Fund	21

WILLIAM C SPORE, PC
Certified public Accountants
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Independent Auditor's Report

To the Town Council
Town of Cross Roads, Texas

I have audited the accompanying financial statements of the governmental activities and major funds of the Town of Cross Roads, Texas as of September 30, 2012, and for the year then ended, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Cross Roads, Texas, management. My responsibility is to express an opinion on these general purpose financial statements based upon my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Town of Cross Roads, Texas, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund and the schedule of pension plan funding progress be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements.

I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the Town of Cross Roads's basic financial statements taken as a whole. The other supplementary information schedules described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

William C. Spore, P.C.

Certified Public Accountants

December 17, 2012

TOWN OF CROSS ROADS, TX

TOWN OFFICIALS

September 30, 2012

MAYOR

Steve Smith

MAYOR PRO TEM

Tony Russo

COUNCIL MEMBERS

Bruce Birdsong

Kim Dickey

Larry Fisher

Wally Kille

SECRETARY

Katherine Ritchie

CITY ATTORNEY

David Berman

TOWN OF CROSS ROADS, TX
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

As management of the Town of Cross Roads, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2012. The information provided here should be used in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- The Town's assets exceeded its liabilities at September 30, 2012 by \$1,731,699, an increase of \$84,781.
- The Town's governmental fund balance increased \$163,026 during the 2012 fiscal year to a total of \$1,022,125.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Reporting the Town as a Whole - Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

The Statement of Net Assets (page 8) presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities (page 9) presents information showing how the Town's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences). Capital grant funds are reported as revenues in the Statement of Activities.

The Town currently only provides Governmental type activities. Governmental activities include basic services such as fire, ambulance, inspection, parks, streets and general administration. Permit revenues, sales taxes, and franchise fees finance most of these activities. The Town does not assess or collect a property tax. The Town does not provide any Business-type activities such as water or sewer systems and related fees.

Reporting the Town's Most Significant Funds

Fund Financial Statements

All of the Town's activities are accounted for in a governmental fund, the General Fund. Governmental funds focus on how money flows into and out of the funds and the balances left at the end of the year that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements, the Balance Sheet (page 10) and the Statement of Revenues, Expenditures and Changes in Fund Balance (page 11) provide a detailed short-term view of the Town'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 Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 12.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A portion of the Town's net assets is its investment in capital assets, (land, building, equipment and infrastructure.) The Town uses these capital assets to provide services to the Town's citizens, consequently these assets are not available for future spending. It is also significant that the Town does not have any long-term debt and it does not levy property taxes.

The Town's net assets as of September 30, 2012 and 2011 are as follows:

	2012	2011
Current and Other Assets	\$ 1,030,232	\$ 881,795
Capital Assets	<u>716,474</u>	<u>794,419</u>
Total Assets	<u>1,746,706</u>	<u>1,676,214</u>
Liabilities	<u>(15,007)</u>	<u>(29,296)</u>
Net Assets:		
Invested in Capital Assets, net of debt	716,474	794,419
Restricted	97,450	34,385
Unrestricted	<u>917,775</u>	<u>818,114</u>
Total Net Assets	\$ <u>1,731,699</u>	\$ <u>1,646,918</u>

The Town's net assets total \$1,731,699, including liquid assets (cash and receivables less accounts payable) of \$1,015,225. The Town is accumulating funds for future road improvement projects so that it can complete those road projects without borrowing money. The Town also has significant investment in capital assets, (land, building, equipment and infrastructure.) The Town uses these capital assets to provide services to the Town's citizens; consequently these assets are not available for future spending.

Analysis of Town's Operations

The results of the Town's operations for the years ended September 30, 2012 & September 30, 2011 were as follows.

