

ANNUAL FINANCIAL REPORT
AND REQUIRED SUPPLEMENTARY INFORMATION
Town of Northlake, Texas
Fiscal year ended September 30, 2015

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Town of Northlake, Texas

Annual Financial Report

Year ended September 30, 2015

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Town of Northlake, Texas

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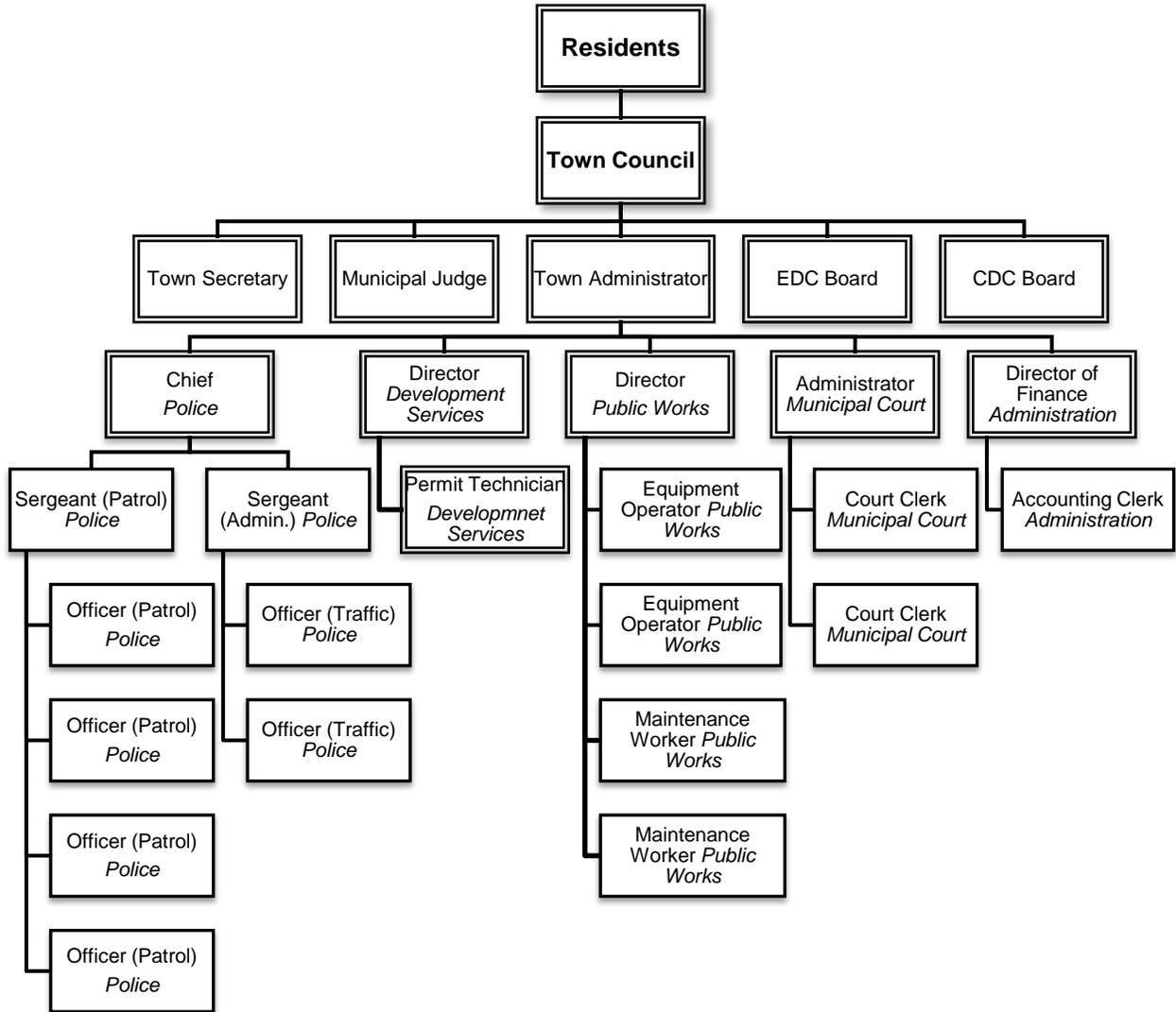
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Town of Northlake, Texas
Organizational Chart



List of Elected and Appointed Officials

Town of Northlake, Texas

Town Council
September 30, 2015

Peter Dewing
Mayor

Danny Simpson, Place 5
Mayor Pro Tem

Jean Young, Place 1
Council Member

Mike McBride, Place 2
Council Member

Michael Ganz, Place 3
Council Member

Roger Sessions, Place 4
Council Member



VAIL & KNAUTH, LLP
CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

Michael G. Vail, CPA
Chris E. Knauth, CPA
Charles T. Gregg, CPA
Don E. Graves, CPA
Pamela C. Moore, CPA
Courtney N. Cooper, CPA

Members:
American Institute of CPAs
Texas Society of CPAs

Report of Independent Auditors

To the Honorable Mayor and Town Council
Town of Northlake, Texas
1400 FM 407

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Northlake, Texas (“The Town”) 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 misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor judgment, including the assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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, we 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the Basic Financial Statements, certain adjustments resulting in \$197,804 decrease in governmental activities net position and \$11,430 decrease in business-type activities as of September 30, 2014, were discovered by management of the Town of Northlake during the current year. Accordingly, an adjustment has been made to net position as of September 30, 2015, to correct the error.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information on pages 06–13 and 43–49 be presented to supplement the basic financial statements. Such information, although not a 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. We 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining schedules on pages 50-51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules are the responsibility of management and were derived from and relates 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 our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Vail + Knauth, LLP

Dallas, Texas
February 8, 2016

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Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

Our discussion and analysis of Town of Northlake's financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the Town's financial statements, which begin on page 14.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$9,905,167 (net position). Of this amount, \$5,451,719 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$3,156,001.
- As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$7,076,771 (page 16), which is an increase of \$1,139,757 when compared with the prior year. Of these combined balances \$4,681,337 is unassigned in the general fund, the capital project fund had a deficit balance of (\$13,986), \$595,373 is restricted in the economic development fund, \$571,429 is restricted for community development, \$1,029,865 is restricted in the hotel/motel fund, \$34,764 is restricted for debt service, and \$180,989 is restricted for court technology, security, and child safety.
- At the end of the current fiscal year, unassigned fund balance for the general fund was a surplus of \$4,681,337 or 60.3% of total general fund expenditures.
- The Town's total long-term debt increased by \$278,463 from \$6,274,364 to \$6,552,827.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Town of Northlake's basic financial statements. The Town's basic financial statements are comprised of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements present two different view of the Town through the use of government-wide statements, (pages 14 and 15), and fund financial statements, (pages 16 through 22). The Government-wide financial statements provide both short and long-term information about the Town while the fund financial statements focus on the activities of the individual components.

Government-wide Financial Statements

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

The Statement of Net Position presents information on all of the Town of Northlake's assets and liabilities, with the difference between the two reported as net position. The Town's total net position is segmented for both restricted and unrestricted uses. Over time, increases or decreases in net position may

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

serve as a useful indicator of whether the financial position of the Town of Northlake is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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).

Both of the government-wide financial statements distinguish functions of the Town of Northlake that are principally supported by taxes and inter-governmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, municipal court, police, public works, economic development and promotional. The business-type activities of the Town include water and sewer activities.

The government-wide financial statements can be found on pages 14 through 15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Northlake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of the Town can be divided into two categories; governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains five individual major governmental funds as well as other non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Capital Projects, Economic Development, Community Development, and Hotel/Motel Tax funds.

The Town adopts an annual appropriated budget for all of its governmental funds, except for its capital projects fund and some non-major funds. A budgetary comparison statement has been provided for all

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

budgeted governmental funds to demonstrate compliance with its budget. This comparison can be found on pages 45 through 48 in the Required Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 16 through 19 of the report.

Proprietary Funds. The Town maintains two types of proprietary funds. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer activities. The Town uses an internal service fund to account for its equipment purchases and equipment maintenance. Proprietary funds provide the same type of information as the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 29 through 22 of this report.

