

TOWN OF CROSS ROADS, TX

FINANCIAL STATEMENTS

September 30, 2015

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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 and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Cross Roads, Texas, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, the schedule of changes in net pension liability and related ratios and the schedule of pension contributions 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.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements the collectively comprise the Town of Cross Roads' basic financial statements. The comparative schedule of revenues and expenditures – general fund is presented for additional analysis and is not a part of the basic financial statements.

The comparative schedule of revenues and expenditures – general fund is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, comparative schedule of revenues and expenditures – general fund is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

William C. Spore, P.C.

Keller, Texas

Certified Public Accountants

January 18, 2016

TOWN OF CROSS ROADS, TX

TOWN OFFICIALS

September 30, 2015

MAYOR

Steve Smith

MAYOR PRO TEM

Tony Russo

COUNCIL MEMBERS

Bruce Birdsong

Larry Fisher

Alan Hauf

David Meek

ADMINISTRATOR

Becky Ross

SECRETARY

Teddi Lee

CITY ATTORNEY

David Berman

TOWN OF CROSS ROADS, TX
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2015

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, 2015. 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, 2015 by \$2,963,721, an increase of \$441,146.
- The Town's governmental fund balance increased \$289,690 during the 2015 fiscal year to a total of \$1,503,835.

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 Position 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 Position (page 9) presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities (page 10) presents information showing how the Town's net position changed during the fiscal year. All changes in net position 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 is 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 11) and the Statement of Revenues, Expenditures and Changes in Fund Balance (page 12) 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 Position and the Statement of Activities) and governmental funds in 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 13.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A portion of the Town's net position 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 position as of September 30, 2015 and 2014 are as follows:

	2015	2014
Current and Other Assets	\$ 1,574,125	\$ 1,227,969
Capital Assets	<u>1,498,719</u>	<u>1,361,975</u>
Total Assets	<u>3,072,844</u>	<u>2,589,944</u>
Liabilities	<u>(109,123)</u>	<u>(40,369)</u>
Net Assets:		
Invested in Capital Assets, net		
of debt	1,498,719	1,361,975
Restricted	414,391	259,776
Unrestricted	<u>1,050,611</u>	<u>927,824</u>
Total Net Assets	\$ <u>2,963,721</u>	\$ <u>2,549,575</u>

The Town's net position total \$2,963,721, including liquid assets (cash and receivables less accounts payable) of \$1,493,735. 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, 2015 & September 30, 2014 were as follows.

	2015	2014
REVENUES		
Program Revenues:		
Charges for Services	\$ 187,197	\$ 483,528
Grants & Donations	0	200,000
General Revenues:		
Sales & Beverage Taxes	1,741,510	1,327,303
Franchise Fees	109,592	94,929
Interest Income	6,927	6,362
Total Revenues	<u>2,045,226</u>	<u>2,112,122</u>
PROGRAM EXPENSES		
General Government	811,942	645,621
Public Health & Safety	562,901	625,361
Streets	<u>256,237</u>	<u>150,642</u>
Total Expenses	<u>1,631,080</u>	<u>1,421,624</u>
Increase (Decrease) in		
Net Assets	\$ <u>414,146</u>	\$ <u>690,498</u>

Charges for services include developer/subdivision fees, road improvement fees, building permit, inspection fees and miscellaneous revenues. In 2014 these fees included the collection of a \$150,000 tree mitigation fee related to a settlement with a developer related to trees that were destroyed in violation of the Town's tree ordinances. There is no similar revenue item in 2015. Residential permit revenues decreased \$90,814 during 2015 as the Town experienced a slowdown in residential growth.

During 2014 the Town entered into an interlocal agreement with Denton County for road improvements. As part of the agreement the Town received \$200,000 of road improvement reimbursements from Denton County. There were no similar revenues in 2015.

The Town's sales tax revenues increased to \$1,741,510 a 31% increase over 2014 sales tax revenues. The Walmart store along with the opening of many new commercial developments along Highway 380 has significantly added to the sales tax base in the Town.

In May 2013 the Town's citizen's approved the creation of a Municipal Development District and adding 1/2% to the Town's sales tax rate. The increased sales tax rate became effective October 1, 2013 and the Municipal Development District collected \$234,399 of sales tax revenues during 2015 compared to \$147,948 in 2014.

