

**TOWN OF CROSS ROADS**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

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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, 2017, 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, 2017, 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

March 19, 2018

# **TOWN OF CROSS ROADS**

## **TOWN OFFICIALS**

**September 30, 2017**

### **CITY COUNCIL**

**MAYOR**

**Steve Smith**

**MAYOR PRO-TEM**

**David Meek**

**Tom Clark**

**Alan Hauf**

**Dan Prins**

**Wendy White-Stevens**

**ADMINISTRATOR**

**Becky Ross**

**SECRETARY**

**Teddi Lee**

**CITY ATTORNEY**

**David Berman**

**TOWN OF CROSS ROADS, TX**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2017**

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, 2017. The information provided here should be used in conjunction with the basic financial statements.

Management's discussion and analysis ("MD&A") has been designed to [1] assist readers and interested parties in focusing on significant financial issues [2] provide an overview of the Town's financial activity, [3] identify changes in the Town's financial position, including its ability to address the next and subsequent years challenges, [4] identify material deviations from the approved budgets adopted by the Town Council (those charged with governance), and [5] identify individual fund issues or concerns.

Because MD&A focuses on the current year's activity, resulting changes and currently known facts, you are encouraged to read it in conjunction with the basic financial statements including notes thereto, required supplemental information, and other supplementary data provided below.

**FINANCIAL HIGHLIGHTS**

- The Town's government-wide assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at September 30, 2017 by \$7,020,120, an increase of \$1,973,593 from September 30, 2016.
- The Town's governmental fund balance decreased \$407,037 during the 2017 fiscal year to a balance of \$1,421,864.
- The Town's capital assets, reported at cost less accumulated depreciation, total \$5,622,387 at September 30, 2017 and the Town continues to not have any long-term debt.

**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.

## **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 10) presents information on all 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 11) 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, municipal development 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 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 12) and the Statement of Revenues, Expenditures and Changes in Fund Balance (page 13) 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 14.

## 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, 2017 and 2016 are as follows:

		2017		2016
Current and Other Assets	\$	1,731,762	\$	2,084,682
Capital Assets		<u>5,622,387</u>		<u>3,187,949</u>
Total Assets		<u>7,354,149</u>		<u>5,272,631</u>
Deferred Outflows of Resources		<u>17,661</u>		<u>18,035</u>
Liabilities:				
Current Liabilities		306,438		196,934
Net Pension Liability		<u>34,066</u>		<u>31,237</u>
Total Liabilities		<u>340,504</u>		<u>228,171</u>
Deferred Inflows of Resources		<u>11,186</u>		<u>15,968</u>
Net Assets:				
Invested in Capital Assets, net				
of debt		5,622,387		3,187,949
Restricted		115,461		76,904
Unrestricted		<u>1,282,272</u>		<u>1,781,674</u>
Total Net Assets	\$	<u>7,020,120</u>	\$	<u>5,046,527</u>

The Town's net position totals \$7,020,120, including liquid assets (cash and receivables less accounts payable) of \$1,425,324. The Town is accumulating funds for future road improvement projects so that it can complete those road projects without incurring debt. 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. During fiscal years 2016 and 2017 the Town has had ongoing road improvement projects totaling \$4,446,236. Of this total, \$3,171,283 was reimbursed by Denton County through an interlocal agreement between the Town and the County.



## Analysis of Town's Operations

The results of the Town's operations for the years ended September 30, 2017 & September 30, 2016 were as follows.

	2017	2016
<b>REVENUES</b>		
Program Revenues:		
Charges for Services	\$ 224,184	\$ 157,910
Grants & Donations	1,910,090	1,284,808
General Revenues:		
Sales & Beverage Taxes	2,139,564	1,948,923
Franchise Fees	114,316	115,744
Interest Income	<u>9,411</u>	<u>8,002</u>
Total Revenues	<u>4,397,565</u>	<u>3,515,387</u>
<b>PROGRAM EXPENSES</b>		
General Government	1,171,473	606,545
Culture & Recreation	32,433	0
Public Health & Safety	919,103	638,916
Streets	<u>300,963</u>	<u>187,120</u>
Total Expenses	<u>2,423,972</u>	<u>1,432,581</u>
Increase (Decrease) in		
Net Position	\$ <u>1,973,593</u>	\$ <u>2,082,806</u>

Charges for services include developer/subdivision fees, road improvement fees, building permit, inspection fees and miscellaneous revenues. Residential permit and development fee revenues decreased \$49,589 during 2017 as the Town experienced a continued slowdown in residential growth. As part of the Town's interlocal agreement with the City of Krugerville for funding of the Northeast Municipal Court (NEMC) and the Northeast Police Department (NEPD) the employees of NEMC and several of the officers employed by NEPD were accounted for and paid as employees of the Town of Cross Roads and these personnel expenses were reimbursed by the NEMC and NEPD. Starting in fiscal year 2017 NEPD also began reimbursing the Town of Cross Roads for administrative support provided by the Town to NEPD. These reimbursements, \$47,990 (NEPD) and \$76,308 (NEMC), are included in charges for services above.