Notes to the Basic 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 basic financial statements can be found on pages 23 through 42 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for certain Governmental Funds. Required supplementary information can be found on pages 43 through 49 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. As of September, 30 2015, the Town of Northlake's assets exceeded liabilities by \$9,905,167. The overall net position of the Town increased by \$3,156,001 during fiscal year 2015 with business-type and governmental activities incurring increases in their net positions.

When compared to the prior year, governmental activities net position increased \$1,279,471; from \$4,641,331 at September 30, 2014 to \$5,920,802 at September 30, 2015. The increases are due to the following activities:

- Due to the construction of new homes in the Harvest and Highlands communities assessments increased \$338,272 or 1213% from the prior year.
- Because of increases in construction and the collection of permit and fees increased \$513,191 or 110% over the prior year.
- When compared with the prior year, sales taxes increased by \$256,170 or 41% due to an increase in construction sales tax collections and the overall improvement in economic conditions.
- Hotel/Motel taxes increased \$94,465 or 66% over the prior year due to the addition of a Holiday Inn Express and improved economic conditions.

Expenditures for governmental programs increased \$274,162 or 9% when compared with the prior year. In order to maintain service level, it was necessary for the Town to increase police and public works activities. When compared to the prior year police services increased \$208,077 or 25% while public works services increased \$139,217 or 36%.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

When compared to the prior year, business-type net position increased by \$1,865,100; from a net position of \$2,119,265 at September 30, 2014 to a net position of \$3,984,365 at September 30, 2015. This increase is attributable to the following activities:

- Due to the increase in residential homes water and sewer fees increased \$962,784 or 91% from the prior year.
- A developer contribution of a water plant was received by the Town during fiscal year 2015. The valuation of the water plant is \$1,337,206 and is recorded under operating grants and contributions in the Statement of Activities.

A portion of the Town's net position, \$2,058,014 or 20.5%, reflects its investment in capital assets (e.g., land, buildings, automobiles, equipment, construction in progress, water and sewer system and infrastructure), less any debt used to acquire those assets that is still outstanding.

The Town used these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Northlake's Net Position

	Governmental Activities		Business-type Activities		Total	
	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14
Assets:						
Current and Other Assets	\$ 8,357,866	\$ 6,826,043	\$ 1,271,955	\$ 1,906,301	\$ 9,629,821	\$ 8,732,344
Capital Assets	4,439,913	4,503,797	4,042,744	1,027,105	8,482,657	5,530,902
Total Assets	12,797,779	11,329,840	5,314,699	2,933,406	18,112,478	14,263,246
Deferred outflows of resources	90,826	-	9,687	-	100,513	-
	90,826	-	9,687	-	100,513	-
Liabilities:						
Long-term Liabilities Outstanding	5,659,759	553,602	351,921	390,616	6,011,680	944,218
Other Liabilities	1,110,397	5,937,103	988,100	423,525	2,098,497	6,360,628
Total Liabilities	6,770,156	6,490,705	1,340,021	814,141	8,110,177	7,304,846
Deferred inflows of resources	197,647	-	-	-	197,647	-
Net Position:						
Invested in Capital Assets, Net of Related Debt	(1,000,286)	2,472,711	3,058,300	603,580	2,058,014	3,076,291
<i>Restricted for:</i>						
Debt Service	34,764	(28)	-	-	34,764	(28)
Capital Projects	(13,986)	(39,094)	-	-	(13,986)	(39,094)
Court Technology, Security & Child Safety	180,989	163,373	-	-	180,989	163,373
Economic Development	592,373	455,140	-	-	592,373	455,140
Community Development	571,429	433,937	-	-	571,429	433,937
Promotional Activities	1,029,865	814,977	-	-	1,029,865	814,977
Unrestricted	4,525,654	538,119	926,065	1,515,685	5,451,719	2,053,804
Total Net Position	\$ 5,920,802	\$ 4,839,135	\$ 3,984,365	\$ 2,119,265	\$ 9,905,167	\$ 6,958,400

The Town's unrestricted total net position of \$5,451,719 may be used to meet the Town's ongoing obligations to citizens and creditors.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

As of September 30, 2015, the Town is able to report a positive balance in all categories of net position, for the government as a whole, as well as all categories for its separate governmental and business-type activities.

Due to changes for pension reporting and correction of certain errors as of September 30, 2014 the Town recognized \$209,234 as a prior period adjustment to net position.

Town of Northlake's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	<u>FY 2014-15</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2013-14</u>
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,652,816	\$ 1,158,993	\$ 2,016,122	\$ 1,053,338	\$ 3,668,938	\$ 2,212,331
General Revenues:						
Property Taxes	743,419	683,502	-	-	743,419	683,502
PID Assessment	366,158	27,886	-	-	366,158	27,886
Sales Taxes	882,995	626,825	-	-	882,995	626,825
Franchise Taxes	244,696	198,913	-	-	244,696	198,913
Grants	-	-	1,337,206	-	1,337,206	-
Hotel/Motel Taxes	238,013	143,548	-	-	238,013	143,548
Interest on Investment	30,730	5,377	(32,446)	674	(1,716)	6,051
Miscellaneous	176,375	355,425	29,718	8,482	206,093	363,907
	<u>4,335,202</u>	<u>3,200,469</u>	<u>3,350,600</u>	<u>1,062,494</u>	<u>7,685,802</u>	<u>4,262,963</u>
Expenses						
General Government	946,647	1,161,129	-	-	946,647	1,161,129
Municipal Court	268,501	274,826	-	-	268,501	274,826
Police	1,027,335	819,258	-	-	1,027,335	819,258
Public Works	525,722	386,805	-	-	525,722	386,805
Economic Development	101,694	94,047	-	-	101,694	94,047
Promotional	25,219	38,416	-	-	25,219	38,416
Interest on Long-Term Debt	285,614	132,088	-	-	285,614	132,088
Water and Sewer	-	-	1,349,070	1,093,283	1,349,070	1,093,283
Total Expenses	<u>3,180,732</u>	<u>2,906,570</u>	<u>1,349,070</u>	<u>1,093,283</u>	<u>4,529,802</u>	<u>3,999,853</u>
Change in Net Position Before Transfers	1,154,470	293,899	2,001,530	(30,789)	3,156,000	263,110
Transfers	<u>125,000</u>	<u>(765,000)</u>	<u>(125,000)</u>	<u>765,000</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>1,279,470</u>	<u>(471,101)</u>	<u>1,876,530</u>	<u>734,211</u>	<u>3,156,000</u>	<u>263,110</u>
Net Assets 9/30 Prior Year	4,839,135	5,310,236	2,119,265	1,385,054	6,958,400	6,695,290
Prior Period Adjustment	<u>(197,804)</u>	<u>-</u>	<u>(11,430)</u>	<u>-</u>	<u>(209,234)</u>	<u>-</u>
Net Position 9/30 Current Year	<u>\$ 5,920,801</u>	<u>\$ 4,839,135</u>	<u>\$ 3,984,365</u>	<u>\$ 2,119,265</u>	<u>\$ 9,905,166</u>	<u>\$ 6,958,400</u>

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's governmental funds 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 as a useful measure of a town's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town of Northlake's governmental funds reported combined ending fund balances of \$7,076,771, an increase of \$1,139,757 in comparison with the prior year. The unassigned general fund balance at year end is a surplus of \$4,681,337. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed as follows:

- to pay for debt service, \$34,764
- to pay for economic and community development, \$1,163,802
- to pay for promotional activities, \$1,029,865
- to pay for court technology, security, and child safety, \$180,989
- To pay for capital projects, (\$13,986)

The general fund is the chief operating fund of the Town. The Town of Northlake budgeted and planned for an increase in fund balance for fiscal year 2014-2015 of \$26,373 for the general fund (page 45).

Proprietary Funds. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements.

Unrestricted net position of the proprietary funds for business-type activities are \$926,065. The water and sewer fund had a increase in net position of \$1,865,100.

Unrestricted net position of the Internal Service Funds for Governmental Activities are \$115,529 and net position increased during fiscal year 2015 by \$149,091.