	2012	2011
REVENUES		
Program Revenues:		
Charges for Services	\$ 75,970	\$ 39,720
Grants & Donations	0	79,033
General Revenues:		
Sales & Beverage Taxes	402,217	360,801
Franchise Fees	71,810	65,393
Interest Income	4,739	5,026
Total Revenues	<u>554,736</u>	<u>549,973</u>
PROGRAM EXPENSES		
General Government	272,681	243,278
Public Health	55,146	41,140
Streets	142,128	87,862
Total Expenses	<u>469,955</u>	<u>372,280</u>
Increase (Decrease) in		
Net Assets	\$ <u>84,781</u>	\$ <u>177,693</u>

Charges for services includes developer/subdivision fees, road improvement fees, building permit and inspection fees. These fees totaled \$75,970 during 2012, an increase of \$36,250 from the prior year. This increase is largely attributed to an increase in developer/subdivision fees and residential building permits in 2012 compared to 2011. The economic conditions in the Town are also improving as sales tax revenues increased 11% and franchise tax revenues increased 10%.

During 2011 the Town received \$79,033 from Denton County related to an interlocal agreement where Denton County agreed to reimburse the Town for one-half of the cost of improving Pottershop Road. There were no similar revenues received in 2012.

The Town's general government expenses increased \$29,403 from 2011 to 2012 primarily due to expenses related to economic development studies conducted by the Town (\$15,565) and increases in personnel costs of \$13,226. The Town has continued its street maintenance programs by spending \$44,430 in 2012 for crack sealing and grading to selected roads in the Town.

GOVERNMENTAL FUND ANALYSIS

The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements, in particular, unreserved fund balance may serve a measure of a government's net resources available for spending at the end of the fiscal year.

Fund basis revenues, excluding Denton County Road Reimbursements in 2011, increased 18% in the current fiscal year with sales tax revenues (11%), franchise fees (10%) and permit and fee revenues (102%) all increasing significantly over the prior year.

Total administrative expenditures increased 13%, public health expenses increased 34% and street expenditures increased 200% from 2011 to 2012. The increase in administrative expenditures is attributable to increased personnel costs and to expenditures for economic development studies commissioned by the Town Council and public health expenditures for inspection services increased 88% due to the increase in the number of permits issued and the related increase in permit revenues in 2012.

Total fund basis revenues exceeded fund basis expenditures and the general fund balance increased by \$163,026 in 2012 to a total fund balance of \$1,022,125.

The Town has the following committed fund balances at September 2012:

COMMITTED TO:	2011 CHANGE	YEAR END BALANCE
Emergency Fund	\$ 536	\$ 110,026
Building Fund	777	159,347
Legal Contingency Fund	\$ 1,271	\$ 260,394

The committed fund balance increases are due to interest earned as there were no expenditures from the committed funds. These fund are maintained in separate, interest bearing, bank accounts.

General Fund Budgetary Highlights

The Town's budget for 2012 was balanced and included revenues of and expenditures of \$415,178 each. Actual revenues totaled \$554,736 with sales tax revenues (\$69,017) and permit & fee revenues (\$61,206) significantly over budget due to better than expected retail sales in the Town and an increase in residential permits issued compared to the previous two years.

Total general government actual expenditures were \$263,001 which was \$18,780 less than budgeted expenditures. The primary expenditures that were under budget were election costs (\$2,325 under budget), travel and training (\$4,111 under budget), legal fees (\$2,082 under budget), engineering fees (\$8,848 under budget) and building, equipment and parks maintenance (\$2,842 under budget). Due to the increase in permit fees received during 2012 the related inspection services expenditures were over budget by \$22,310.

CAPITAL ASSETS

The Town's investment in capital assets as of September 30, 2012 amounts to \$716,474 (net of depreciation). The investment in capital assets includes land, buildings, equipment and infrastructure. Capital additions for 2012 included road improvements of \$2,900, office equipment additions of \$4,445 and building improvements of \$6,115. A schedule of capital assets is as follows:

CAPITAL ASSETS AT YEAR END NET OF ACCUMULATED DEPRECIATION

	2012	2011
Land	\$ 108,090	\$ 108,090
Buildings	130,464	129,974
Equipment	30,345	29,655
Infrastructure	447,575	526,700
TOTAL	<u>\$ 716,474</u>	<u>\$ 794,419</u>

Additional information on the Town's capital assets can be found in Note 4 to the Financial Statements.