During 2013 the Town entered into an interlocal agreement with the City of Krugerville to create the Northeast Police Department (NEPD) to be effective October 1, 2013. In 2014, as part of the agreement the Town agreed to provide the NEPD with startup cost funding of \$150,000 and annual operating support of \$300,000. For 2015 the Town's support for the NEPD was \$416,667. These expenses are included in the Public Health and Safety expenses.

An analysis of the Town's significant general government expenses in 2015 and 2014 is as follows:

GENERAL GOVERNMENT	2015	2014	INCREASE
Advertising & Promotion	\$ 16,173	\$ 32,813	\$ (16,640)
Legal Fees	228,827	11,596	217,231
Engineering Fees	53,790	56,026	(2,236)
Planning Services	50,000	8,000	42,000
Building, Equip. & Park Maint.	28,902	39,878	(10,976)
Tree Mitigation	12,105	138,000	(125,895)
Wages-Town Administrator	60,171	18,038	42,133
Wages-Town Secretary	26,917	69,708	(42,791)
Wages-Planning Director	42,785	58,125	(15,340)
Wages-Administrative Ass't	60,750	50,750	10,000
Payroll Taxes	15,276	12,913	2,363
Employee Health Insurance	22,490	41,453	(18,963)
Employee Retirement	\$ 15,083	\$ 14,297	\$ 786

The Town's legal fees increased significantly in 2015 due litigation related to the Town's border and ETJ. The Town was successful in defending its' boundary in the litigation.

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.

Governmental Fund revenues in 2014 included \$150,000 of tree mitigation revenues and \$200,000 of Denton County Roads funds. There were no similar revenues in 2015. Sales tax and franchise tax revenues increased in 2015 from 2014 while permit and fee revenues decreased.

Total administrative expenditures increased 18%, public health expenses decreased 10%% and street maintenance expenditures increased 119% from 2014 to 2015. During 2015 the Town began a major road improvement project in conjunction with Denton County. During 2015 the Town expended 223,650 related to the project. These expenditures are included in capital outlay expenditures.

Total general fund-fund basis revenues exceeded fund basis expenditures in 2015 by \$204,498 in 2015 and the Town's general fund balance increased to \$1,270,378.

The Town has the following restricted and committed fund balances at September 2015:

RESTRICTED/COMMITTED TO:	YEAR END BALANCE
Municipal Utility District	\$ 233,457
Road Improvement	90,887
Forest Hills Developer Funds	90,048
Legal Contingency Fund	129,991
Public Safety	50,930
	<u>\$ 595,313</u>

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

General Fund Budgetary Highlights

The Town's original budgeted expenditures for 2015 exceeded the originally budgeted revenues by \$3,242. This deficit was to be funded by funds on hand at the beginning of the fiscal year. The original budget was amended in October 2015 to reflect increased revenues and expenditures during 2015. The amended budget anticipated a surplus of \$192,821.

A comparison of actual revenues and expenditures to budgeted revenues and expenditures is as follows:

	AMENDED BUDGET	ACTUAL	VARIANCE
TOTAL REVENUES	\$ 1,740,783	\$ 1,959,689	\$ 218,906
EXPENDITURES:			
General Government	739,682	756,029	(16,347)
Public Health & Safety	557,658	562,901	(5,243)
Streets	148,152	148,141	11
Capital Outlay	102,470	288,120	(185,650)
TOTAL EXPENDITURES	<u>1,547,962</u>	<u>1,755,191</u>	<u>(207,229)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ <u>192,821</u>	\$ <u>204,498</u>	\$ <u>11,677</u>

CAPITAL ASSETS

The Town's investment in capital assets as of September 30, 2015 amounts to \$1,361,975 (net of depreciation). The investment in capital assets includes land, buildings, equipment and infrastructure. Capital additions for 2015 included building improvements of \$249,184, street improvements of \$451,618, equipment additions of \$97,811 and park improvements of \$29,596. A schedule of capital assets is as follows:

CAPITAL ASSETS AT YEAR END NET OF ACCUMULATED DEPRECIATION

	<u>2015</u>	<u>2014</u>
Land	\$ 108,090	\$ 108,090
Buildings	378,265	374,221
Equipment	162,324	145,177
Infrastructure	<u>850,040</u>	<u>734,487</u>
TOTAL	<u>\$ 1,498,719</u>	<u>\$ 1,361,975</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 general fund revenues for fiscal year 2015 total \$5,105,015, including \$1,455,000 of sales tax revenues, \$195,250 of permit and fee revenues, \$2,925,000 for Denton County road contributions and \$400,000 transfer from the Municipal Development District. Budgeted general fund expenditures for 2015 total \$5,304,885, including \$444,485 for NEPD operating support, \$40,000 for town improvements and capital outlay, \$3,700,000 for street improvements, \$250,000 for a reserve future street improvements and \$282,500 for personnel costs.