General Fund Budgetary Highlights

The Town of Northlake ended fiscal year 2014-2015 with a positive revenue budget variance of \$430,310. The increase in unanticipated revenue was created by a robust demand for residential homes and an earlier than anticipated start on commercial building projects. The result of this unanticipated activity created an increase in building permits and fees of \$259,148, an increase in the collection of construction sales tax of \$57,100, and \$42,496 increase in franchise fees. The Town had a positive expenditure budget variance of \$51,445.

Details regarding budgetary variances can be found on page 45.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$8,482,657 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, automobiles, equipment, infrastructure, water and sewer system and construction in progress. The total increase in the Town's investment in capital assets for the current fiscal year was \$2,951,755. This was comprised of a decrease in capital assets for governmental activities of (\$63,884) and was offset by an increase in capital assets for business-type activities of \$3,015,639 (i.e., water and sewer services).

Major capital asset events during the current fiscal year included the following:

- Purchase of a backhoe
- Purchase of two police vehicles including video equipment and Toughbook vehicle computers
- Purchase of radio read meters for new homes and commercial development (ongoing project)
- Developer contribution of a water plant

Town of Northlake's Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14
Land	\$ 2,770,951	\$ 2,754,654	\$ 88,167	\$ 15,986	\$ 2,859,118	\$ 2,770,640
Construction in Progress	-	-	588,040.00	-	588,040	-
Buildings and Improveme	179,897	164,182	28,594	29,768	208,491	193,950
Automobiles	361,295	273,775	-	-	361,295	273,775
Equipment	66,309	112,611	1,910	3,220	68,219	115,831
Infrastructure	1,061,461	1,198,575	-	-	1,061,461	1,198,575
Water and Dewer System	-	-	3,336,033	978,131	3,336,033	978,131
Total	\$ 4,439,913	\$ 4,503,797	\$ 4,042,744	\$ 1,027,105	\$ 8,482,657	\$ 5,530,902

Additional information on the Town's capital assets can be found in Note 4 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt of \$6,552,827 of which \$5,970,000 are Certificates of Obligation.

Town of Northlake's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14	FY 2014-15	FY 2013-14
Capital Leases	\$ -	\$ 2,645	\$ -	\$ -	\$ -	\$ 2,645
Note Payable	3,444	16,719	579,383	-	582,827	16,719
Certificates of Obligation	5,565,000	5,835,000	405,000	420,000	5,970,000	6,255,000
Total	\$ 5,568,444	\$ 5,854,364	\$ 984,383	\$ 420,000	\$ 6,552,827	\$ 6,274,364

During the fiscal year, the Town retired \$309,516 in debt and increased debt by \$588,404 for water system improvements. Regularly scheduled annual principal and interest payments were made in a timely manner.

Additional information on the Town's long-term debt can be found in Note 5 of this report on page 33.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2015

Economic Factors and Next Year's Budgets and Rates

The Town of Northlake does not plan on increasing any property tax rates during the fiscal year 2015-2016. Overall, general fund revenues are expected to be higher in the fiscal year 2015-2016. Sales tax revenue and permit fees are expected to increase slightly over fiscal year 2014-2015. Expenses for the general fund are expected to increase. This is due to the Town's staffing of new positions, increase in retirement costs, and increase development related expenditures. Water and sewer fund revenues are expected to be higher than fiscal year 2014-2015 due to additional customers.

Request for Information

The financial report is designed to provide out citizens, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need additional information, contact the Town Secretary: Attn: Town Secretary at 1400 FM 407, Northlake, Texas 76247, phone: (940) 648-3290 or email townsecretary@town.northlake.tx.us.

BASIC FINANCIAL STATEMENTS

Town of Northlake, Texas
Statement of Net Position
September 30, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 7,250,635	\$ 731,117	\$ 7,981,752
Receivables (net of allowance for uncollectibles)	509,356	211,063	720,419
Prepaid expense	9,742	41,775	51,517
Loan receivable	579,383	-	579,383
Other assets	8,750	288,000	296,750
Capital Assets (net of accumulated depreciation):			
Land	2,770,951	88,167	2,859,118
Construction in progress	-	588,040	588,040
Buildings and improvements	179,897	28,594	208,491
Automobiles	361,295	-	361,295
Equipment	66,309	1,910	68,219
Infrastructure	1,061,461	-	1,061,461
Water and sewer system	-	3,336,033	3,336,033
Total assets	12,797,779	5,314,699	18,112,478
Deferred outflows of resources			
Deferred outflows of resources	90,826	9,687	100,513
Total deferred outflows of resources	90,826	9,687	100,513
Liabilities			
Accounts payable	799,293	236,793	1,036,086
Accrued liabilities	201,557	95,119	296,676
Net pension liabilities	109,547	20,009	129,556
Noncurrent liabilities			
Due within one year	323,583	156,786	480,369
Due in more than one year	5,336,176	831,314	6,167,490
Total liabilities	6,770,156	1,340,021	8,110,177
Deferred inflows of resources			
Deferred inflows of resources	197,647	-	197,647
Total deferred inflows of resources	197,647	-	197,647
Net Position			
Invested in capital assets, net of related debt	(1,000,286)	3,058,300	2,058,014
Restricted for:			
Debt service	34,764	-	34,764
Capital projects	(13,986)	-	(13,986)
Court Technology, Security & Child Safety	180,989	-	180,989
Economic development	592,373	-	592,373
Community development	571,429	-	571,429
Promotional activities	1,029,865	-	1,029,865
Unrestricted	4,525,654	926,065	5,451,719
Total net position	\$ 5,920,802	\$ 3,984,365	\$ 9,905,167

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

Town of Northlake, Texas
Statement of Activities
Year Ended September 30, 2015

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 946,647	\$ 980,848	\$ -	\$ -	\$ 34,201	\$ -	\$ 34,201	
Municipal court	268,501	671,968	-	-	403,467	-	403,467	
Police	1,027,335	-	-	-	(1,027,335)	-	(1,027,335)	
Public works	525,722	-	-	-	(525,722)	-	(525,722)	
Economic development	101,694	-	-	-	(101,694)	-	(101,694)	
Promotional	25,219	-	-	-	(25,219)	-	(25,219)	
Interest on long-term debt	285,614	-	-	-	(285,614)	-	(285,614)	
Total governmental activities	<u>3,180,732</u>	<u>1,652,816</u>	<u>-</u>	<u>-</u>	<u>(1,527,916)</u>	<u>-</u>	<u>(1,527,916)</u>	
Business-type activities:								
Water and sewer	1,349,070	2,016,122	-	1,337,206	-	2,004,258	2,004,258	
Total business-type activities	<u>1,349,070</u>	<u>2,016,122</u>	<u>-</u>	<u>1,337,206</u>	<u>-</u>	<u>2,004,258</u>	<u>2,004,258</u>	
Total primary government	<u>\$ 4,529,802</u>	<u>\$ 3,668,938</u>	<u>\$ -</u>	<u>\$ 1,337,206</u>	<u>(1,527,916)</u>	<u>2,004,258</u>	<u>476,342</u>	
General revenues:								
Taxes								
Property taxes					743,419	-	743,419	
Sales taxes					882,995	-	882,995	
Franchise taxes					244,696	-	244,696	
Hotel/Motel taxes					238,013	-	238,013	
Interest					30,730	(32,446)	(1,716)	
Assessment					366,158	-	366,158	
Miscellaneous					176,376	29,718	206,094	
Transfers					125,000	(125,000)	-	
Total general revenues and transfers					<u>2,807,387</u>	<u>(127,728)</u>	<u>2,679,659</u>	
Change in net position					1,279,471	1,876,530	3,156,001	
Net position - beginning					4,839,135	2,119,265	6,958,400	
Prior period adjustment					(197,804)	(11,430)	(209,234)	
Net position - ending					<u>\$ 5,920,802</u>	<u>\$ 3,984,365</u>	<u>\$ 9,905,167</u>	