During 2014 the Town entered into an interlocal agreement with Denton County for road improvements to be completed during fiscal years 2016 and 2017. As part of the agreement the Town received \$1,886,475 of road improvement reimbursements from Denton County in 2017 and \$1,215,061 in 2016. These revenues are included in Grants and Donation revenues above,

The Town's sales tax revenues increased to \$2,139,564, a 10% increase over 2016 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.

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. For 2017 the Town's support for the NEPD was \$550,801 compared to \$444,485 in 2016. These expenses are included in the Public Health and Safety expenses.

An analysis of the Town's significant general government expenses in 2017 and 2016 is as follows:

GENERAL GOVERNMENT	2017	2016	INCREASE
Advertising & Promotion	\$ 12,892	\$ 19,407	\$ (6,515)
Legal Fees	13,468	20,322	(6,854)
Economic Development Grants	595,713	89,605	506,108
Engineering Fees	45,305	54,506	(9,201)
Park Maintenance & Planning	7,772	11,292	(3,520)
Building & Equipment Maintenance	10,658	17,812	(7,154)
Supplies & Minor Equipment	15,360	10,124	5,236
Technology	11,263	8,455	2,808
Staff Wages	286,792	204,214	82,578
Payroll Taxes	22,500	16,546	5,954
Employee Health Insurance	35,417	19,163	16,254
Employee Retirement	\$ 19,751	\$ 15,550	\$ 4,201

The economic development grant expense relates to development agreements (380 agreements) the Town has with various developers as incentives for the developers to develop commercial properties in the Town. The agreements call for the Town to pay as incentive grants, certain percentages of the sales tax collected by the Town from the commercial properties included the development areas.

Due to the transfer of the NEMC payroll to the Town, staff wages and related benefits increased in 2017

### 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 2017 increased \$807,582. This increase includes an increase of \$741,161 of Denton County road reimbursements, a \$177,362 increase in sales tax revenues and personnel reimbursements from NEMC and NEPD of \$124,298 of which there were no similar revenues in 2016, These increases were partially offset by a decrease of \$178,150 in transfers from the Municipal Development District to the Town for road improvements

Total administrative expenditures increased 108%, public safety expenditures increased 43% and street maintenance expenditures increased 9% from 2016 to 2017. The 2017 administration expenditures include \$595,713 of economic development grant expenditures, which is an increase of \$506,108 over 2016 grant expenditures.

Total general fund-fund basis expenditures exceeded fund basis revenues in 2017 by \$446,208 in 2017 and the Town's general fund balance decreased to \$1,306,403.

The Town has the following restricted and committed fund balances at September 2017:

RESTRICTED/COMMITTED TO:	YEAR END BALANCE
Municipal Utility District	\$ 115,461
Economic Development Grants	75,710
Legal Contingency Fund	250,000
Public Safety	<u>250,000</u>
	\$ <u><u>691,171</u></u>

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

### General Fund Budgetary Highlights

The Town's original budgeted expenditures for 2017 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:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
TOTAL REVENUES	\$ <u>4,694,171</u>	\$ <u>4,398,901</u>	\$ <u>(295,270)</u>
EXPENDITURES:			
General Government	940,372	1,139,232	(198,860)
Public Health & Safety	926,898	919,103	7,795
Streets	84,717	82,113	2,604
Capital Outlay	<u>2,422,662</u>	<u>2,704,661</u>	<u>(281,999)</u>
TOTAL EXPENDITURES	<u>4,374,649</u>	<u>4,845,109</u>	<u>(470,460)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ <u><u>319,522</u></u>	\$ <u><u>(446,208)</u></u>	\$ <u><u>(765,730)</u></u>

## **CAPITAL ASSETS**

The Town's investment in capital assets as of September 30, 2017 amounts to \$1,361,975 (net of depreciation). The investment in capital assets includes land, buildings, equipment and infrastructure. Capital additions for 2017 included building improvements of \$30,325, street improvements of \$2,629,972, equipment additions of \$40,380 and park improvements of \$40,380. A schedule of capital assets is as follows:

CAPITAL ASSETS AT YEAR END NET OF ACCUMULATED DEPRECIATION		
	2017	2016
Land	\$ 108,090	\$ 108,090
Construction in Progress	40,380	0
Buildings	351,789	377,745
Equipment	156,178	147,286
Infrastructure	<u>4,965,950</u>	<u>2,554,828</u>
<b>TOTAL</b>	<b><u>\$ 5,622,387</u></b>	<b><u>\$ 3,187,949</u></b>

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 2018 total \$3,869,450, including \$2,015,000 of sales tax revenues. \$250,600 of permit and fee revenues, \$580,000 for Denton County road contributions, \$175,000 for a developer park donation, \$432,000 for a developer public safety donation and a \$215,500 transfer from the Municipal Development District. Budgeted general fund expenditures for 2018 total \$4,118,850, including \$893,822 for NEPD operating support, \$50,000 for town improvements, \$400,000 for park improvements, \$1,250,028 for road improvements and \$473,500 for personnel costs.

