

TOWN OF CROSS ROADS, TX

FINANCIAL STATEMENTS

September 30, 2013

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WILLIAM C SPORE, PC
Certified public Accountants
200 N Rufe Snow Drive, Ste 116
Keller, TX 75248
817-421-6619

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, 2013, 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, 2013, 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

January 20, 2014

TOWN OF CROSS ROADS, TX

TOWN OFFICIALS

September 30, 2013

MAYOR

Steve Smith

MAYOR PRO TEM

Tony Russo

COUNCIL MEMBERS

Bruce Birdsong

Larry Fisher

Wally Kille

Vacant

SECRETARY

Shannon De Prater

CITY ATTORNEY

David Berman

TOWN OF CROSS ROADS, TX
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2013

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, 2013. 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, 2013 by \$1,881,222, an increase of \$149,523.
- The Town's governmental fund balance increased \$240,894 during the 2013 fiscal year to a total of \$1,263,019.

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, 2013 and 2012 are as follows:

	2013	2012
Current and Other Assets	\$ 1,267,212	\$ 1,030,232
Capital Assets	638,603	716,474
Total Assets	<u>1,905,815</u>	<u>1,746,706</u>
Liabilities	<u>(24,593)</u>	<u>(15,007)</u>
Net Assets:		
Invested in Capital Assets, net of debt	638,603	716,474
Restricted	190,570	97,450
Unrestricted	<u>1,052,049</u>	<u>917,775</u>
Total Net Assets	<u>\$ 1,881,222</u>	<u>\$ 1,731,699</u>

The Town's net assets total \$1,881,222, including liquid assets (cash and receivables less accounts payable) of \$1,267,212. 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, 2013 & September 30, 2012 were as follows.

	2013	2012
REVENUES		
Program Revenues:		
Charges for Services	\$ 245,848	\$ 75,970
Grants & Donations	0	0
General Revenues:		
Sales & Beverage Taxes	480,378	402,217
Franchise Fees	71,789	71,810
Interest Income	5,698	4,739
Total Revenues	<u>803,713</u>	<u>554,736</u>
PROGRAM EXPENSES		
General Government	441,897	272,681
Public Health	112,620	55,146
Streets	99,673	142,128
Total Expenses	<u>654,190</u>	<u>469,955</u>
Increase (Decrease) in		
Net Assets	\$ <u>149,523</u>	\$ <u>84,781</u>

Charges for services includes developer/subdivision fees, road improvement fees, and building permit and inspection fees. These fees totaled \$245,848 during 2013, an increase of \$169,878 from the prior year. This increase is largely attributed to an increase in residential and commercial building permits and inspection fees as the Town experienced significant growth including a Wal-Mart shopping center. The Town also experienced growth in its sales tax revenues due to continued commercial growth in the Town.

The Town's general government expenses increased \$169,216 from 2012 to 2013 primarily due to expenses related to legal and engineering expenditures related to developer agreements along with an increase in personnel costs due creating the position of Town Administrator. The Town's previous Town Secretary was promoted to the new position of Town of Administrator and a new Town Secretary was hired. A comparison of these expenses is as follows:

GENERAL GOVERNMENT	2013	2012	INCREASE
Legal Fees	\$ 22,523	\$ 9,918	\$ 12,605
Engineering Fees	35,112	16,352	18,760
Wages-Town Administrator	67,670	0	67,670
Wages-Town Secretary	63,376	63,755	(379)
Wages-Office/Building Clerk	46,556	42,838	3,718
Payroll Taxes	12,761	8,150	4,611
Employee Health Insurance	46,216	32,546	13,670
Employee Retirement	\$ 15,496	\$ 14,912	\$ 584

With the increase in permit revenues the Town also experienced an increase in inspection service expenditures, which increased from \$27,710 in 2012 to \$76,665 in 2013.

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 increased 45% in the current fiscal year with permit and fee revenues increasing \$166,718 (235%) and sales tax revenues increasing \$78,161 (19%) over the prior year.