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

Town of Northlake, Texas
Balance Sheet - Governmental Funds
September 30, 2015

	General Fund	Capital Projects Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 5,391,576	\$ 25,108	547,779	\$ 526,785	\$ 430,616	\$ 222,984	\$ 7,144,848
Receivables:							
Property taxes, net of allowance	32,278	-	-	-	-	12,590	44,868
Sales taxes	125,528	-	62,764	62,764	-	-	251,056
Franchise taxes	74,866	-	-	-	-	-	74,866
Hotel/Motel taxes	-	-	-	-	24,511	-	24,511
Municipal court receivable, net	64,221	-	-	-	-	-	64,221
Other accounts receivable	49,834	-	-	-	-	-	49,834
Loan receivable	-	-	-	-	579,383	-	579,383
Other assets	-	-	-	-	-	8,750	8,750
Total assets	<u>\$ 5,738,303</u>	<u>\$ 25,108</u>	<u>\$ 610,543</u>	<u>\$ 589,549</u>	<u>\$ 1,034,510</u>	<u>\$ 244,324</u>	<u>\$ 8,242,337</u>
Liabilities and Fund Balance							
Liabilities:							
Accounts payable	716,999	39,094	17,476	17,426	779	7,519	799,293
Accrued liabilities	54,223	-	694	694	3,866	-	59,477
Deferred revenue	285,744	-	-	-	-	21,052	306,796
Due to other funds	-	-	-	-	-	-	-
Total liabilities	<u>1,056,966</u>	<u>39,094</u>	<u>18,170</u>	<u>18,120</u>	<u>4,645</u>	<u>28,571</u>	<u>1,165,566</u>
Fund balance:							
Nonspendable	-	-	-	-	-	-	-
Restricted for							
Debt service	-	-	-	-	-	34,764	34,764
Court technology and security	-	-	-	-	-	180,989	180,989
Economic development	-	-	592,373	-	-	-	592,373
Community development	-	-	-	571,429	-	-	571,429
Promotional activities	-	-	-	-	1,029,865	-	1,029,865
Capital projects	-	(13,986)	-	-	-	-	(13,986)
Unassigned	4,681,337	-	-	-	-	-	4,681,337
Total fund balance	<u>4,681,337</u>	<u>(13,986)</u>	<u>592,373</u>	<u>571,429</u>	<u>1,029,865</u>	<u>215,753</u>	<u>7,076,771</u>
Total liabilities and fund balance	<u>\$ 5,738,303</u>	<u>\$ 25,108</u>	<u>\$ 610,543</u>	<u>\$ 589,549</u>	<u>\$ 1,034,510</u>	<u>\$ 244,324</u>	<u>\$ 8,242,337</u>

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

Town of Northlake, Texas
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 September 30, 2015

Total fund balances - governmental funds	\$ 7,076,771
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	4,220,353
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	109,149
Costs associated with the issuance of governmental long-term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements.	90,826
Interest payable on long term debt does not require current financial resources; therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(142,080)
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the fund financial statements.	(5,769,306)
Internal service funds are used by management to charge the costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	<u>335,089</u>
Net position of governmental activities	<u><u>\$ 5,920,802</u></u>

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

Town of Northlake, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year ended September 30, 2015

	General Fund	Capital Projects Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes:							
Property	\$ 531,191	\$ -	\$ -	\$ -	\$ -	\$ 225,187	\$ 756,378
Sales and beverage	457,100	-	212,948	212,947	-	-	882,995
Franchise	244,696	-	-	-	-	-	244,696
Hotel/Motel	-	-	-	-	238,013	-	238,013
Building permits, plant and other fees	980,848	-	-	-	-	-	980,848
Municipal court	671,968	-	-	-	-	-	671,968
Interest income	5,791	108	648	602	21,696	378	29,223
Assessment	366,158	-	-	-	-	-	366,158
Miscellaneous	136,324	-	350	350	-	41,382	178,406
Total revenues	<u>3,394,076</u>	<u>108</u>	<u>213,946</u>	<u>213,899</u>	<u>259,709</u>	<u>266,947</u>	<u>4,348,685</u>
Expenditures							
Current:							
General government	916,529	-	-	-	-	300	916,829
Municipal court	238,845	-	-	-	-	20,061	258,906
Police	945,708	-	-	-	22,432	3,966	972,106
Public works	324,131	-	-	-	-	-	324,131
Economic development	-	-	50,298	49,992	-	-	100,290
Promotional	-	-	1,415	1,415	22,389	-	25,219
Capital outlay	111,609	-	-	-	-	-	111,609
Debt service							
Principal	148,275	-	-	-	-	135,000	283,275
Interest and fiscal charges	136,351	-	-	-	-	80,212	216,563
Total expenditures	<u>2,821,448</u>	<u>-</u>	<u>51,713</u>	<u>51,407</u>	<u>44,821</u>	<u>239,539</u>	<u>3,208,928</u>
Excess (deficiency) of revenues over expenditures	572,628	108	162,233	162,492	214,888	27,408	1,139,757
Other financing sources (uses)							
Transfers in	175,000	25,000	-	-	-	25,000	225,000
Transfers out	(175,000)	-	(25,000)	(25,000)	0	-	(225,000)
Total other financing sources (uses)	<u>-</u>	<u>25,000</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances	572,628	25,108	137,233	137,492	214,888	52,408	1,139,757
Fund balances - beginning	4,108,709	(39,094)	455,140	433,937	814,977	163,345	5,937,014
Prior period adjustment	-	-	-	-	-	-	-
Fund balances - ending	<u>\$ 4,681,337</u>	<u>\$ (13,986)</u>	<u>\$ 592,373</u>	<u>\$ 571,429</u>	<u>\$ 1,029,865</u>	<u>\$ 215,753</u>	<u>\$ 7,076,771</u>

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

Town of Northlake, Texas
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds to the Statement of Activities
 Year ended September 30, 2015

Net changes in fund balances - total governmental funds	\$ 1,139,757
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	108,042
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(304,818)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	283,275
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(8,576)
Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(69,051)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(12,959)
Certain expenses in the government-wide statement of activities that do not require current financial resources are not reported as expenditures in the governmental funds.	(5,290)
Internal service funds are used by management to charge the costs of equipment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>149,091</u>
Change in net position of governmental activities	<u><u>\$ 1,279,471</u></u>

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

Town of Northlake, Texas
Statement of Net Position
Proprietary Funds
September 30, 2015

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
Assets		
Current assets:		
Deposits and investments	\$ 875,457	\$ 105,787
Accounts receivable, net	211,063	-
Prepaid expense	41,775	9,742
Deferred outflow of resources	9,687	-
Total current assets	1,137,982	115,529
Non-current assets:		
Other assets	288,000	-
Property, plant and equipment:		
Land	88,167	-
Buildings and improvements	35,211	-
Automobiles	42,214	346,839
Water and sewer system	3,709,176	-
Construction in progress	588,040	-
Equipment	4,925	3,568
	4,467,733	350,407
Less accumulated depreciation	424,989	130,847
Net property, plant and equipment	4,042,744	219,560
Total Assets	5,468,726	335,089
Liabilities		
Current liabilities:		
Cash overdraft	144,340	-
Accounts payable	236,793	-
Accrued liabilities	95,119	-
Net pension liabilities	20,009	-
Total current liabilities	496,261	-
Noncurrent liabilities:		
Note payable	984,444	-
Compensated absences	3,656	-
Total Liabilities	1,484,361	-
Net position		
Net investment in capital assets	3,058,300	219,560
Equipment	-	-
Unrestricted	926,065	115,529
Total Net Position	\$ 3,984,365	\$ 335,089

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

Town of Northlake, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended September 30, 2015

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Water and Sewer</u>	<u>Equipment</u>
Operating revenues:		
Water and sewer service	\$ 2,016,122	\$ -
Equipment service revenue	-	82,837
Total operating revenues	<u>2,016,122</u>	<u>82,837</u>
Operating expenses:		
Operating expenses	1,260,979	3,496
Depreciation	88,091	56,757
Total operating expenses	<u>1,349,070</u>	<u>60,253</u>
Operating income (loss)	667,052	22,584
Nonoperating revenues (expenses):		
Interest income (expense)	(32,446)	1,507
Developer contribution	1,337,206	-
Miscellaneous revenue (expense)	29,718	-
Total nonoperating revenues	<u>1,334,478</u>	<u>1,507</u>
Income (loss) before transfers	2,001,530	24,091
Transfers in	-	125,000
Transfers out	(125,000)	-
Change in net position	<u>1,876,530</u>	<u>149,091</u>
Net position - beginning	<u>2,119,265</u>	<u>185,998</u>
Prior period adjustment	(11,430)	-
Net position - ending	<u><u>\$ 3,984,365</u></u>	<u><u>\$ 335,089</u></u>