The Municipal Development District has budgeted 2015 revenues of \$200,000 from sales tax collections and budgeted expenditures of \$428,000 including \$400,000 to be transferred to the general fund for road improvement projects.

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 POSITION

September 30, 2015

	GOVERNMENTAL ACTIVITIES
ASSETS	
CURRENT ASSETS	
Cash	\$ 1,340,324
Receivables	219,580
Prepaid Expenses	2,089
TOTAL CURRENT ASSETS	<u>1,561,993</u>
CAPITAL ASSETS	
Land	108,090
Buildings	468,407
Equipment	220,399
Infrastructure	1,707,668
Accumulated Depreciation	(1,005,845)
TOTAL CAPITAL ASSETS	<u>1,498,719</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	<u>12,132</u>
TOTAL ASSETS	<u>3,072,844</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	56,748
Accrued Liabilities	1,410
Accrued Compensated Absences	10,100
TOTAL CURRENT LIABILITIES	<u>68,258</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Related	<u>14,346</u>
NET PENSION LIABILITY	<u>26,519</u>
TOTAL LIABILITIES	<u>109,123</u>
NET POSITION	
Invested in Capital Asset, Net of Related Debt	1,498,719
Restricted For:	
Road Improvements	180,934
Municipal Development	233,457
Unrestricted	1,050,611
TOTAL NET POSITION	<u>\$ 2,963,721</u>

TOWN OF CROSS ROADS, TX

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

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	\$ (811,942)	\$ 109,553	\$ 0	\$ 0	\$ (702,389)
Public Health	(562,901)	56,293	0	0	(506,608)
Streets	(256,237)	21,351	0	0	(234,886)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (1,631,080)	\$ 187,197	\$ 0	\$ 0	(1,443,883)
GENERAL REVENUE					
Sales & Beverage Taxes					1,741,510
Franchise Fees					109,592
Interest Income					6,927
TOTAL GENERAL REVENUE					1,858,029
CHANGE IN NET POSITION					414,146
NET POSITION - BEGINNING (As restated - Note 10)					2,549,575
NET POSITION - ENDING					\$ 2,963,721

TOWN OF CROSS ROADS, TX

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2015

	GENERAL FUND	MUNICIPAL DEVELOPMENT DISTRICT	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	\$ 771,186	\$ 0	\$ 771,186
Restricted Cash	361,856	207,282	569,138
Receivable:			0
Sales & Beverage Taxes	180,550	26,520	207,070
Franchise Fees	12,510	0	12,510
Interfund	345	(345)	0
Prepaid Expenses	2,089	0	2,089
TOTAL ASSETS	<u>\$ 1,328,536</u>	<u>\$ 233,457</u>	<u>\$ 1,561,993</u>
LIABILITIES			
Accounts Payable	\$ 56,748	\$ 0	\$ 56,748
Developer Advances	1,410	0	1,410
TOTAL LIABILITIES	<u>58,158</u>	<u>0</u>	<u>58,158</u>
FUND BALANCE			
Fund Balance - Nonspendable			
Prepaid Expenses	2,089	0	2,089
Fund Balance - Restricted For:			
Road Improvements	180,935	0	180,935
Municipal Development	0	233,457	233,457
Fund Balance - Committed To:			
Public Safety	129,991	0	129,991
Legal Contingency	50,930	0	50,930
Fund Balance - Unassigned	906,433	0	906,433
TOTAL FUND BALANCE	<u>1,270,378</u>	<u>233,457</u>	<u>1,503,835</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 1,328,536</u>	<u>\$ 233,457</u>	<u>\$ 1,561,993</u>