Total administrative expenditures increased 59%, public health expenses increased 104% while street expenditures decreased 70% from 2012 to 2013. The increase in administrative expenditures is attributable to increased personnel costs and to expenditures for legal and engineering services related to developer agreements while public health expenditures for inspection services increased due to the increase in the number of permits issued and the related increase in permit revenues in 2013.

Total fund basis revenues exceeded fund basis expenditures and the general fund balance increased by \$240,894 in 2013 to a total fund balance of \$1,263,019.

The Town has the following committed fund balances at September 2013:

COMMITTED TO:	YEAR END BALANCE
Emergency Fund	\$ 110,566
Building Fund	160,129
Legal Contingency Fund	261,672
Public Safety	278,739
Road Improvement	133,874
Forest Hills Developer Funds	56,696
	<u>\$ 1,001,676</u>

These fund are maintained in separate, interest bearing, bank accounts.

General Fund Budgetary Highlights

The Town's original budget for 2013 was balanced and included revenues of and expenditures of \$523,212 each. The original budget was amended in October 2013 to reflect increased revenues and expenditures during 2013. Actual revenues totaled \$803,713 with sales tax revenues (\$64,428 over budget) and permit & fee revenues (\$211,924 over budget) significantly over the original budget due to better than expected retail sales in the Town and an increase in residential and commercial permits issued compared to the previous two years.

Total general government actual expenditures were \$417,249 which exceeded the originally budgeted expenditures by \$33,944. The primary expenditures that were over the original budget were advertising and promotion (\$5,937 over budget), legal fees (\$4,523 over budget), engineering fees (\$14,322 over budget) and personnel expenditures (\$20,415 over budget). Due to the increase in permit fees received during 2013 the related inspection services expenditures were over budget by \$65,665.

CAPITAL ASSETS

The Town's investment in capital assets as of September 30, 2013 amounts to \$638,603 (net of depreciation). The investment in capital assets includes land, buildings, equipment and infrastructure. Capital additions for 2013 included office equipment additions of \$7,527 and park improvements of \$7,585. A schedule of capital assets is as follows:

CAPITAL ASSETS AT YEAR END NET OF ACCUMULATED DEPRECIATION

	2013	2012
Land	\$ 108,090	\$ 108,090
Buildings	132,215	130,464
Equipment	32,558	30,345
Infrastructure	365,740	447,575
TOTAL	<u>\$ 638,603</u>	<u>\$ 716,474</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 for fiscal year 2014 total \$1,543,260, including \$955,000 of sales tax revenues, \$126,900 of permit and fee revenues and \$200,000 in road repair funds from Denton County. The increase in sales tax revenues is due to the opening of the Wal-Mart retail store in October 2012.

Budgeted expenditures for 2014 total \$1,843,260, including \$150,000 for start-up costs for a police department and \$300,000 for operating costs of the police department, \$150,00 for town improvements, \$433,076 for street repairs and improvements and \$192,724 for personnel costs.

The police start up costs of \$150,000 and the Town improvements of \$150,000 will be funded from committed cash on hand at September 30, 2013.

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, 2013

GOVERNMENTAL
ACTIVITIES

ASSETS

CURRENT ASSETS

Cash	\$	1,196,326
Receivables		66,227
Prepaid Expenses		4,659
TOTAL CURRENT ASSETS		<u>1,267,212</u>

CAPITAL ASSETS

Land		108,090
Buildings		193,898
Equipment		67,598
Infrastructure		1,032,400
Accumulated Depreciation		(763,383)
TOTAL CAPITAL ASSETS		<u>638,603</u>

TOTAL ASSETS

1,905,815

LIABILITIES

CURRENT LIABILITIES

Accounts Payable		814
Unearned Revenues		3,379
Accrued Compensated Absences		20,400
TOTAL CURRENT LIABILITIES		<u>24,593</u>

NET ASSETS

Invested in Capital Asset, Net of Related Debt		638,603
Restricted For:		
Road Improvements		190,570
Unrestricted		1,052,049
TOTAL NET ASSETS	\$	<u><u>1,881,222</u></u>