DEBT ADMINISTRATION

The Town has no long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Budgeted revenues and expenditures for fiscal year 2013 total \$523,212 each. The budgeted revenues are \$31,524 less than 2012 actual revenues of \$554,736 which reflects the conservative nature of the Town Council's approach to budgeting with the current uncertainty related to sales tax collections and new construction due to the current economic times. Budgeted expenditures include \$30,500 for planning and economic development consulting services, \$82,307 for street repair and maintenance, \$36,000 for an additional employee to provide code and court services, \$18,000 for legal services and \$20,790 for engineering services.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Town of Cross Roads. If you have questions about this report or need any additional information, contact the Town Secretary at 1401 F.M. 424, Cross Roads, TX 76227 or at (940) 365-9693.

TOWN OF CROSS ROADS, TX

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS

September 30, 2012

GOVERNMENTAL
ACTIVITIES

ASSETS

CURRENT ASSETS

Cash	\$	987,588
Receivables		39,884
Prepaid Expenses		2,760
TOTAL CURRENT ASSETS		<u>1,030,232</u>

CAPITAL ASSETS

Land		108,090
Buildings		193,898
Equipment		62,009
Infrastructure		1,032,400
Accumulated Depreciation		(679,923)
TOTAL CAPITAL ASSETS		<u>716,474</u>

TOTAL ASSETS

1,746,706

LIABILITIES

CURRENT LIABILITIES

Accounts Payable		4,525
Unearned Revenues		3,582
Accrued Compensated Absences		6,900
TOTAL CURRENT LIABILITIES		<u>15,007</u>

NET ASSETS

Invested in Capital Asset, Net of Related Debt		716,474
Restricted For:		
Road Improvements		97,450
Unrestricted		917,775
TOTAL NET ASSETS	\$	<u><u>1,731,699</u></u>

TOWN OF CROSS ROADS, TX

**GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2012

FUNCTIONS/PROGRAMS	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS/ DONATIONS</u>	<u>CAPITAL GRANTS/ DONATIONS</u>	<u>NET (EXPENSE) REVENUE</u>
GOVERNMENTAL ACTIVITIES:					
General Government	\$ (272,681)	\$ 26,966	\$ 0	\$ 0	\$ (245,715)
Public Health	(55,146)	45,237	0	0	(9,909)
Streets	(142,128)	3,767	0	0	(138,361)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (469,955)	\$ 75,970	\$ 0	\$ 0	(393,985)
GENERAL REVENUE					
Sales & Beverage Taxes					402,217
Franchise Fees					71,810
Interest Income					4,739
TOTAL GENERAL REVENUE					478,766
CHANGE IN NET ASSETS					84,781
NET ASSETS - BEGINNING					<u>1,646,918</u>
NET ASSETS - ENDING					<u><u>\$ 1,731,699</u></u>

TOWN OF CROSS ROADS, TX
BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2012

ASSETS

Cash	\$	360,371
Restricted Cash		627,217
Receivable:		
Sales & Beverage Taxes		33,773
Franchise Fees		6,111
Prepaid Expenses		2,760
TOTAL ASSETS	\$	<u>1,030,232</u>

LIABILITIES

Accounts Payable	\$	4,525
Deferred Revenues		3,582
TOTAL LIABILITIES		<u>8,107</u>

FUND BALANCE

Fund Balance - Nonspendable		
Prepaid Expenses		2,760
Fund Balance - Restricted For:		
Road Improvements		97,450
Fund Balance - Committed To:		
Emergency Reserve		110,026
Building Fund		159,347
Legal Contingency		260,394
Fund Balance - Unassigned		392,148
TOTAL FUND BALANCE		<u>1,022,125</u>

TOTAL LIABILITIES & FUND BALANCE	\$	<u>1,030,232</u>
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**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS**

September 30, 2012

Fund Balance Above	\$	1,022,125
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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 Balance Sheet		716,474
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Long term liabilities and not due and payable in the current period and therefore are not reported in the Fund Balance Sheet		<u>(6,900)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>1,731,699</u>
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TOWN OF CROSS ROADS, TX