TOWN OF CROSS ROADS, TX

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION

September 30, 2015

Fund Balance Above	\$	1,503,835
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		1,498,719
Long term liabilities and not due and payable in the current period and therefore are not reported in the Fund Balance Sheet:		(10,100)
Accrued compensated absences		
Net pension liability and related deferred inflows and deferred outflows		(28,733)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>2,963,721</u>

TOWN OF CROSS ROADS, TX

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

For the Year Ended September 30, 2015

	GENERAL FUND	MUNICIPAL DEVELOPMENT DISTRICT	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales & Beverage Taxes	\$ 1,507,111	\$ 234,399	\$ 1,741,510
Franchise Fees	109,592	0	109,592
Permits & Fees	179,490	0	179,490
Miscellaneous Revenues	7,707	0	7,707
Interest Income	5,789	1,138	6,927
TOTAL REVENUES	<u>1,809,689</u>	<u>235,537</u>	<u>2,045,226</u>
EXPENDITURES			
General Government	756,029	345	756,374
Public Health	562,901	0	562,901
Streets	148,141	0	148,141
Capital Outlay	288,120	0	288,120
TOTAL EXPENDITURES	<u>1,755,191</u>	<u>345</u>	<u>1,755,536</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE TRANSFERS	<u>54,498</u>	<u>235,192</u>	<u>289,690</u>
TRANSFERS	150,000	(150,000)	0
EXCESS OF REVENUES OVER EXPENDITUR	204,498	85,192	289,690
FUND BALANCE - BEGINNING	<u>1,065,880</u>	<u>148,265</u>	<u>1,214,145</u>
FUND BALANCE - ENDING	<u>\$ 1,270,378</u>	<u>\$ 233,457</u>	<u>\$ 1,503,835</u>

TOWN OF CROSS ROADS, TX

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, 2015

Net Change in Fund Balance - Governmental Funds	\$	289,690
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 are allocated over the estimated useful lives as depreciation expense:		
Capital assets recorded in the current period		288,120
Depreciation expense on capital assets		(151,376)
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		(5,700)
Pension expense		(6,588)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>414,146</u>

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

TOWNNOTE 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

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Town of Cross Roads (the primary government) and its component units. The following component units are included in the Town's reporting entity because of their operational and financial relationship with the Town.

Blended component units:

The Cross Roads Municipal Development District (the MDD) is governed by a board of seven directors, all of whom are appointed by the Town Council of the Town of Cross Roads and any of whom can be removed from office by the Town's Council at its' will. The MDD was formed in the state of Texas as a non-profit municipal development district under the laws passed by the Texas Legislature in 2005 which authorized the establishment of municipal development districts... The purpose of the MDD is to promote development within the Town of Cross Roads. Separate financial statements of the MDD can be obtained from the Town's administrative offices. The MDD began collecting sales tax in October 2014.

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, parks, streets, and general administrative services are

TOWN OF CROSS ROADS, TX
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

classified as governmental activities. The Town does not provide any business-type activities.

In the government-wide Statement of Net Position 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 position is reported in three parts- invested in capital assets, net of related debt; restricted net position; and unrestricted net position. 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 position 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.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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.

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 Position and the operating statements present increases (revenues) and decreases (expenses) in Net Position. 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. Effective October 1, 2014 the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement made significant modifications to reporting of employee pension benefits. The accounting principles governing the reported amounts, financial presentations, and disclosures are subject to change from time to time based on new pronouncements

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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. 72, *Technical Corrections - amendment of GASB no. 10 and No. 62*. This statement will not affect the Town.
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68*. This statement will not affect the Town.
- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. This statement will not affect the Town.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. This statement will not affect the Town.

New pronouncements not yet in effect as of September 30, 2015, 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 2016, 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 \$1,000 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

3. Prepaid Expenses:

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

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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.

5. Deferred Outflows of resources:

The Town reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. Deferred outflows of resources reported in this year's financial statement include (1) a deferred outflow of resources for contributions made to the Town's retirement plan between the measurement date of the net pension liabilities from the plan and the end of the Town's fiscal year end and (2) deferred outflows of resources related to differences between the plans' projected and actual earnings. The deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred outflows related to differences between projected and actual plan earnings will be amortized to pension expense over a total of five years, including the current fiscal year. No deferred inflows of resources affect the governmental funds financial statements in the current year.