## **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**  
**GOVERNMENT-WIDE**  
**STATEMENT OF NET POSITION**

*September 30, 2017*

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 1,166,500
Receivables	562,505
Prepaid Expenses	2,757
<b>TOTAL CURRENT ASSETS</b>	<u>1,731,762</u>
<b>CAPITAL ASSETS</b>	
Land	108,090
Buildings	512,932
Equipment	283,718
Infrastructure	6,153,904
Accumulated Depreciation	(1,436,257)
<b>NET CAPITAL ASSETS</b>	<u>5,622,387</u>
<b>TOTAL ASSETS</b>	<u>7,354,149</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Contributions After Measurement Date	11,725
Difference in Projected and Actual Earnings-Pension	2,149
Difference in Changes in Assumptions-Pension	3,787
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>17,661</u>
<b>LIABILITIES</b>	
<b>LIABILITIES</b>	
Accounts Payable	27,215
Accrued Liabilities	269,323
Accrued Compensated Absences	9,900
<b>NONCURRENT LIABILITIES</b>	
Net Pension Liability	34,066
<b>TOTAL LIABILITIES</b>	<u>340,504</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Difference in Expected and Actual Pension Experience	<u>11,186</u>
<b>NET POSITION</b>	
Invested in Capital Asset, Net of Related Debt	5,622,387
Restricted for:	
Municipal Development	115,461
Unrestricted	1,282,272
<b>TOTAL NET POSITION</b>	<u>\$ 7,020,120</u>

**TOWN OF CROSS ROADS**

**GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES**

*For the Year Ended September 30, 2017*

<b>FUNCTIONS/PROGRAMS</b>	<b><u>EXPENSES</u></b>	<b><u>CHARGES FOR SERVICES</u></b>	<b><u>OPERATING GRANTS &amp; DONATIONS</u></b>	<b><u>CAPITAL GRANTS &amp; REIMBURSE- MENTS</u></b>	<b><u>NET (EXPENSE) REVENUE</u></b>
<b>GOVERNMENTAL ACTIVITIES:</b>					
General Government	\$ (1,203,906)	\$ 224,184	\$ 10,255	\$ 0	\$ (969,467)
Public Safety	(919,103)	0	0	0	(919,103)
Public Works-Streets	(300,963)	0	0	1,899,835	1,598,872
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ <span style="border: 1px solid black; padding: 2px;">(2,423,972)</span></b>	<b>\$ <span style="border: 1px solid black; padding: 2px;">224,184</span></b>	<b>\$ <span style="border: 1px solid black; padding: 2px;">10,255</span></b>	<b>\$ <span style="border: 1px solid black; padding: 2px;">1,899,835</span></b>	<b><span style="border: 1px solid black; padding: 2px;">(289,698)</span></b>
<b>GENERAL REVENUE</b>					
Sales Taxes					2,139,564
Franchise Fees					114,316
Interest Income					9,411
<b>TOTAL GENERAL REVENUE</b>					<b><span style="border: 1px solid black; padding: 2px;">2,263,291</span></b>
<b>CHANGE IN NET POSITION</b>					<b>1,973,593</b>
<b>NET POSITION - BEGINNING</b>					<b><u>5,046,527</u></b>
<b>NET POSITION - ENDING</b>					<b><u><u>\$ 7,020,120</u></u></b>

**TOWN OF CROSS ROADS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

*September 30, 2017*

	<b>GENERAL FUND</b>	<b>MUNICIPAL DEVELOPMENT DISTRICT</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS</b>			
Cash	\$ 1,096,647	\$ 69,853	\$ 1,166,500
Receivables:			
Sales & Beverage Taxes	324,782	46,790	371,572
Franchise Fees	12,764	0	12,764
Road Contributions	120,242	0	120,242
Development Fees	12,307	0	12,307
Other	32,260		32,260
Interfund	1,182	(1,182)	0
Prepaid Expenses	2,757	0	2,757
<b>TOTAL ASSETS</b>	<b>1,602,941</b>	<b>115,461</b>	<b>1,718,402</b>
 <b>LIABILITIES</b>			
Accounts Payable	27,215	0	27,215
Accrued Liabilities	269,323	0	269,323
<b>TOTAL LIABILITIES</b>	<b>296,538</b>	<b>0</b>	<b>296,538</b>
 <b>FUND BALANCE</b>			
Non-Spendable - Prepaid Expenses	2,757	0	2,757
Restricted For:			
Restricted to Municipal Development	0	115,461	115,461
Committed To:			
Public Safety	250,000	0	250,000
Legal Contingency	250,000	0	250,000
Economic Development Grants	75,710	0	75,710
Unassigned	727,936	0	727,936
<b>TOTAL FUND BALANCE</b>	<b>1,306,403</b>	<b>115,461</b>	<b>1,421,864</b>
 <b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	 <b>\$ 1,602,941</b>	 <b>\$ 115,461</b>	 <b>\$ 1,718,402</b>