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2012

REVENUES	
Sales & Beverage Taxes	\$ 402,217
Franchise Fees	71,810
Permits & Fees	71,506
Court Revenues	748
Miscellaneous Revenues	3,716
Interest Income	4,739
TOTAL REVENUES	<u>554,736</u>
EXPENDITURES	
General Government	263,001
Public Health	55,146
Streets	60,103
Capital Outlay	13,460
TOTAL EXPENDITURES	<u>391,710</u>
EXCESS OF REVENUES OVER EXPENDITURES	163,026
FUND BALANCE - BEGINNING	<u>859,099</u>
FUND BALANCE - ENDING	<u>\$ 1,022,125</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2012

Net Change in Fund Balance - Governmental Funds	\$ 163,026
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of these assets is allocated over the estimated useful lives as depreciation expense:

Capital assets recorded in the current period	13,460
Depreciation expense on capital assets	(91,405)

Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Compensated absences	<u>(300)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 84,781</u>
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TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

The Town of Cross Roads operates under a Council-Mayor form of government, following the laws of a General Law Town as defined by the State of Texas. The Town provides the following services: fire, ambulance, inspection, parks, streets, and general administrative services.

The Town's financial statements are prepared in accordance with generally accepted accounting principles accepted in the United States of America (GAAP) applicable to local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected to not apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Town are discussed below:

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Town are discussed below:

A. REPORTING ENTITY

These financial statements present the Town (the primary government). The Town has no component units (separately administered organizations that are controlled or dependent on the Town).

B: BASIC FINANCIAL STATEMENTS - GOVERNMENT-WIDE STATEMENTS:

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's fire, ambulance, inspection, streets, and general administrative services are classified as governmental activities. The Town does not provide any business-type activities.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

In the government-wide Statement of Net Assets governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net costs of each of the Town's Functions (general government, public health, and streets). The functions are also supported by general government revenues (sales, beverage and franchise taxes). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public health, inspection). Operating grants include operating-specific and discretionary grants while capital grants reflect capital specific grants.

The net costs (by function) are normally covered by general revenue (sales and franchise taxes).

The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

C: BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS:

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The Town only provides Governmental Fund type activities and these activities are accounted for the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources of the Town.

The Town does not provide any Business-type activities.

The Town does not have any fiduciary Funds.

D: MEASUREMENT FOCUS/BASIS OF ACCOUNTING:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

1. Government-wide financial statements and fund financial statements for proprietary funds are presented using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total assets. Under the accrual basis of accounting revenues are recognized when earned and expensed are recognized at the time the liability is incurred.

2. Governmental fund financial statements are presented using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Measurable" means the amount of the transaction can be determined and "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (typical within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized only when payment is due.

3. Revenue Recognition:

The Town considers sales taxes and franchise fees as available if collected within 60 days after year end. All other governmental revenues are recognized when received.

4. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles to local governments in the United States of America requires management and those charged with governance to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5: New Accounting Principles:

The Town has adopted all current GASB pronouncements that are applicable to its operations and activities. No new statements required adoption for the year ended September 30, 2012. The accounting principles governing the reported amounts, financial presentations, and disclosures are subject to change from time to time based on new pronouncements and / or rules issued by various standards-setting bodies. The GASB has issued the following new statements that are potentially applicable to the Town of Cross Roads.

- Statement No. 65, *Items previously reported as Assets and Liabilities*
- Statement No. 66, *Technical Corrections--2012--an amendment of GASB Statements No 10 and no. 62*

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

New pronouncements not yet in effect as of September 30, 2012, are not expected to have any significant impact on the Town's financial position, results of operations, or cash flows. The Town is currently studying these new pronouncements and will adopt them in the fiscal year ending September 2013, as required.

E. FINANCIAL STATEMENT AMOUNTS:

1. Cash and Cash Equivalents:

The Town has defined cash and cash equivalents to include cash on hand and demand deposits.

2. Capital Assets:

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, or improvements and other capital outlays that significantly extend the useful lives of an assets are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is provided on the straight-line basis over the following estimated useful lives:

Buildings	7 - 50 years
Office Equipment	3 - 10 years
Infrastructure	10 years

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective with the fiscal year beginning October 1, 2003 and the Town has elected to implement the retroactive infrastructure provisions at the same time. Infrastructure includes roads, bridges and drainage systems. These infrastructure assets are likely to be the largest asset class of the Town.