6. Deferred Inflows of resources:

The Town's statement of government-wide net position reports a separate section for deferred inflows of revenues. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of revenues are reported by the Town include deferred inflows related to between the expected and actual demographics of the Town's pension plan. This deferred amount will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan. No deferred outflows of resources affect the governmental funds financial statements in the current year.

7. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF CROSS ROADS, TX
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

8. Restricted Resources:

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

9. Equity Classifications:

Government-wide Statements

Equity is classified as net position 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 position - Consists of net position 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 position - All other net position 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.
- 3: Prior to October 1, the budget is legally enacted through the passage of an ordinance.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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.

For the fiscal year ending September 30, 2015 the following departments had expenditures that exceeded appropriations:

	<u>Amount</u>
Administration	\$ 16,347
Public Health & Safety	\$ 5,243
Capital Outlay	\$185,650

NOTE 2: DEPOSITS:

At September 30, 2015 the carrying amount of the Town's cash accounts were \$1,340,324, made up of checking and money market accounts at a local financial institution. The Town did not own any investments at September 30, 2015.

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, 2015 the Town's bank balances (per bank) totaled \$1,491,330. Of the bank balances, \$250,000 was covered by federal depository insurance and the remaining \$1,241,330 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, 2015.

Securities pledged by the Town's depository institution at September 30, 2015 are as follows:

SECURITY	PAR	FMV
Avery Ranch Rd Bond	200,000	204,548
Bailey County Bond	655,000	682,969
Melissa TX Bond	220,000	239,382
Celina TX Bond	285,000	306,044
Grand Prairie TX Bond	200,000	212,382
Uvalde TX, Bond	<u>500,000</u>	<u>544,700</u>
	<u>\$2,060,000</u>	<u>\$2,190,025</u>

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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

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

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 \$203,904 of road improvement sales taxes during the fiscal year. Unspent road improvement funds at September 30, 2015 were \$90,886. 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:

Municipal Development Dist	\$	207,282
Legal Contingency		50,930
Public Safety		129,991
Road Improvement		90,887
Forest Hills Developer Funds		<u>90,048</u>
	\$	<u>569,138</u>

NOTE 4: CAPITAL ASSETS:

Capital assets activity for the fiscal year ended September 30, 2015 is as follows:

CAPITAL ASSETS				
GOVERNMENTAL ACTIVITIES	BEGINNING	ADDITIONS	RETIREMENTS	ENDING
Land	\$ 108,090	\$ 0	\$ 0	\$ 108,090
Building	450,609	17,798	0	468,407
Furniture & Equipment	173,727	46,672	0	220,399
Infrastructure	<u>1,484,018</u>	<u>223,650</u>	<u>0</u>	<u>1,707,668</u>
TOTAL AT HISTORICAL COST	<u>2,216,444</u>	<u>288,120</u>	<u>0</u>	<u>2,504,564</u>
 LESS ACCUMULATED DEPRECIATION				
Land	0	0	0	0
Building	76,388	13,754	0	90,142
Furniture & Equipment	28,550	29,525	0	58,075
Infrastructure	<u>749,531</u>	<u>108,097</u>	<u>0</u>	<u>857,628</u>
TOTAL ACCUMULATED DEPRECIATION	<u>854,469</u>	<u>151,376</u>	<u>0</u>	<u>1,005,845</u>
 TOTAL CAPITAL ASSETS, NET	 <u>\$ 1,361,975</u>	 <u>\$ 136,744</u>	 <u>\$ 0</u>	 <u>\$ 1,498,719</u>

TOWN OF CROSS ROADS, TX
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES AS FOLLOWS:

General Government	\$	43,280
Public Works		<u>108,096</u>
TOTAL DEPRECIATION EXPENSE	\$	<u><u>151,376</u></u>

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, 2015, the Town had a liability for unpaid compensated absence in the amount of \$10,100.

NOTE 8: RETIREMENT PLAN:

A. Plan Description

The Town participates as one of 860 plans in the non-traditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) can be obtained at www.TMRS.com.