**TOWN OF CROSS ROADS**

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

*September 30, 2017*

Fund Balance Above \$ 1,421,864

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. 5,622,387

Receivables not collected within 60 days of the end of the year are not considered available and are not reported in the Fund Balance Sheet 13,360

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Fund Balance Sheet:

Accrued compensated absences (9,900)

Net pension liability and related deferred inflows and deferred outflows of resources (27,591)

**NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 7,020,120**



**TOWN OF CROSS ROADS**

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

*For the Year Ended September 30, 2017*

	<b>GENERAL FUND</b>	<b>MUNICIPAL DEVELOPMENT DISTRICT</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>REVENUES</b>			
Sales & Beverage Taxes	\$ 1,873,408	\$ 266,156	\$ 2,139,564
Franchise Fees	114,316	0	114,316
Permits & Development Fees	90,844	0	90,844
Other Revenues	9,042	0	9,042
County Road Contributions	1,956,222	0	1,956,222
Personnel Reimbursements	124,298	0	124,298
Interest Income	8,921	490	9,411
<b>TOTAL REVENUES</b>	<b>4,177,051</b>	<b>266,646</b>	<b>4,443,697</b>
<b>EXPENDITURES</b>			
General Government	1,139,232	5,625	1,144,857
Public Safety	919,103	0	919,103
Public Works	82,113	0	82,113
Capital Outlay	2,704,661	0	2,704,661
<b>TOTAL EXPENDITURES</b>	<b>4,845,109</b>	<b>5,625</b>	<b>4,850,734</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES BEFORE TRANSFERS</b>	<b>(668,058)</b>	<b>261,021</b>	<b>(407,037)</b>
<b>TRANSFERS</b>			
Transfer from Municipal Development Dist.	221,850	(221,850)	0
<b>NET CHANGE IN FUND BALANCES</b>	<b>(446,208)</b>	<b>39,171</b>	<b>(407,037)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>1,752,611</b>	<b>76,290</b>	<b>1,828,901</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 1,306,403</b>	<b>\$ 115,461</b>	<b>\$ 1,421,864</b>

**TOWN OF CROSS ROADS**

**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, 2017*

Net Change in Fund Balance - Governmental Funds \$ (407,037)

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 their estimated useful lives as depreciation expense:

Capital assets recorded in the current period 2,704,661

Depreciation expense on capital assets (270,223)

Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds: (56,387)

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 1,000

Governmental funds report pension expense as it paid into the retirement plan during the fiscal year.  
However, in the statement of activities, pension expense reflects the change in net pension  
liability during the plan fiscal year (calendar year 2016): 1,579

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 1,973,593**

## TOWN OF CROSS ROADS, TX

### NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

#### **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**

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, 2017

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, 2017

#### **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. 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.

**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

- Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement will not affect the Town.
- Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68 and No.73*. The effect of this statement will be recognized in the fiscal year 2018.
- Statement No. 83, *Certain Asset Retirement Obligations*. This statement will not affect the Town.
- Statement No. 84, *Fiduciary Activities*. This statement will not affect the Town.
- Statement No. 85, *Omnibus 2017*. The effect of this statement will be recognized in the fiscal year 2018.
- Statement No. 86, *Certain Debt Extinguishment Issues*. This statement will not affect the Town.
- Statement No. 87, *Leases*. The effect of this statement will be recognized in the fiscal year 2021, with earlier application allowed.

New pronouncements not yet in effect as of September 30, 2017, 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 2018, 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

## TOWN OF CROSS ROADS, TX

### NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

#### **3. Prepaid Expenses:**

Prepaid expenses represent payments made by the Town 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.

#### **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) 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 (2) differences between the plans' projected and actual earnings on pension assets and (3) differences between actuarial assumptions for demographic factors.

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. The deferred outflows related to differences between actuarial assumptions for demographic factors will be amortized 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.

#### **6. Deferred Inflows of resources:**

The Town reports increases in net assets that relate to future periods as 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 resources reported in this year's financial statements include (1) a deferred inflow of resources for revenues that are not considered available and (2) the difference between expected and actual pension experience.