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

Town of Northlake, Texas
Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2015

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
Operating Activities		
Cash received from customers	\$ 1,951,016	\$ 82,837
Cash payments to suppliers for goods and services	(1,218,226)	(13,607)
Net cash provided by operating activities	732,790	69,230
Noncapital Financing Activities		
Transfers from other funds	-	125,000
Transfers to other funds	(125,000)	-
Net cash used in noncapital financing activities	(125,000)	125,000
Capital and Related Financing Activities		
Proceed from issuance of long-term debt	588,040	(189,649)
Proceed from gift and contributions	1,366,924	-
Payments on note	(57,625)	(2,645)
Net cash used in capital and related financing activities	1,897,339	(192,294)
Investing Activities		
Capital expenditures	(3,103,730)	-
Interest received	1,714	1,507
Net cash provided by investing activities	(3,102,016)	1,507
Net increase in cash and cash equivalents	(596,887)	3,443
Cash and cash equivalents - beginning	1,472,344	102,344
Cash and cash equivalents - ending	\$ 875,457	\$ 105,787
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 667,052	\$ 22,584
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	88,091	56,757
Change in assets and liabilities:		
Accounts receivable	(65,106)	-
Overdraft	(113,408)	-
Other assets	(51,462)	(9,742)
Net pension liability	8,579	-
Accounts payable and accrued liabilities	199,044	(369)
Net cash provided by (used in) operating activities	\$ 732,790	\$ 69,230

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

Town of Northlake, Texas

Notes to Basic Financial Statements

September 30, 2015

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles 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 Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to 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 described below.

A. Financial Reporting Entity

The basic financial statements of the Town include the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The Northlake Economic Development Corporation 4A (the 4A Corporation) and the Northlake Community Development Corporation 4B (the 4B Corporation) are component units of the Town and are included in the basic financial statements as major special revenue funds using a blended presentation.

The 4A Corporation was formed to promote the public welfare and economic development for the areas within the Town of Northlake as authorized by the State under the Texas Development Corporation Act of 1979 and is governed by Section 4A of the act. The 4A Corporation receives funding from a one-half cent sales tax.

Town of Northlake, Texas

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity – Continued

The 4B Corporation was formed to promote economic development with the Town and the State of Texas in order to eliminate unemployment and the public welfare of, for and on behalf of the Town by undertaking, developing, implanting, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4B of the Act. The 4B Corporation receives funding from a one-half cent sales tax.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the Town. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements

General Fund

The General Fund is the main operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of governmental capital assets including but not limited to right-of-way, roads, road drainage, and traffic lights.

Town of Northlake, Texas

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Economic Development Corporation 4A Fund

The Economic Development Corporation 4A is used to account for the funds received from a one-half cent sales tax to be used for economic development.

Community Development Corporation 4B Fund

The Community Development Corporation 4B is used to account for the funds received from a one-half cent sales tax to be used for community development.

Hotel/Motel Tax Fund

The Hotel/Motel Tax Fund is used to account for Hotel/Motel tax receipts to be used for promotional purposes.

Other Non Major Funds

The Other Non Major Funds are used to account for debt service and special revenue funds created by the Town, which do not meet the requirements to be presented as a major fund of the Town.

Proprietary Funds

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net position. The Town has presented the following major proprietary funds.

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the Town and others. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Town of Northlake, Texas

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Internal Service Fund

Internal service funds are used to account for the financing of goods or service provided by one department to other departments of the Town on a cost reimbursement basis. The equipment fund accounts for the accumulation and allocation of costs associated with major equipment purchases and maintenance of the equipment. The internal service fund is presented as a proprietary fund in the funds financial statements. Since transactions of the internal service fund predominately involves providing services to the General Fund and other funds that comprise governmental activities of the Town, the financial balances are included in the government activities column of the government-wide statements.

C. Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported 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 total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become 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. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and municipal court revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Town's policy is to apply restricted net position first.

Town of Northlake, Texas

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting (continued)

Taxes

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attached as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for towns, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The Town's current tax rate is \$0.295 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

Cash and Cash Equivalents

Cash and investments are considered to be cash on hand and demand and time deposits, as well as short-term investments in State investment pools.

For purposes of the statement of cash flows (proprietary fund types), the Town considers cash deposits and highly liquid investments (including restricted assets) maturing in three months or less when purchased, to be cash equivalents.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Inventories and Prepaid Items

Cash Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

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

Town of Northlake, Texas

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting (continued)

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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment, in accordance with standards prescribed by GASB.

Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	30 Years
Automobiles	3 Years
Equipment	3 - 10 Years
Infrastructure	5 - 40 Years
Water and sewer system	30 - 50 years

Compensated Absences

Town employees are granted vacation days in varying amounts. The maximum vacation allowed to be carried over is 320 hours per calendar year (January through December) for all employees. Any hours over 320 at the end of a year shall be deleted from the employee's accruals. Pay in lieu of taking vacation is not permitted except upon termination. Accrued vacation is paid upon termination after working for the town for at least 12-months. Sick leave is accrued at the rate of eight (8) hours per month for regular full-time employees and on a pro rata basis for regular part-time employees for each month of continuous service. Sick leave may be accumulated up to a maximum of 90 days (720 hours). No cash payment is made for unused sick days. Compensated absences are paid out of the General Fund and various funds based upon the employees' positions.

Net Position

Net position represents the difference between assets and liabilities. Net investments in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling of legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Town of Northlake, Texas

Notes to Basic Financial Statements

2. Deposits and Investments

A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by investing mainly in investment pools that purchase a combination of shorter term investments with an average maturity of less than 90 days, thus reducing the interest rate risk. The Town monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Town has no specific limitations with respect to this metric.

As of September 30, 2015, the Town had the following investments:

<u>Investment Type</u>	<u>Weighted Average Amount</u>	<u>Maturity</u>
Logic	\$ 4,522,435	37 days
Wells Fargo	\$ 2,626,670	0 days

As of September 30, 2015, the Town did not invest in any securities that are highly sensitive to interest rate fluctuations.

B. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the Town’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2015</u>
Logic	\$ 4,522,435	AAA	AAA
Wells Fargo	\$ 2,626,670	AAA	AAA

C. Concentration of Credit Risk

The investment policy of the Town contains no limitation on the amount that can be invested in any one issuer. As of September 30, 2015, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

Town of Northlake, Texas

Notes to Basic Financial Statements

2. Deposits and Investments (continued)

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possessions of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

At September 30, 2015, the carrying amount of the Town's cash on hand and deposits were \$7,935,658 and the bank balance was \$7,716,439. The bank balance was fully covered by federal depository insurance and collateral pledged.

For purposes of the statement of cash flows, the Town considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

E. Investment in State Investment Pools

The Town is a voluntary participant in an investment pool, specifically LOGIC.

LOGIC is a public funds investment pool managed by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC investments are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the Town is not issued securities, but rather it owns an individual beneficial interest in the assets of the related investment pools. LOGIC operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC uses amortized cost rather than market value to report new assets to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the value of LOGIC shares.