All eligible employees of the Town are required to participate in TMRS.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

B. Benefits provided

TMRS provides retirement, disability and death benefits. Benefits are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the Town-financed monetary credits with interest were used to purchase an annuity. Members choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

The Town has adopted the following plan provisions:

	Plan Year 2014	Plan Year 2015
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5 or 0/20	60/5 or 0/20

At the December 31, 2014 valuation and measurement date, the following number of employees covered by the benefit terms was:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>3</u>
	4

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the Town matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contribution rate for each Town is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 8.15% and 7.14% for the calendar years 2015 and 2014 respectively. The Town’s contributions to TMRS for the fiscal year ended September 30, 2015 were \$15,083 and were equal to the required contributions.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

D. Net Pension Liability or Assets

The Town's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total pension Liability (TPL) used to calculate the Net pension Liability was determined by actuarial valuation as of that date.

Actuarial Assumptions:

The Total pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For additional conservatism lower termination rates are used, with maximum multipliers of 75%, and the life expectancy is loaded by decreasing the mortality rates by 1% for every active member less than 15. These rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

TOWN OF CROSS ROADS, TX
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Changes in Net pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2013	\$ 57,096	\$ 24,970	\$ 32,126
Service Cost	32,429		32,429
Interest	5,048		5,048
Differences between expected and actual results	(15,894)		(15,894)
Contributions - employer		12,846	(12,846)
Contributions - employee		12,923	(12,923)
Net investment income		1,437	(1,437)
Benefit Payments, including refunds of employee contributions	(2,382)	(2,382)	0
Administrative expense		(15)	15
Other		(1)	1
Net Changes	<u>19,201</u>	<u>24,808</u>	<u>(5,607)</u>
Balance at December 31, 2014	\$ <u>76,297</u>	\$ <u>49,778</u>	\$ <u>26,519</u>

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the Town, calculated using the discount rate of 7.0%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6%)	Discount Rate (7%)	1% Increase in Discount Rate (8%)
Town's Net Pension Liability	\$ <u>39,615</u>	\$ <u>26,519</u>	\$ <u>16,065</u>

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

E: Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2015 the Town recognized pension expense of \$18,408.

At September 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following Sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources		Net
Differences between expected and actual economic experience	\$ 249	\$ 0	\$	249
Differences between projected and actual investment earnings	0	14,346		(14,346)
To be recognized in the future	249	14,346	\$	(14,097)
 Contributions subsequent to the measurement date	 11,883	 0		
 Total	\$ 12,132	\$ 14,346		

\$11,883 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	
2015	\$ (1,486)
2016	(1,486)
2017	(1,486)
2018	(1,485)
2019	(1,548)
Thereafter	(6,606)
	\$ (14,097)

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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: RELATED ORGANIZATIONS AND JOINT VENTURES:

In 2013 the Town entered into an interlocal agreement with the City of Krugerville to create the Northeast Police Department (NEPD) which became effective October 1, 2013. The term of this agreement runs through September 30, 2016 and the agreement automatically renews for additional periods of two years each unless terminated by one of the parties six months prior to the next expiration date. The affairs of the NEPD are administered by a six member commission of which three of the commissioners are from Cross Roads and three commissioners are from Krugerville.

Cross Roads provided \$416,667 of support to NEPD during fiscal year 2015 and has agreed to provide \$444,485 in support for fiscal year 2016. Future years support will be determined based on the use of the police services by each municipality.

In 2013 the Town entered into an interlocal agreement with the City of Krugerville to create the Northeast Municipal Court (NEMC) which became effective October 1, 2013. The term of this agreement runs concurrently with the terms of the NEPD agreement discussed above. The affairs of the NEMC are administered by the City Council of the City of Krugerville.

The NEMC will be funded through court revenues generated by citations issued by the NEPD and any excess funds at year end will first be placed in a reserve for three months projected operating costs and any excess funds above this reserve requirement will be distributed to each municipality based on each municipality's respective contributions to the combined courts and police operation each year.