For revenues that are not considered available the Town will not recognize the related revenues until they are available (collected no later than 60 days after the end of the Town's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet as deferred inflows of resources. Deferred inflows

## TOWN OF CROSS ROADS, TX

### NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

related differences between expected and actual pension experience will be amortized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

#### **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.

#### **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."



**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

*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.
- 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, 2017 the following departments had expenditures that exceeded appropriations:

	<u>Amount</u>
Administration	\$ 198,860

**NOTE 2: DEPOSITS:**

At September 30, 2017, the carrying amount of the Town's cash accounts were \$1,166,500, made up of checking and money market accounts at a local financial institution. The Town did not own any investments at September 30, 2017.

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.

**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

At September 30, 2017, the Town's bank balances (per bank) totaled \$1,654,331. Of the bank balances, \$250,000 was covered by federal depository insurance and the remaining \$1,404,331 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, 2017.

Securities pledged by the Town's depository institution at September 30, 2017 are as follows:

SECURITY	PAR	FMV
Balch Springs Bond	300,000	328,803
Lindale Bond	605,000	662,820
Bailey County Bond	655,000	683,217
Melissa TX Bond	220,000	233,831
Celina TX Bond	285,000	303,642
Grand Prairie TX Bond	200,000	209,310
Uvalde TX, Bond	<u>500,000</u>	<u>525,645</u>
	<u>\$2,765,000</u>	<u>\$2,947,268</u>

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

The Town does not have any investments and therefor 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 \$240,526 of road improvement sales taxes during the fiscal year. Unspent road improvement funds at September 30, 2017 were \$614. 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	\$	69,853
Legal Contingency		250,000
Public Safety		250,000
Road Improvement		500
Forest Hills Developer Funds		<u>75,710</u>
	\$	<u>646,063</u>

**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

**NOTE 4: CAPITAL ASSETS:**

Capital assets activity for the fiscal year ended September 30, 2017 is as follows:

CAPITAL ASSETS				
GOVERNMENTAL ACTIVITIES	BEGINNING	ADDITIONS	RETIREMENTS	ENDING
Land	\$ 108,090	\$ 0	\$ 0	\$ 108,090
Building	482,607	30,325	0	512,932
Furniture & Equipment	239,354	44,364	0	283,718
Infrastructure	<u>3,523,932</u>	<u>2,629,972</u>	<u>0</u>	<u>6,153,904</u>
TOTAL AT HISTORICAL COST	<u>4,353,983</u>	<u>2,704,661</u>	<u>0</u>	<u>7,058,644</u>
LESS ACCUMULATED DEPRECIATION				
Land	0	0	0	0
Building	104,862	15,901	0	120,763
Furniture & Equipment	92,068	35,472	0	127,540
Infrastructure	<u>969,104</u>	<u>218,850</u>	<u>0</u>	<u>1,187,954</u>
TOTAL ACCUMULATED DEPRECIATION	<u>1,166,034</u>	<u>270,223</u>	<u>0</u>	<u>1,436,257</u>
TOTAL CAPITAL ASSETS, NET	\$ <u>3,187,949</u>	\$ <u>2,434,438</u>	\$ <u>0</u>	\$ <u>5,622,387</u>

DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES AS FOLLOWS:

General Government	\$ 51,373
Public Works	<u>218,850</u>
TOTAL DEPRECIATION EXPENSE	<u>\$ 270,223</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.

**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

**NOTE 7: COMPENSATED ABSENCES**

At September 30, 2017, the Town had a liability for unpaid compensated absence in the amount of \$9,900.

**NOTE 8: RETIREMENT PLAN:**

A. Plan Description

The Town participates as one of 872 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](http://www.TMRS.com).

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

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 2015	Plan Year 2016
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

## TOWN OF CROSS ROADS, TX

### NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

At the December 31, 2016 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	2
Active employees	<u>5</u>
	8

#### 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 7.04% and 7.24% for the calendar years 2017 and 2016 respectively. The Town's contributions to TMRS for the fiscal year ended September 30, 2017 were \$15,996 and were equal to the required contributions.

#### D. Net Pension Liability or Assets

The Town's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, 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

## **TOWN OF CROSS ROADS, TX**

### **NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality tables with Blue Collar Adjustment are used with males multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, to satisfy the short-term and long-term funding needs of TMRS.

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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

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%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

***Discount Rate:***

The discount rate used to measure the Total Pension Liability was 6.75%. 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.

***Proportionate Share Percentages:***

The Northeast Police Department and the Northeast Municipal Court participate as nonemployer contributing entities in the City of Krugerville's pension plan. Proportionate share percentages are based on each entity's actual contributions during the plan year compared to total contributions by all three entities during the plan year. Actual contributions to the retirement plan by these two entities totaled \$10,255 during the fiscal year. This amount is reported as operating grant revenues in the government-wide statement of activities.