3. Prepaid Expenses:

Prepaid expenses represent payments made by the City in the current year to provide services occurring in the subsequent year.

4. Compensated Absences:

The Town accrues accumulated unpaid vacation time when earned by the employee. The noncurrent portion (the amount estimated to be used in subsequent years) is maintained separately and represents a reconciling item between the fund and government-wide presentations.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

5. Restricted Resources:

When an expense is incurred for purposes for which both restricted and unrestricted resources are available the Town first applies restricted resources.

6. Equity Classifications:

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Any outstanding debt is reduced by any unspent debt proceeds at the end of the fiscal year before the reduction discussed above.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the criteria of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable (prepaid expenses), restricted (by parties outside of the government or by enabling legislation), committed (by Town Council ordinance or resolution) and unassigned.

F: BUDGETS AND BUDGETARY ACCOUNTING:

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

- 1: Prior to September 1, the Town Secretary submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2: Public hearings are conducted to obtain taxpayer comments.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

- 3: Prior to October 1, the budget is legally enacted through the passage of an ordinance.
- 4: Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 5: Unused appropriations for all of the above annually budgeted funds lapse at the end of the fiscal year.

NOTE 2: DEPOSITS:

At September 30, 2012 the carrying amount of the Town's cash accounts were \$987,588, made up of checking and money market accounts at a local financial institution. The Town did not own any investments at September 30, 2012.

Deposit and Investment risk Disclosures:

(1) Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of depository financial institution, the Town will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of outside parties.

At September 30, 2012 the Town's bank balances (per bank) totaled \$1,058,090. Of the bank balances, \$250,000 was covered by federal depository insurance and the remaining \$808,090 was secured by collateral held by the pledging Bank's agent in the name of the Town. The Town was not exposed to custodial credit risk at September 30, 2012.

Securities pledged by the Town's depository institution at September 30, 2012 are as follows:

SECURITY	PAR	FMV
Alvarado TX ISD Bond	205,000	222,669
Celina TX Bond	285,000	317,584
Grand Prairie TX Bond	200,000	224,944
Palo Pinto TX ISD Bond	75,000	75,252
Denton County TX Bond	<u>235,000</u>	<u>245,975</u>
	<u>\$1,000,000</u>	<u>\$1,086,424</u>

(2) Interest rate risk, credit risk, and concentration of credit risk:

The City does not have any investments and therefor is not subject to interest rate risk, credit risk or concentration of credit risk.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 3: RESTRICTED CASH:

The Town collects a one-quarter percent sales tax for maintenance and repair of the Towns streets and roads. The Town collected \$57,946 of road improvement sales taxes during the fiscal year. Unspent road improvement funds at September 30, 2012 were \$68,586. These funds are maintained in a separate bank account and can only be used for street and road repairs or improvements.

The Town's restricted cash as presented in the governmental fund balance sheet consists of the following cash accounts:

Emergency Reserve	\$	110,026
Building Fund		159,347
Legal Contingency		260,394
Road Improvement		68,586
Forest Hills Developer Funds		28,864
	\$	<u>627,217</u>

NOTE 4: CAPITAL ASSETS:

Capital assets activity for the fiscal year ended September 30, 2012 is as follows:

CAPITAL ASSETS				
GOVERNMENTAL ACTIVITIES	BEGINNING	ADDITIONS	RETIREMENTS	ENDING
Land	\$ 108,090	\$ 0	\$ 0	\$ 108,090
Building	187,783	6,115	0	193,898
Furniture & Equipment	57,564	4,445	0	62,009
Infrastructure	<u>1,029,500</u>	<u>2,900</u>	<u>0</u>	<u>1,032,400</u>
TOTAL AT HISTORICAL COST	<u>1,382,937</u>	<u>13,460</u>	<u>0</u>	<u>1,396,397</u>
 LESS ACCUMULATED DEPRECIATION				
Land	0	0	0	0
Building	57,809	5,625	0	63,434
Furniture & Equipment	27,909	3,755	0	31,664
Infrastructure	<u>502,800</u>	<u>82,025</u>	<u>0</u>	<u>584,825</u>
TOTAL ACCUMULATED DEPRECIATION	<u>588,518</u>	<u>91,405</u>	<u>0</u>	<u>679,923</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 794,419</u>	<u>\$ (77,945)</u>	<u>\$ 0</u>	<u>\$ 716,474</u>

DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES AS FOLLOWS:

General Government	\$	9,380
Public Works		<u>82,025</u>
TOTAL DEPRECIATION EXPENSE	\$	<u>91,405</u>

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

NOTE 5: PROPERTY TAXES:

The Town does not levy or collect property taxes

NOTE 6: LONG-TERM DEBT:

The Town does not have any long-term debts.

NOTE 7: COMPENSATED ABSENCES

At September 30, 2012, the Town had a liability for unpaid vacation in the amount of \$6,900. During fiscal 2012, \$6,270 (270 hours) of vacation time was earned while \$5,970 (244 hours) was taken.

NOTE 8: RETIREMENT PLAN:

In November 2006 the Town established a SEP-IRA plan for its employees. The Town contributed 15% of the employees wages, a total of \$14,795, to the plan. Future contributions to the plan are at the Town's discretion.

NOTE 9: RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a member of the Texas Municipal League Intergovernmental Risk Pool ("TMLIRP") which is a public entity insurance risk pool. Annual contributions to TML are reported in the general fund. Management believes coverage presently purchased from TMLIRP is sufficient to preclude significant uninsured losses to the Town.

NOTE 10: SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through December 17, 2012 (the date that the Town Council approved the financial statements). The financial statements include all Type I events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management and those charged with governance have determined that there are no non-recognized Type II subsequent events which would require additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CROSS ROADS, TX

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2012

RESOURCES (INFLOWS)	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	ACTUAL AMOUNTS	
Beginning Budgetary Fund Balance	0	\$ ---	\$ 0
Sales & Beverage Taxes	333,200	402,217	69,017
Franchise Fees	64,468	71,810	7,342
Permits & Fees	10,300	71,506	61,206
Court Revenues	250	748	498
Misc. Revenues	3,360	3,716	356
Interest Income	3,600	4,739	1,139
TOTAL REVENUES	415,178	554,736	139,558
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
General Government:			
Advertising & Promotion	6,800	9,118	(2,318)
Dues, Subscriptions & Public Notices	600	1,624	(1,024)
Election Costs	2,400	75	2,325
Meeting Expenses	1,200	1,007	193
Insurance	2,800	1,806	994
Travel & Training	4,200	89	4,111
Accounting & Auditing	2,300	2,100	200
Legal	12,000	9,918	2,082
Economic Development	12,000	15,565	(3,565)
Other Professional Services	5,400	3,703	1,697
Engineering Fees	25,200	16,352	8,848
Codification Services	1,000	912	88
Library Inter-Local	8,000	8,000	0
Municipal Court/Code Enforcement	6,600	5,732	868
Building, Parks & Equipment Maint.	14,000	11,158	2,842
Office Supplies & Minor Equip.	8,250	9,410	(1,160)
Utilities	8,400	7,652	748
Wages - Town Secretary	59,412	59,412	0
Wages - Office/Building Clerk	40,300	40,300	0
Payroll Taxes	8,974	8,150	824
Employee Health Insurance	33,840	32,546	1,294
Employee Retirement	14,795	14,912	(117)
Employee Vehicle Expenses	1,800	1,800	0
Other Expenses	1,600	1,660	(60)
Total General Government	281,871	263,001	18,870
Public Health & Safety:			
Inspection Services	5,400	27,710	(22,310)
Inter-Local Ambulance & Fire	27,600	27,436	164
Total Public Health	33,000	55,146	(22,146)
Streets:			
Street/Drainage Repairs & Signs	84,400	60,103	24,297
Total Streets	84,400	60,103	24,297
Capital Additions:			
Operations	12,000	10,560	1,440
Streets	3,907	2,900	1,007
Total Capital Outlay	15,907	13,460	2,447
TOTAL APPROPRIATIONS	415,178	391,710	23,468
EXCESS OF RESOURCES OVER (UNDER) APPROPRIATIONS	0	\$ 163,026	\$ 163,026