TOWN OF CROSS ROADS, TX

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 11: ADOPTION OF GASB 68:

The Town has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* affective with these financial statements. In accordance with this statement, the Town has restated its September 30, 2014 government-wide unrestricted net positions to reflect the amount of net pension liability and the related deferred outflows of resources for contributions (Town contributions made after December 31, 2013, the measurement date for fiscal year September 30, 2014 fiscal year pension reporting, through September 30, 2014) as of September 30, 2014. The amount of the required restatements is as follows:

	Increase in Deferred Outflows <u>Contributions</u>	Increase in Net pension <u>Liability</u>	Decrease in Unrestricted <u>Net Position</u>
Governmental Activities	\$ 9,981	\$32,126	\$22,145

NOTE 12: SUBSEQUENT EVENTS

The Town has evaluated all events and transactions that occurred after September 30, 2015 through the date the financial statement were available to be issued. During this period there were no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CROSS ROADS, TX

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2015

RESOURCES (INFLOWS)	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL AMOUNTS	
Sales & Beverage Taxes	\$ 1,198,500	\$ 1,437,639	\$ 1,507,111	\$ 69,472
Franchise Fees	88,700	108,515	109,592	1,077
Permits & Fees	256,500	180,950	179,490	(1,460)
Misc. Revenues	6,100	8,157	7,707	(450)
Transfer from Municipal Devel. Dist.	0	0	150,000	150,000
Interest Income	3,200	5,522	5,789	267
TOTAL REVENUES	1,553,000	1,740,783	1,959,689	218,906
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General Government:				
Advertising & Promotion	30,000	16,173	16,173	0
Public Notices	2,500	2,591	3,127	(536)
Election Costs	3,000	8,880	8,880	0
Insurance	5,000	5,160	4,088	1,072
Meetings, Travel & Training	16,000	8,610	8,610	0
Accounting & Auditing	3,300	3,300	3,300	0
Legal	20,000	225,315	228,827	(3,512)
Economic Development Grants	16,000	9,470	15,170	(5,700)
Other Professional Services	15,500	6,252	7,059	(807)
Engineering Fees	45,000	53,790	53,790	0
Codification Services	1,500	3,312	3,312	0
Planning Services	50,000	50,000	50,000	0
Library Inter-Local	15,000	14,976	14,977	(1)
Tree Mitigation	12,000	12,105	12,105	0
Building, Parks & Equipment Maint.	35,000	28,808	28,902	(94)
Supplies & Minor Equip.	17,663	17,176	17,719	(543)
Technology	37,520	19,182	26,094	(6,912)
Utilities	12,500	10,424	10,424	0
Wages - Town Administrator	74,873	60,171	60,171	0
Wages - Town Secretary	0	26,917	26,917	0
Wages - Planning Director	67,292	42,785	42,785	0
Wages - Exec. Administrative Ass't	56,077	56,423	56,423	0
Wages - Administrative Ass't	45,000	4,327	4,327	0
Payroll Taxes	16,250	15,276	15,276	0
Employee Health Insurance	45,000	21,345	22,490	(1,145)
Employee Retirement	20,000	16,914	15,083	1,831
Total General Government	661,975	739,682	756,029	(16,347)
Public Health & Safety:				
Animal Control	8,000	6,330	9,475	(3,145)
Inspection Svcs/Code Enforcement	76,000	73,536	75,634	(2,098)
Police - Transfer for Equipment	0	9,615	9,615	0
Inter-Local Police Svcs	416,667	416,667	416,667	0
Inter-Local Ambulance & Fire	53,600	51,510	51,510	0
Total Public Health	554,267	557,658	562,901	(5,243)

TOWN OF CROSS ROADS, TX

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended September 30, 2015

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	AMENDED BUDGET		
Streets:				
Street/Drainage Repairs & Signs	155,000	148,152	148,141	11
Total Streets	155,000	148,152	148,141	11
Capital Additions:				
Operations	35,000	64,470	64,470	0
Streets	150,000	38,000	223,650	(185,650)
Total Capital Outlay	185,000	102,470	288,120	(185,650)
TOTAL APPROPRIATIONS	1,556,242	1,547,962	1,755,191	(207,229)
EXCESS OF RESOURCES OVER (UNDER) APPROPRIATIONS	(3,242)	192,821	204,498	\$ 11,677
BEGINNING BUDGETARY FUND BAL	1,065,880	1,065,880	1,065,880	
ENDING BUDGETARY FUND BAL	\$ 1,062,638	\$ 1,258,701	\$ 1,270,378	

TOWN OF CROSS ROADS, TX

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For the Year Ended September 30, 2015