**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

***Changes in Net pension Liability:***

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2015	\$ 107,631	\$ 76,394	\$ 31,237
Service Cost	31,030		31,030
Interest	8,216		8,216
Differences between expected and actual results	4,059		4,059
Change in assumptions	0		0
Contributions - employer		17,315	(17,315)
Contributions - employee		16,825	(16,825)
Net investment income		5,191	(5,191)
Benefit Payments, including refunds of employee contributions	(2,858)	(2,858)	0
Administrative expense		(58)	58
Other		(3)	3
Net Changes	<u>40,447</u>	<u>36,412</u>	<u>4,035</u>
Balance at December 31, 2016	\$ <u>148,078</u>	\$ <u>112,806</u>	\$ <u>35,272</u>
Proportionate Share's			
Town of Cross Roads	\$ 143,015	\$ 108,949	\$ 34,066
Northeast Police Department	4,253	3,240	1,013
Northeast Municipal Court	\$ 810	\$ 617	\$ 193

***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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Town's Net Pension Liability	\$ <u>65,442</u>	\$ <u>35,272</u>	\$ <u>11,567</u>
Town of Cross Roads Proportionate Share	\$ <u>63,204</u>	\$ <u>34,066</u>	\$ <u>11,172</u>



**TOWN OF CROSS ROADS, TX**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

***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](http://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, 2017 the Town recognized pension expense of \$17,135.

At September 30, 2017, 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	\$ 2,149	\$ 0	\$ 2,149
Differences in assumption changes	3,787		3,787
Differences between projected and actual investment earnings	0	11,186	(11,186)
To be recognized in the future	5,936	11,186	\$ (5,250)
Contributions subsequent to the measurement date	11,725	0	
Total	\$ 17,661	\$ 11,186	

\$11,725 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, 2017. 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,	
2017	\$ 116
2018	115
2019	179
2020	853
2021	853
Thereafter	3,132
	\$ 5,250

## **TOWN OF CROSS ROADS, TX**

### **NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

#### **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, 2017 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 \$550,801 of support to NEPD during fiscal year 2017 and has agreed to provide \$893,822 in support for fiscal year 2018. 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 for fiscal year 2017 were administered by the City Council of the Town of Cross Roads.

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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF CROSS ROADS  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND**

For the Year Ended September 30, 2017

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</b>
<b>RESOURCES (INFLOWS):</b>				
<b>RESOURCES:</b>				
Sales & Beverage Taxes	\$ 1,702,500	\$ 1,856,632	\$ 1,873,408	\$ 16,776
Franchise Fees	116,750	114,875	114,316	(559)
Permits & Development Fees	159,200	131,158	90,844	(40,314)
Other Revenues	7,000	8,982	9,042	60
County Road Contributions	2,150,783	2,272,187	1,956,222	(315,965)
Interest Income	4,850	6,855	8,921	2,066
Personnel Reimbursements-NEMC	87,657	56,152	76,308	20,156
Personnel Reimbursements-NEPD	43,030	41,330	47,990	6,660
Transfer From Municipal Devel. Dist.	206,000	206,000	221,850	15,850
<b>TOTAL RESOURCES</b>	<b>\$ 4,477,770</b>	<b>\$ 4,694,171</b>	<b>\$ 4,398,901</b>	<b>\$ (295,270)</b>
<b>CHARGES TO APPROPRIATIONS:</b>				
<b>ADMINISTRATION</b>				
Advertising & Promotion	\$ 30,000	\$ 7,230	\$ 12,892	\$ (5,662)
Public Notices	2,000	1,120	1,732	(612)
Insurance	5,500	6,158	5,595	563
Meetings, Travel & Training	15,000	2,408	5,962	(3,554)
Accounting & Auditing	3,500	4,000	4,000	0
Legal Services	15,000	14,499	13,468	1,031
Economic Development Grants	287,500	408,260	595,713	(187,453)
Other Professional Services	1,500	300	5,600	(5,300)
Engineering Services	60,000	45,305	45,305	0
Codification Services	1,500	2,031	2,031	0
Election Costs	3,000	0	0	0
Library Inter-Local	20,000	18,289	18,649	(360)
Park Events	9,500	7,695	6,012	1,683
Park Maintenance & Planning	25,120	13,072	7,772	5,300
Building & Equipment Maintenance	15,000	9,271	10,658	(1,387)
Supplies & Minor Equipment	11,500	9,776	15,360	(5,584)
Technology	10,000	9,843	11,263	(1,420)
Utilities	11,500	8,807	11,366	(2,559)
Vehicle Expenses	2,500	1,286	1,394	(108)
Staff Wages	300,000	286,792	286,792	0
Payroll Taxes	25,000	23,222	22,500	722
Employee Health Insurance	27,500	41,509	35,417	6,092
Employee Retirement	20,500	19,499	19,751	(252)
<b>TOTAL ADMINISTRATION</b>	<b>902,620</b>	<b>940,372</b>	<b>1,139,232</b>	<b>(198,860)</b>