OTHER SUPPLEMENTARY INFORMATION

TOWN OF CROSS ROADS, TX

**COMPARATIVE SCHEDULE OF REVENUES & EXPENDITURES - GENERAL FUND
For the Years Ended September 30, 2012 & 2011**

	2012	2011
REVENUES		
Sales & Beverage Taxes	\$ 402,217	\$ 360,801
Franchise Fees	71,810	65,393
Permits & Fees	71,506	35,393
Court Revenues	748	250
Misc. Revenues	3,716	4,077
Denton County Interlocal Road Reimbursements	0	79,033
Interest Income	4,739	5,026
TOTAL REVENUES	<u>554,736</u>	<u>549,973</u>
EXPENDITURES		
General Government:		
Advertising & Promotion	9,118	8,141
Dues, Subscriptions & Public Notices	1,624	1,002
Election Costs	75	2,381
Meeting Expenses	1,007	1,051
Insurance	1,806	2,324
Travel & Training	89	280
Accounting & Auditing	2,100	2,100
Legal	9,918	10,233
Economic Development	15,565	0
Other Professional Services	3,703	3,600
Engineering Fees	16,352	19,079
Codification Services	912	963
Library Inter-Local	8,000	7,000
Municipal Court/Code Enforcement	5,732	5,277
Building, Parks & Equipment Maint.	11,158	9,241
Office Supplies & Minor Equip.	9,410	6,684
Utilities	7,652	8,557
Wages - Town Secretary	59,412	58,128
Wages - Office/Building Clerk	40,300	34,730
Payroll Taxes	8,150	7,146
Employee Health Insurance	32,546	28,181
Employee Retirement	14,912	13,909
Employee Vehicle Expenses	1,800	1,800
Other Expenses	1,660	1,500
Total General Government	<u>263,001</u>	<u>233,307</u>
Public Health & Safety:		
Inspection Services	27,710	14,729
Inter-Local Ambulance & Fire	27,436	26,411
Total Public Health	<u>55,146</u>	<u>41,140</u>
Streets:		
Street/Drainage Repairs & Signs	60,103	20,032
Total Streets	<u>60,103</u>	<u>20,032</u>
Capital Additions:		
Operations	10,560	18,500
Streets	2,900	158,287
Total Capital Outlay	<u>13,460</u>	<u>176,787</u>
TOTAL EXPENDITURES	<u>391,710</u>	<u>471,266</u>
EXCESS OF REVENUES OVER EXPENDITURE:	<u>\$ 163,026</u>	<u>\$ 78,707</u>

WILLIAM C. SPORE, P.C.
Certified Public Accountants
200 N. Rufe Snow Dr., Ste 116
Keller, TX 76248
817-421-6619

To the Town Council
Town of Cross Roads

In planning and performing my audit of the financial statements of the governmental activities and major fund of the Town of Cross Roads as of and for the year ending September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered the Town of Cross Roads' internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the governmental unit'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 misstatements on a timely basis. A material weakness is a deficiency, or a 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.

My consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness.

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

William C. Spore, PC
Certified Public Accountants

December 17, 2012

WILLIAM C. SPORE, P.C.
Certified Public Accountants
200 N. Rufe Snow Dr., Ste 116
Keller, TX 76248
817-421-6619

December 17, 2012

To the Mayor & Town Council
Town of Cross Roads

I have audited the financial statements of the governmental activities and the major funds of the Town of Cross Roads for the year ended September 30, 2012, and have issued my report thereon dated December 17, 2012. Professional standards require that I provide you with the following information about my responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my engagement letter to you dated February 16, 2012. Professional standards also require that I communicate with you the following information related to my 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 Town of Cross Roads 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 2012. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 depreciation expense is based on the estimated useful lives of the related assets. I evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my 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 audit procedures and corrected by management were material, either individually or in the aggregate, to the 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 my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated December 17, 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, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I 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 my professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Town Council and management of Town of Cross Roads and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

William C. Spore

Certified Public Accountant