Town of Northlake, Texas

Notes to Basic Financial Statements

3. Accounts Receivable

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible amounts as of September 30, 2015, including the applicable allowances for uncollectible accounts, are presented below:

	General Fund		Debt Service Fund	Enterprise Fund Water and Sewer
	Property Tax Receivable	Municipal Court Receivable	Property Tax Receivable	Accounts Receivable
Gross receivables	\$ 43,831	\$ 216,126	\$ 14,887	\$ 215,414
Less allowance for uncollectibles	(11,553)	(151,905)	(2,297)	(4,351)
Net receivables	<u>\$ 32,278</u>	<u>\$ 64,221</u>	<u>\$ 12,590</u>	<u>\$ 211,063</u>

4. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Balance September 30, 2014	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2015
Governmental activities				
Capital assets not being depreciated				
Land	2,754,654	\$ 16,297	\$ -	2,770,951
Construction in progress	-	-	-	-
Total capital assets not being depreciated	2,754,654	16,297	-	2,770,951
Capital assets being depreciated				
Buildings and improvements	290,726	40,824	(18,400)	313,150
Automobiles	790,060	186,082	(100,297)	875,845
Equipment	305,634	-	(67,557)	238,077
Infrastructure	3,250,922	54,488	-	3,305,410
Total capital assets being depreciated	4,637,342	281,394	(186,254)	4,732,482
Less accumulated depreciation				
Buildings and improvements	126,544	21,542	(18,400)	129,686
Automobiles	516,285	102,129	(100,297)	518,117
Equipment	193,023	46,302	(67,557)	171,768
Infrastructure	2,052,347	191,602	-	2,243,949
Total accumulated depreciation	2,888,199	361,575	(186,254)	3,063,520
Total capital assets being depreciated, net	1,749,143	(80,181)	-	1,668,962
Governmental activities capital assets, net	<u>\$ 4,503,797</u>	<u>\$ (63,884)</u>	<u>\$ -</u>	<u>\$ 4,439,913</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

4. Capital Assets (continued)

	Balance September 30, 2014	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2015
Business-type activities				
Capital assets not being depreciated				
Land	\$ 15,986	\$ 72,181	\$ -	\$ 88,167
Construction in progress	-	588,040	-	588,040
Total capital assets not being depreciated	15,986	660,221	-	676,207
Capital assets being depreciated				
Buildings and improvements	35,211	-	-	35,211
Equipment	6,446	-	(1,521)	4,925
Automobiles	42,214	-	-	42,214
Water and sewer system	1,294,186	2,443,510	(28,520)	3,709,176
Total capital assets being depreciated	1,378,057	2,443,510	(30,041)	3,791,526
Less accumulated depreciation				
Buildings and improvements	5,443	1,174	-	6,617
Equipment	3,226	1,309	(1,521)	3,014
Automobiles	42,214	-	-	42,214
Water and sewer system	316,056	85,608	(28,520)	373,144
Total accumulated depreciation	366,939	88,091	(30,041)	424,989
Total capital assets being depreciated, net	1,011,118	2,355,419	-	3,366,537
Business-type capital assets, net	<u>\$ 1,027,104</u>	<u>\$ 3,015,640</u>	<u>\$ -</u>	<u>\$ 4,042,744</u>

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

Governmental activities

General Government	\$ 14,415
Municipal Court	9,595
Police	97,488
Public Works	240,077
Total Governmental Depreciation Expense	<u>\$ 361,575</u>

Business-type activities

Water and sewer	83,851
Water & Sewer Capital Projects	\$ 4,240
Total Business-type depreciation expense	<u>\$ 88,091</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

5. Long-term Debt

Amounts payable at September 30, 2015 are comprised of the following individual issues:

	Governmental Activities	Business-type Activities
Capital leases	<u>\$ -</u>	<u>\$ -</u>
Certificates of Obligation		
\$4,170,000 Series 2014A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$160,000 to \$285,000 through August 15, 2034, with interest at 2%	<u>4,035,000</u>	<u>-</u>
Certificates of Obligation		
\$420,000 Series 2014B Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$100,000 to \$190,000 through August 15, 2034, with interest at 3%	<u>-</u>	<u>405,000</u>
Certificates of Obligation		
\$1,900,000 Series 2005 Combination Tax and Revenue certificates of Obligation, due in annual installments of \$105,000 to \$190,000 through April 15, 2025, with interest at 4.97%	<u>1,455,000</u>	<u>-</u>
Certificates of Obligation		
\$245,000 Series 210 Limited Tax Note due in annual installments of \$35,000 to \$40,000 through February 15, 2017, with interest at 4.97%	<u>75,000</u>	<u>-</u>
Note Payable		
\$60,000 note payable due in 60 monthly installments of \$1160 through January 2016 with interest at 5.985%	<u>3,444</u>	<u>-</u>
Note Payable		
\$588,050 note payable due in annual installments of \$8,657 to \$294,553 through September 1, 2018, with interest at 3.5%	<u>\$ -</u>	<u>579,383</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

5. Long-term Debt (continued)

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2015:

	Beginning of Year	Increase	Decrease	End of Year	Within One Year
Governmental Activities					
Capital Leases	2,645	-	2,645	-	-
Certificates of Obligation	5,835,000	-	270,000	5,565,000	300,000
Note Payable	16,719	-	13,275	3,444	2,804
Compensated Absences	82,739	53,771	45,195	91,315	20,779
Total governmental activities	<u>5,937,103</u>	<u>53,771</u>	<u>331,115</u>	<u>5,659,759</u>	<u>323,583</u>
Business-type Activities					
Capital Leases	-	-	-	-	-
Certificates of Obligation	420,000	-	14,939	405,061	15,000
Note Payable	-	588,040	8,657	579,383	139,905
Compensated Absences	3,525	8,025	7,894	3,656	1,881
Total business-type activities	<u>423,525</u>	<u>596,065</u>	<u>31,490</u>	<u>988,100</u>	<u>156,786</u>

The Town's increase in debt is due to the issuance of certificates of obligation for the creation of "The Town of Northlake Public Improvement District #2". The debt proceeds will be utilized for development reimbursements and for water infrastructure improvements.

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2015, are as follows:

Certificates of Obligations	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2016	300,000	189,253	15,000	11,181	515,434
2017	315,000	179,610	15,000	10,881	520,491
2018	290,000	170,153	20,000	10,581	490,734
2019	305,000	160,789	20,000	10,181	495,970
2020	320,000	150,828	20,000	9,781	500,609
2021-2025	1,820,000	580,768	100,000	42,556	2,543,324
2026-2030	1,135,000	301,438	115,000	28,456	1,579,894
2031-2035	1,080,000	95,269	100,000	8,781	1,284,050
	<u>5,565,000</u>	<u>1,828,106</u>	<u>405,000</u>	<u>132,400</u>	<u>7,930,506</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

5. Long-term Debt (continued)

Notes Payable	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2016	3,444	34	139,905	20,616	164,000
2017	-	-	144,926	15,595	160,521
2018			294,553	10,453	305,006
	3,444	34	579,383	46,664	629,526

Capital Lease Obligations	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2016	-	-	-	-	-
	-	-	-	-	-

6. Upper Trinity Regional Water District (District) Treated Water System Additional Participating Customer Contract

On December 2, 2010, the Town entered into a regional treated water supply contract (as an additional participating customer) in order to provide treated water service to the Town residents in the future. The Town entered into a long term contractual obligation with the Upper Trinity Regional Water District for the purpose of providing funds for the construction and maintenance of a transmission water pipeline that will provide water to participating towns and cities (participating customers). The Town is required to pay the cost of any extension from the water system to the mutually agreed point of delivery for service. The Town will own and operate water pumping, storage and distribution and render retail service within the Town’s service area.

Each participating customer is required to make payments to Upper Trinity Regional Water District equivalent to their portion of the regional treated water system project (currently projected at 30% of the total obligation for Northlake) to cover the Town’s portion of the cost of the obligation. The Town will be responsible to pay an annual payment for its share of the total amount of money required for the District to pay all operation and maintenance expenses of the System (the project or regional treated water system), and to pay the capital (bond service) component of the annual requirement including debt service on its bonds. Initially, payment for demand shall be based on the minimum demand under a take or pay for the initial demand, plus any future increases in demand requested or experienced by the Town.

The agreement requires the use of a water year of June 1 of each calendar year through May 31 of the next following calendar year and requires that approximately sixty days after the end of each annual payment period, the Town shall furnish in writing to the District service information for the water year.

The Town paid a \$288,000 security deposit to the Upper Trinity Regional Water District upon execution of the agreement. The payment represents an estimate of two years of the Town’s portion of the annual debt service requirements. The security deposit can be returned to the Town as early as three years from the start of the agreement if certain conditions are met. There are several fees and charges associated with the water contract such as equity fee, subscription fee, and volume charges. In addition, the Town financed the payment of a \$60,000 equity fee over 60 months (see Footnote 5 – Note Payable).