TOWN OF CROSS ROADS, TX

**GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2013

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	\$ (441,897)	\$ 132,217	\$ 0	\$ 0	\$ (309,680)
Public Health	(112,620)	88,511	0	0	(24,109)
Streets	(99,673)	25,120	0	0	(74,553)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (654,190)	\$ 245,848	\$ 0	\$ 0	(408,342)
GENERAL REVENUE					
Sales & Beverage Taxes					480,378
Franchise Fees					71,789
Interest Income					5,698
TOTAL GENERAL REVENUE					557,865
CHANGE IN NET ASSETS					149,523
NET ASSETS - BEGINNING					<u>1,731,699</u>
NET ASSETS - ENDING					<u><u>\$ 1,881,222</u></u>

TOWN OF CROSS ROADS, TX

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

For the Year Ended September 30, 2013

REVENUES	
Sales & Beverage Taxes	\$ 480,378
Franchise Fees	71,789
Permits & Fees	239,224
Court Revenues	518
Miscellaneous Revenues	6,106
Interest Income	5,698
TOTAL REVENUES	<u>803,713</u>
EXPENDITURES	
General Government	417,249
Public Health	112,620
Streets	17,838
Capital Outlay	15,112
TOTAL EXPENDITURES	<u>562,819</u>
EXCESS OF REVENUES OVER EXPENDITURES	240,894
FUND BALANCE - BEGINNING	<u>1,022,125</u>
FUND BALANCE - ENDING	<u>\$ 1,263,019</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, 2013

Net Change in Fund Balance - Governmental Funds	\$ 240,894
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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	15,112
Depreciation expense on capital assets	(92,983)

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>(13,500)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 149,523</u>
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TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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:

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.

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.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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, 2013

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, 2013. 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. 68, *Accounting & Financial Reporting for Pensions*;
- Statement No. 70, *Combinations & Disposals of Government Operations*.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

New pronouncements not yet in effect as of September 30, 2013, 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, 2013

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, 2013

- 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, 2013 the carrying amount of the Town's cash accounts were \$1,196,326, made up of checking and money market accounts at a local financial institution. The Town did not own any investments at September 30, 2013.

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, 2013 the Town's bank balances (per bank) totaled \$1,256,559. Of the bank balances, \$250,000 was covered by federal depository insurance and the remaining \$1,006,559 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, 2013.

Securities pledged by the Town's depository institution at September 30, 2013 are as follows:

SECURITY	PAR	FMV
Alvarado TX ISD Bond	205,000	212,388
Celina TX Bond	285,000	290,435
Grand Prairie TX Bond	200,000	205,818
Teague Tex, Bond	140,000	144,472
Sweetwater, TX, Bond	200,000	206,680
Seguin, TX, Bond	375,000	359,205
Denton County TX Bond	<u>235,000</u>	<u>240,095</u>
	<u>\$1,640,000</u>	<u>\$1,659,093</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, 2013

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 \$64,815 of road improvement sales taxes during the fiscal year. Unspent road improvement funds at September 30, 2013 were \$133,874. 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	\$	110,566
Building Fund		160,129
Legal Contingency		261,672
Public Safety		278,739
Road Improvement		133,874
Forest Hills Developer Funds		<u>56,696</u>
	\$	<u>1,001,676</u>

NOTE 4: CAPITAL ASSETS:

Capital assets activity for the fiscal year ended September 30, 2013 is as follows:

CAPITAL ASSETS GOVERNMENTAL ACTIVITIES	BEGINNING	ADDITIONS	RETIREMENTS	ENDING
Land	\$ 108,090	\$ 0	\$ 0	\$ 108,090
Building	193,898	7,527	0	201,425
Furniture & Equipment	62,009	7,585	9,523	60,071
Infrastructure	<u>1,032,400</u>	<u>0</u>	<u>0</u>	<u>1,032,400</u>
TOTAL AT HISTORICAL COST	<u>1,396,397</u>	<u>15,112</u>	<u>9,523</u>	<u>1,401,986</u>
LESS ACCUMULATED DEPRECIATION				
Land	0	0	0	0
Building	63,434	5,776	0	69,210
Furniture & Equipment	31,664	5,372	9,523	27,513
Infrastructure	<u>584,825</u>	<u>81,835</u>	<u>0</u>	<u>666,660</u>
TOTAL ACCUMULATED DEPRECIATION	<u>679,923</u>	<u>92,983</u>	<u>9,523</u>	<u>763,383</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 716,474</u>	<u>\$ (77,871)</u>	<u>\$ 0</u>	<u>\$ 638,603</u>

DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES AS FOLLOWS:

General Government	\$	11,148
Public Works		<u>81,835</u>
TOTAL DEPRECIATION EXPENSE	\$	<u>92,983</u>

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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, 2013, the Town had a liability for unpaid compensated absence in the amount of \$20,400.

NOTE 8: RETIREMENT PLAN:

In March 2013 the Town joined the Texas Municipal Retirement System (TMRS) to provide retirement benefits to its employees. Prior to joining TMRS the Town contributed to SEP-IRA plans for its employees. The Town contributed \$7,020 for the period October 1, 2012 through February 28, 2013 to the employees SEP-IRA accounts. Information related to the TMRS plan is as follows:

Plan Description

The Town provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public retirement system. The plan provisions that have been adopted are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, PO Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

The plan provisions were adopted by the governing body of the Town, within the options available in the state statutes governing TMRS. Plan provisions for the Town were as follows:

	Plan Year 2013
Employee deposit rate	7.00%
Matching ratio (Town to employee)	7.14 to 7
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5.0/20
Updated service credit	100% transfers
Annuity increase (to retirees)	70% of CPI

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service cost contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually reporting benefits, such as updates service credits and annuity increases.

The Town contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation/(asset) are as follows:

	2013
Annual required contribution rate	7.14%
Annual required contribution (ARC)	\$ 8,311
Interest on net pension obligation	\$ 0
Adjustment to the ARC	\$ 0
Annual pension cost	\$ 8,311
Contributions funded	\$ 8,311
Increase (decrease) in net pension obligation	\$ 0
Net pension obligation (asset) at beginning of year	\$ 0
Net pension obligation (asset) at end of year	\$ 0

As the plan was formed in the current fiscal year there is no actuarial valuation or funding status information to disclose.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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 January 20, 2014 (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, 2013