**TOWN OF CROSS ROADS  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND**

**For the Year Ended September 30, 2017**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</b>
<b>PUBLIC SAFETY</b>				
Animal Control	12,000	12,000	13,000	(1,000)
Inspection Svcs./Code Enforcement	72,500	71,997	63,202	8,795
Careflight Services	3,500	2,100	2,100	0
Inter-Local Police Svcs	550,801	550,801	550,801	0
Inter-Local Fire & Ambulance	290,000	290,000	290,000	0
<b>TOTAL PUBLIC SAFETY</b>	<b>928,801</b>	<b>926,898</b>	<b>919,103</b>	<b>7,795</b>
<b>STREETS:</b>				
Street/Drainage/Repairs & Signs	91,323	84,717	82,113	2,604
<b>TOTAL STREETS</b>	<b>91,323</b>	<b>84,717</b>	<b>82,113</b>	<b>2,604</b>
<b>CAPITAL OUTLAY</b>				
Operations	55,000	2,636	34,309	(31,673)
Parks	40,380	40,380	40,380	0
Streets & Roads	2,459,646	2,379,646	2,629,972	(250,326)
<b>TOTAL CAPITAL OUTLAY</b>	<b>2,555,026</b>	<b>2,422,662</b>	<b>2,704,661</b>	<b>(281,999)</b>
<b>TOTAL APPROPRIATIONS</b>	<b>4,477,770</b>	<b>4,374,649</b>	<b>4,845,109</b>	<b>(470,460)</b>
<b>EXCESS OF CURRENT RESOURCES OVER (UNDER) APPROPRIATIONS</b>	<b>\$ 0</b>	<b>\$ 319,522</b>	<b>\$ (446,208)</b>	<b>\$ (765,730)</b>
<b>BUDGETARY FUND BALANCE:</b>				
<b>BEGINNING OF YEAR</b>	<b>\$ 1,752,611</b>	<b>\$ 1,752,611</b>	<b>\$ 1,752,611</b>	
<b>END OF YEAR</b>	<b>\$ 1,752,611</b>	<b>\$ 2,072,133</b>	<b>\$ 1,306,403</b>	

**TOWN OF CROSS ROADS**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

**September 30, 2017**

Plan Year	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>TOTAL PENSION LIABILITY</b>			
Service Cost	\$ 31,030	\$ 26,750	\$ 32,429
Interest (on the Total Pension Liability)	8,216	6,177	5,048
Changes in benefit terms	0	0	0
Difference between expected and actual experience	4,059	(3,548)	(15,894)
Change of assumptions	0	4,813	0
Benefit payments, including refunds of employee contributions	(2,858)	(2,858)	(2,382)
<b>NET CHANGE IN TOTAL PENSION LIABILITY</b>	<b>40,447</b>	<b>31,334</b>	<b>19,201</b>
<b>TOTAL PENSION LIABILITY - BEGINNING</b>	<b>107,631</b>	<b>76,297</b>	<b>57,096</b>
<b>TOTAL PENSION LIABILITY - ENDING (a)</b>	<b>\$ 148,078</b>	<b>\$ 107,631</b>	<b>\$ 76,297</b>
<b>PLAN FIDUCIARY NET POSITION</b>			
Contributions - Employer	\$ 17,315	\$ 15,669	\$ 12,846
Contributions - Employee	16,825	13,779	12,923
Net investment income	5,191	74	1,437
Benefit payments, including refunds of employee contributions	(2,858)	(2,858)	(2,382)
Administrative expense	(58)	(45)	(15)
Other	(3)	(3)	(1)
<b>NET CHANGE IN PLAN FIDUCIARY NET POSITION</b>	<b>36,412</b>	<b>26,616</b>	<b>24,808</b>
<b>PLAN NET FIDUCIARY POSITION - BEGINNING</b>	<b>76,394</b>	<b>49,778</b>	<b>24,970</b>
<b>PLAN NET FIDUCIARY POSITION - ENDING (b)</b>	<b>\$ 112,806</b>	<b>\$ 76,394</b>	<b>\$ 49,778</b>
<b>NET PENSION LIABILITY (a) - (b)</b>	<b>\$ 35,272</b>	<b>\$ 31,237</b>	<b>\$ 26,519</b>
<b>Town of Cross Roads Proportionate Share of Net Pension Liability</b>			
Proportionate Percentage *	<b>96.58%</b>	<b>100.00%</b>	<b>100.00%</b>
Proportionate Share	<b>\$ 34,066</b>	<b>\$ 31,237</b>	<b>\$ 26,519</b>
* Based on actual contributions made by each contributing entity			
Plan Fiduciary Net Position as a percentage of Total Pension Liability	76.18%	70.98%	65.24%
Covered employee payroll	\$ 236,692	\$ 196,839	\$ 184,612
Net Pension Liability as a percentage of covered payroll	14.90%	15.87%	14.36%