Plan Year	2014
TOTAL PENSION LIABILITY	
Service Cost	\$ 32,429
Interest (on the Total Pension Liability)	5,048
Changes in benefit terms	0
Difference between expected and actual experience	(15,894)
Change of assumptions	0
Benefit payments, including refunds of employee contributions	(2,382)
NET CHANGE IN TOTAL PENSION LIABILITY	<u>\$ 19,201</u>
TOTAL PENSION LIABILITY - BEGINNING	<u>\$ 57,096</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u><u>\$ 76,297</u></u>
PLAN FIDUCIARY NET POSITION	
Contributions - Employer	\$ 12,846
Contributions - Employee	12,923
Net investment income	1,437
Benefit payments, including refunds of employee contributions	(2,382)
Administrative expense	(15)
Other	(1)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	<u>\$ 24,808</u>
PLAN NET FIDUCIARY POSITION - BEGINNING	<u>\$ 24,970</u>
PLAN NET FIDUCIARY POSITION - ENDING (b)	<u><u>\$ 49,778</u></u>
NET PENSION LIABILITY (a) - (b)	<u><u>\$ 26,519</u></u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	65.24%
Covered employee payroll	184,612
Net Pension Liability as a percentage of covered payroll	14.36%

TOWN OF CROSS ROADS
SCHEDULE OF PENSION CONTRIBUTIONS

September 30, 2015

		2015
Actuarially Determined Contribution	\$	15,083
Contributions in relation to the actuarially determined contribution		15,083
Contribution deficiency (excess)		<u>0</u>
Covered employee payroll		184,612
Contributions as a percentage of covered employee payroll		8.17%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	0.03
Salary Increases	3.5% to 12%, including inflation
Investment Rate of Return	0.07
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male multiplied by 109% and female multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year

OTHER SUPPLEMENTARY INFORMATION

TOWN OF CROSS ROADS, TX

COMPARATIVE SCHEDULE OF REVENUES & EXPENDITURES - GENERAL FUND
For the Years Ended September 30, 2015 & 2014

	2015	2014
REVENUES		
Sales & Beverage Taxes	\$ 1,507,111	\$ 1,179,355
Franchise Fees	109,592	94,929
Permits & Fees	179,490	311,564
Intergovernmental-Road Funds	0	200,000
Misc. Revenues	7,707	171,964
Transfer from Municipal Development District	150,000	
Interest Income	5,789	6,045
TOTAL REVENUES	<u>1,959,689</u>	<u>1,963,857</u>
EXPENDITURES		
General Government:		
Advertising & Promotion	16,173	32,813
Dues, Subscriptions & Public Notices	3,127	2,218
Election Costs	8,880	476
Insurance	4,088	3,696
Meeting, Travel & Training	8,610	7,612
Accounting & Auditing	3,300	2,300
Legal	228,827	11,596
Economic Development	15,170	9,873
Other Professional Services	7,059	11,179
Engineering Fees	53,790	56,026
Codification Services	3,312	375
Planning Services	50,000	8,000
Library Inter-Local	14,977	14,831
Tree Mitigation	12,105	138,000
Building, Parks & Equipment Maint.	28,902	39,878
Office Supplies & Minor Equip.	17,719	9,282
Technology	26,094	8,197
Utilities	10,424	9,278
Wages	190,623	199,332
Payroll Taxes	15,276	16,982
Employee Health Insurance	22,490	43,414
Employee Retirement	15,083	14,297
Total General Government	<u>756,029</u>	<u>639,655</u>
Public Health & Safety:		
Animal Control	9,475	9,630
Inspection Services/Code Enforcement	75,634	113,055
Inter-Local Police Services	426,282	450,000
Inter-Local Ambulance & Fire	51,510	52,676
Total Public Health	<u>562,901</u>	<u>625,361</u>
Streets:		
Street/Drainage Repairs & Signs	148,141	67,771
Total Streets	<u>148,141</u>	<u>67,771</u>
Capital Additions:		
Operations	64,470	376,591
Streets	223,650	451,618
Total Capital Outlay	<u>288,120</u>	<u>828,209</u>
TOTAL EXPENDITURES	<u>1,755,191</u>	<u>2,160,996</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 204,498</u>	<u>\$ (197,139)</u>

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

January 18, 2016

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, 2015, and have issued my report thereon dated January 18 2016. 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 12, 2014. 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. GASB Statement No.68, *Accounting and Financial Reporting for Pensions*, was adopted during the fiscal year and the application of existing policies was not changed during 2015. 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 18, 2016.

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

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, 2015, 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 materiel 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 18, 2016