RESOURCES (INFLOWS)	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	AMENDED BUDGET		
Sales & Beverage Taxes	415,950	455,599	480,378	24,779
Franchise Fees	71,858	70,226	71,789	1,563
Permits & Fees	27,300	239,224	239,224	0
Court Revenues	1,000	518	518	0
Misc. Revenues	3,360	6,106	6,106	0
Interest Income	3,744	5,698	5,698	0
TOTAL REVENUES	523,212	777,371	803,713	26,342
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General Government:				
Advertising & Promotion	13,700	19,367	19,367	0
Dues, Subscriptions & Public Notices	1,500	3,705	3,705	0
Election Costs	2,400	2,870	2,870	0
Insurance	2,400	2,951	2,951	0
Meetings, Travel & Training	7,320	4,181	4,181	0
Accounting & Auditing	2,300	2,300	2,300	0
Legal	18,000	22,723	22,523	200
Economic Development	9,000	4,273	4,273	0
Other Professional Services	6,500	12,618	12,618	0
Engineering Fees	20,790	32,342	35,112	(2,770)
Codification Services	2,000	1,224	1,224	0
Planning Services	21,500	10,515	10,515	0
Library Inter-Local	12,000	12,000	12,000	0
Municipal Court/Code Enforcement	5,400	4,242	4,732	(490)
Building, Parks & Equipment Maint.	16,200	13,245	13,245	0
Supplies, Technology & Minor Equip.	13,775	16,800	16,608	192
Utilities	8,400	8,490	8,490	0
Wages - Town Administrator	62,498	67,023	77,484	(10,461)
Wages - Town Secretary	36,000	41,058	41,058	0
Wages - Office/Building Clerk	42,384	45,367	47,520	(2,153)
Payroll Taxes	12,679	25,503	12,761	12,742
Employee Health Insurance	50,827	48,116	46,216	1,900
Employee Retirement	15,732	15,454	15,496	(42)
Total General Government	383,305	416,367	417,249	(882)
Public Health & Safety:				
Inspection Services	11,000	80,338	76,665	3,673
Inter-Local Ambulance & Fire	37,600	35,955	35,955	0
Total Public Health	48,600	116,293	112,620	3,673
Streets:				
Street/Drainage Repairs & Signs	88,307	17,838	17,838	0
Total Streets	88,307	17,838	17,838	0
Capital Additions:				
Operations	3,000	14,804	15,112	(308)
Streets	0	0	0	0
Total Capital Outlay	3,000	14,804	15,112	(308)
TOTAL APPROPRIATIONS	523,212	565,302	562,819	2,483
EXCESS OF RESOURCES OVER (UNDER) APPROPRIATIONS	0	212,069	240,894	\$ 23,859
BEGINNING BUDGETARY FUND BAL	1,022,125	1,022,125	1,022,125	
ENDING BUDGETARY FUND BAL	\$ 1,022,125	\$ 1,234,194	\$ 1,263,019	

OTHER SUPPLEMENTARY INFORMATION

TOWN OF CROSS ROADS, TX

COMPARATIVE SCHEDULE OF REVENUES & EXPENDITURES - GENERAL FUND
For the Years Ended September 30, 2013 & 2012

	2013	2012
REVENUES		
Sales & Beverage Taxes	\$ 480,378	\$ 402,217
Franchise Fees	71,789	71,810
Permits & Fees	239,224	71,506
Court Revenues	518	748
Misc. Revenues	6,106	3,716
Denton County Interlocal Road Reimbursements	0	0
Interest Income	5,698	4,739
TOTAL REVENUES	803,713	554,736
EXPENDITURES		
General Government:		
Advertising & Promotion	19,367	9,118
Dues, Subscriptions & Public Notices	3,705	1,624
Election Costs	2,870	75
Insurance	2,951	1,806
Meeting, Travel & Training	4,181	2,896
Accounting & Auditing	2,300	2,100
Legal	22,523	9,918
Economic Development	4,273	15,565
Other Professional Services	12,618	3,703
Engineering Fees	35,112	16,352
Codification Services	1,224	912
Planning Services	10,515	0
Library Inter-Local	12,000	8,000
Municipal Court/Code Enforcement	4,732	5,732
Building, Parks & Equipment Maint.	13,245	11,158
Office Supplies & Minor Equip.	16,608	11,070
Utilities	8,490	7,652
Wages-Town Administrator	77,484	59,412
Wages - Town Secretary	41,058	0
Wages - Office/Building Clerk	47,520	40,300
Payroll Taxes	12,761	8,150
Employee Health Insurance	46,216	32,546
Employee Retirement	15,496	14,912
Total General Government	417,249	263,001
Public Health & Safety:		
Inspection Services	76,665	27,710
Inter-Local Ambulance & Fire	35,955	27,436
Total Public Health	112,620	55,146
Streets:		
Street/Drainage Repairs & Signs	17,838	60,103
Total Streets	17,838	60,103
Capital Additions:		
Operations	15,112	10,560
Streets	0	2,900
Total Capital Outlay	15,112	13,460
TOTAL EXPENDITURES	562,819	391,710
EXCESS OF REVENUES OVER EXPENDITURE:	\$ 240,894	\$ 163,026

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, 2013, 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
January 20, 2014

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

January 20, 2014

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, 2013, and have issued my report thereon dated January 20, 2014. 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 December 17, 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 2013. 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 January 9, 2014.

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