**TOWN OF CROSS ROADS**

**SCHEDULE OF PENSION CONTRIBUTIONS**

**September 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 15,996	15,550	\$ 15,083
Contributions in relation to the actuarially determined contribution	15,996	15,550	15,083
Contribution deficiency (excess)	0	0	0
Covered employee payroll	225,535	204,214	184,612
Contributions as a percentage of covered employee payroll	7.09%	7.61%	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	27 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 10.5%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
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  
COMPARATIVE SCHEDULE OF REVENUES & EXPENSES-GENERAL FUND**

**For the Year Ended September 30, 2017**

<b>REVENUES</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>RESOURCES:</b>			
Sales & Beverage Taxes	\$ 1,873,408	\$ 1,696,046	\$ 1,507,111
Franchise Fees	114,316	115,744	109,592
Permits & Development Fees	90,844	150,433	179,490
Other Revenues	9,042	7,477	7,707
County Road Contributions	1,956,222	1,215,061	0
Interest Income	8,921	6,558	5,789
Personnel Reimbursements-NEMC	76,308	0	0
Personnel Reimbursements-NEPD	47,990	0	0
Transfer From Municipal Devel. Dist.	221,850	400,000	150,000
<b>TOTAL RESOURCES</b>	<b>\$ 4,398,901</b>	<b>\$ 3,591,319</b>	<b>\$ 1,959,689</b>
 <b>EXPENDITURES</b>			
<b>ADMINISTRATION</b>			
Advertising & Promotion	\$ 12,892	\$ 19,407	\$ 16,173
Public Notices	1,732	1,934	3,127
Insurance	5,595	5,129	4,088
Meetings, Travel & Training	5,962	8,335	8,610
Accounting & Auditing	4,000	3,500	3,300
Legal Services	13,468	20,322	228,827
Economic Development Grants	595,713	89,605	15,170
Other Professional Services	5,600	6,615	7,059
Engineering Services	45,305	54,506	53,790
Codification Services	2,031	375	3,312
Planning Services	0	0	50,000
Election Costs	0	1,355	8,880
Library Inter-Local	18,649	16,953	14,977
Park Events	6,012	3,363	0
Park Maintenance & Planning	7,772	11,292	0
Tree mMtigation	0	0	12,105
Building & Equipment Maintenance	10,658	17,812	28,902
Supplies & Minor Equipment	15,360	10,124	17,719
Technology	11,263	8,455	26,094
Utilities	11,366	9,186	10,424
Vehicle Expenses	1,394	1,366	0
Staff Wages	286,792	204,214	190,623
Payroll Taxes	22,500	16,546	15,276
Employee Health Insurance	35,417	19,163	22,490
Employee Retirement	19,751	15,550	15,083
<b>TOTAL ADMINISTRATION</b>	<b>1,139,232</b>	<b>545,107</b>	<b>756,029</b>

**TOWN OF CROSS ROADS  
COMPARATIVE SCHEDULE OF REVENUES & EXPENSES-GENERAL FUND**

**For the Year Ended September 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>PUBLIC SAFETY</b>			
Animal Control	13,000	10,765	9,475
Inspection Svcs./Code Enforcement	63,202	66,519	75,634
Careflight Services	2,100	2,147	0
Inter-Local Police Svcs	550,801	444,485	426,282
Inter-Local Fire & Ambulance	290,000	115,000	51,510
<b>TOTAL PUBLIC SAFETY</b>	<b>919,103</b>	<b>638,916</b>	<b>562,901</b>
<b>STREETS:</b>			
Street/Drainage/Repairs & Signs	82,113	75,644	148,141
<b>TOTAL STREETS</b>	<b>82,113</b>	<b>75,644</b>	<b>148,141</b>
<b>CAPITAL OUTLAY</b>			
Operations	34,309	33,155	64,470
Parks	40,380	0	0
Streets & Roads	2,629,972	1,816,264	223,650
<b>TOTAL CAPITAL OUTLAY</b>	<b>2,704,661</b>	<b>1,849,419</b>	<b>288,120</b>
<b>TOTAL EXPENDITURES</b>	<b>4,845,109</b>	<b>3,109,086</b>	<b>1,755,191</b>
<b>EXCESS OF CURRENT RESOURCES OVER (UNDER) EXPENDITURES</b>	<b>\$ (446,208)</b>	<b>\$ 482,233</b>	<b>\$ 204,498</b>

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

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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, 2017, 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  
March 19, 2018