Town of Northlake, Texas

Notes to Basic Financial Statements

7. Fund Balances

In accordance with GASBS No. 54, the Town classifies its fund equity into five categories:

- Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance includes amounts that are constrained to specific purposes by their providers or by enabling legislations.
- Committed fund balance includes amounts which are constrained to specific purposes by the government itself, using its highest level of decision-making. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned fund balance includes amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates.
- Unassigned fund balance includes amounts that are available for any purpose. Unassigned fund balances are only reported in the general fund.

The Town’s highest level of decision-making authority is governed by the Town Council. Passage of a resolution would be required to establish, modify, or rescind a fund balance commitment. The Town Council has the authority to assign amounts to specific purposes. The Town considers restricted amounts spent when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. Expenditures incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used are classified using the highest level of spending constraint available at the time of the expenditure.

8. Interfund Transfers and Balances

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Transfer to	Transfer from	Amount
General Fund	Water and Sewer Fund	\$ 125,000
General Fund	4A Fund	25,000
General Fund	4B Fund	25,000
		\$ 175,000
Debt Service Fund	General Fund	\$ 25,000
Capital Projects Fund	General Fund	25,000
Equipment Services Fund	General Fund	125,000
		\$ 175,000

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2015.

Town of Northlake, Texas

Notes to Basic Financial Statements

9. Employee Retirement System

Plan Description

The Town provides pension benefits for all of its eligible full-time employees through a nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS), an agent multiple employer public employee retirement system. 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). The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. TMRS's defined benefit plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. All eligible employees of the Town are required to participate in TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes finance statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the system. This report may be obtained from TMRS' website at www.tmr.com.

Benefits Provided

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

Plan provisions for the Town were as follows:

	<u>Plan Year 2015</u>	<u>Plan Year 2014</u>
Deposit rate:	7%	7%
Matching ratio (Town to Employee):	2 to 1	2 to 1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity to increase (to retirees)	0% of CPI	0% of CPI

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may 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.

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

	<u>2013</u>	<u>2014</u>
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	17	17
Active employees	19	20

Town of Northlake, Texas

Notes to Basic Financial Statements

9. Employee Retirement System (continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city 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. Both the Town and the employees make contributions monthly.

The Town needs to know its contribution rate in advance for budgetary purposes; therefore, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. the December 31, 2014 valuation will determine the contribution rate beginning January 1, 2016).

During the fiscal year employees were required to contribute 7% of their annual gross earnings while the Town was expected to contribute 9.03% of the gross earning. However, due to changes in the TMRS system plan the Town chose a phased in contribution rate of 7.75% of gross wages.

During TMRS's December 31, 2013 actuarial valuation it was determined that changes needed to be made in post-retirement mortality assumptions, actuarial cost method, and amortization policy. TMRS realized that these changes would cause some municipalities a significant increase in required annual contributions; therefore, any city that experienced an increase of 0.50% or more were given the option to phase in 0.50% or more per year until the full retirement rate could be achieved. During the 2015 calendar year the Town's required contribution rate was 9.03% with a minimum phase in rate of 7.51%. The Town elected to contribute 7.75% during the 2015 calendar year.

During the 2014 calendar year the Town contributed the required rate of 6.45%. The Town opted to accept a phase in rate of 7.75% during its' 2015 fiscal year; thereby creating a shortfall of \$13,529 in contributions. This shortfall was paid in full by the December 31, 2015 TMRS calendar year end.

Net Pension Liability

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 an actuarial valuation as of that date.

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%. The 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.

Town of Northlake, Texas

Notes to Basic Financial Statements

9. Employee Retirement System (continued)

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 of 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.

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 estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100%	

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 period of projected benefit payments to determine the Total Pension Liability.

Town of Northlake, Texas

Notes to Basic Financial Statements

9. Employee Retirement System (continued)

Changes in the net pension liability for the Town are summarized in the following table:

	<u>Changes in the Net Pension Liability</u>		
	Total Pension Liability	Plan Fiduciary Net Position (b)	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 1,280,161	\$ 1,202,597	\$ 77,564
Changes for the year:			
Service cost	169,257	-	169,257
Interest	94,776	-	94,776
Change of benefit terms	-	-	-
Difference between expected and actual experience changes of assumptions	14,773	-	14,773
Contributions-employer	-	75,574	(75,574)
Contributions-employee	-	83,179	(83,179)
Net investment income	-	68,838	(68,838)
Benefit payments, including refunds of employee contributions	(21,688)	(21,688)	-
Administrative expense	-	(718)	718
Other changes	-	(59)	59
Net changes	<u>\$ 257,118</u>	<u>\$ 205,126</u>	<u>\$ 51,992</u>
Balance at 12/31/2014	<u>\$ 1,537,279</u>	<u>\$ 1,407,723</u>	<u>\$ 129,556</u>

The following table 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:

	<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u>		
	1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
Town's net pension liability	\$ 424,275	\$ 129,556	\$ (105,443)

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

For the fiscal year ended September 30, 2015, the Town recognized pension expense of \$103,403 and the calculation of the expense is summarized in the following table:

<u>Schedule of Pension Expense</u>	
Total service cost	\$ 169,257
Interest on the total pension liability	94,776
Current period benefit changes	-
Employee contributions (reduction of expense)	(83,179)
Projected earnings on plan investments (reduction of expense)	(84,182)
Administrative expense	718
Other changes in fiduciary net position	59
Recognition of current year outflow (inflow) of resources - liabilities	2,885
Recognition of current year outflow (inflow) of resources - assets	3,069
Amortization of prior year outflows (inflows) of resources - liabilities	-
Amortization of prior year outflows (inflows) of resources - assets	-
Total pension expense	<u>\$ 103,403</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

9. Employee Retirement System (continued)

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

Schedule of Deferred Outflows and Inflows of Resources				
	Deferred Outflows of Resources	Deferred Inflows of Resources	2014 Recognized in Current Pension Expense	Deferred (Inflow)/Outflow infuture expense
Differences between expected and actual economic experience	\$ 14,773	\$ -	\$ 2,885	\$ 11,888
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual investment earnings	-	15,344	3,069	12,275
Contributions subsequent to the measurement date	101,679	-	-	-
Total	\$ 116,452	\$ 15,344	\$ 5,954	\$ 24,163

\$101,679 reported in the above schedule as “Contributions subsequent to the measurement date” will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. The remaining amount of \$24,163 will be recognized in pension expense as follows:

Year ended December 31	Amount
2015	\$ 5,954
2016	5,954
2017	5,954
2018	5,953
2019	348
2020	
Thereafter	
Total	\$ 24,163

10. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for with the Town carries commercial insurance.

The Town had no significant changes in insurance coverage from the year ended September 30, 2015. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2015 or any of the three preceding years.

11. Contingent Liabilities

The Town’s Attorney (general legal counsel) expresses the opinion that there does not now exist any material pending or threatened litigation, claim or assessment, or an unasserted claim and/or assessment, which individually or collectively represent a potential loss exposure to the Town of Northlake, Texas.

Town of Northlake, Texas

Notes to Basic Financial Statements

12. Prior Period Adjustments

The accompanying financial statements reflect adjustments resulting from a restatement of beginning fund balance/net position as of September 30, 2015 as follows:

Decrease in net position of Enterprise Fund of \$11,430 to record deferred outflows of resources and net pension liability as of September 30, 2014 due to implementation of GASB 68.

Decrease in Governmental Activities in the Government-wide statement of net position of \$13,431 to record deferred outflows of resources and net pension liability as of September 30, 2014 due to implementation of GASB 68.

Decrease in Governmental Activities in the Government-wide statement of net position of \$184,337 to increase deferred inflows of resources as of September 30, 2014.

The combined effect of these prior period adjustments on the government-wide financial statements is to decrease governmental activities net position by \$197,804 from \$4,839,135 to \$4,641,331 and decrease business-type activities net position by \$11,430 from \$2,119,265 to \$2,107,835.

12. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 8, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Northlake, Texas
 Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios
 September 30, 2015

	2014
Total pension liability	
Service cost	\$ 169,257
Interest	94,776
Change of benefit terms	-
Difference between expected and actual experience changes of assumptions	14,773
Benefit payments, including refunds of employee contributions	(21,688)
Net Change in Total Pension Liability	257,118
Total Pension Liability - Beginning	1,280,161
Total Pension Liability - Ending (a)	\$ 1,537,279
 Plan Fiduciary Net Position	
Contributions-employer	\$ 75,574
Contributions-employee	83,179
Net investment income	68,838
Benefit payments, including refunds of employee contributions	(21,688)
Administrative expense	(718)
Other changes	(59)
Net Change in Plan Fiduciary Net Position	205,126
Plan Fiduciary Net Position - Beginning	1,202,597
Plan Fiduciary Net Position - Ending (b)	\$ 1,407,723
 Net Pension Liability - Ending (a) - (b)	\$ 129,556
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.57%
 Covered Employee Payroll	\$ 1,188,275
 Net Pension Liability as a Percentage of Covered Employee Payroll	10.90%

Town of Northlake, Texas
 Required Supplementary Information
 Schedule of Contributions
 September 30, 2015

	2014
Actuarially Determined Contribution	\$ 112,401
Contributions in relation to the actuarially determined contribution	100,291
Contribution deficiency (excess)	12,111
Covered employee payroll	1,341,854
Contributions as a percentage of covered employee payroll	7%

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	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the Town'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 rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

Town of Northlake, Texas
 Budgetary Comparison Schedule - General Fund
 September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property	\$ 496,200	\$ 520,000	\$ 531,191	\$ 11,191
Sales and beverage	375,000	400,000	457,100	57,100
Franchise	177,200	202,200	244,696	42,496
Building permits, plat and other fees	474,850	721,700	980,848	259,148
Municipal court	650,300	650,000	671,968	21,968
Interest income	3,655	3,655	5,791	2,136
Assessment	366,151	366,151	366,158	7
Miscellaneous	73,260	100,060	136,324	36,264
Total revenues	<u>2,616,616</u>	<u>2,963,766</u>	<u>3,394,076</u>	<u>430,310</u>
Expenditures				
Current				
General government	866,971	866,971	916,529	(49,558)
Municipal court	278,332	278,332	238,845	39,487
Police	971,069	979,069	945,708	33,361
Public works	332,421	360,421	324,131	36,290
Capital outlay	4,400	117,400	111,609	5,791
Debt service				
Principal	139,000	135,000	148,275	(13,275)
Interest and fiscal charges	135,731	135,700	136,351	(651)
Total expenditures	<u>2,763,399</u>	<u>2,872,893</u>	<u>2,821,448</u>	<u>51,445</u>
Excess (deficiency) of revenues over expenditures	(146,783)	90,873	572,628	481,755
Other financing sources (uses):				
Transfers in	175,000	175,000	175,000	-
Transfers out	(64,500)	(239,500)	(175,000)	(64,500)
Total other financing sources (uses)	<u>110,500</u>	<u>(64,500)</u>	<u>-</u>	<u>(64,500)</u>
Net change in fund balances	<u>(36,283)</u>	<u>26,373</u>	<u>572,628</u>	<u>546,255</u>
Fund balance, beginning of year	<u>4,108,709</u>	<u>4,108,709</u>	<u>4,108,709</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,072,426</u>	<u>\$ 4,135,082</u>	<u>\$ 4,681,337</u>	<u>\$ 546,255</u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Economic Development Corporation 4A
 Year ended September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues				
Sales taxes	\$ 137,500	\$ 200,000	\$ 212,948	\$ 12,948
Interest income	650	650	648	(2)
Miscellaneous	-	-	350	350
Total revenues	<u>138,150</u>	<u>200,650</u>	<u>213,946</u>	<u>13,296</u>
Expenditures				
Promotional	-	-	1,415	(1,415)
Economic development	68,463	68,463	50,298	18,165
Total expenditures	<u>68,463</u>	<u>68,463</u>	<u>51,713</u>	<u>16,750</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balances	44,687	107,187	137,233	30,046
Fund balance, beginning of year	<u>455,140</u>	<u>455,140</u>	<u>455,140</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 499,827</u></u>	<u><u>\$ 562,327</u></u>	<u><u>\$ 592,373</u></u>	<u><u>\$ 30,046</u></u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Community Development Corporation 4B
 Year ended September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	137,500	200,000	212,947	12,947
Interest income	650	650	602	(48)
Miscellaneous	-	-	350	350
Total revenues	<u>138,150</u>	<u>200,650</u>	<u>213,899</u>	<u>13,249</u>
Expenditures				
Promotional	-	-	1,415	(1,415)
Economic development	68,413	68,413	49,992	18,421
Total expenditures	<u>68,413</u>	<u>68,413</u>	<u>51,407</u>	<u>17,006</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Total other financing sources (uses)	(25,000)	(25,000)	(25,000)	-
Net change in fund balances	44,737	107,237	137,492	30,255
Fund balance, beginning of year	<u>433,937</u>	<u>433,937</u>	<u>433,937</u>	<u>-</u>
Fund balance, end of year	<u><u>\$478,674</u></u>	<u><u>\$541,174</u></u>	<u><u>\$571,429</u></u>	<u><u>\$ 30,255</u></u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Hotel/Motel Tax Fund
 Year ended September 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues				
Hotel/Motel tax	\$ 120,000	\$ 180,000	\$ 238,013	\$ 58,013
Interest income	1,300	20,581	21,696	1,115
Total revenues	<u>121,300</u>	<u>200,581</u>	<u>259,709</u>	<u>59,128</u>
Expenditures				
Police	20,000	20,000	22,432	(2,432)
Promotional	32,576	32,576	22,389	10,187
Total expenditures	<u>52,576</u>	<u>52,576</u>	<u>44,821</u>	<u>7,755</u>
Other financing sources (uses)				
Transfers out	<u>(588,040)</u>	<u>(588,040)</u>	<u>-</u>	<u>(588,040)</u>
Total other financing sources (uses)	<u>(588,040)</u>	<u>(588,040)</u>	<u>-</u>	<u>(588,040)</u>
Net change in fund balances	(519,316)	(440,035)	214,888	654,923
Fund balance, beginning of year	<u>814,977</u>	<u>814,977</u>	<u>814,977</u>	<u>-</u>
Fund balance, end of year	<u>\$ 295,661</u>	<u>\$ 374,942</u>	<u>\$ 1,029,865</u>	<u>\$ 654,923</u>

Town of Northlake, Texas
Notes to Required Supplementary Information
September 30, 2015

1. Stewardship, Compliance and Accountability

Budgetary Information

The Town Council adopts an annual operating budget, which can be amended by the Council throughout the year. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of accounting principles generally accepted in the United States of America.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the Town Council, budgetary transfers between departments can be made. The budget amounts on the budgetary comparison schedules reflect the final budget authorization.

COMBINING SCHEDULES

Town of Northlake, Texas
Combining Balance Sheet – Non-Major Governmental Funds
September 30, 2015

	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>	<u>Total Non Major Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 35,026	\$ 187,958	\$ 222,984
Receivables			
Property taxes, net of allowance	12,590	-	12,590
Other	-	8,750	8,750
Total assets and other debits	<u>\$ 47,616</u>	<u>\$ 196,708</u>	<u>\$ 244,324</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 7,519	7,519
Deferred revenue	12,852	8,200	21,052
Due to other governmental funds	-	-	-
Total liabilities	<u>12,852</u>	<u>15,719</u>	<u>28,571</u>
 Fund balances:			
Restricted for			
Debt service	34,764	-	34,764
Equipment	-	-	-
Police and child safety activities	-	-	-
Court technology and security	-	180,989	180,989
Total fund balances	<u>34,764</u>	<u>180,989</u>	<u>215,753</u>
Total liabilities and fund balances	<u>\$ 47,616</u>	<u>\$ 196,708</u>	<u>\$ 244,324</u>

Town of Northlake, Texas
Combining Schedule of Revenues, Expenditures and Changes
in Fund Balances - Non Major Governmental Funds
September 30, 2015

	Debt Service Fund	Special Revenue Fund	Total Non Major Governmental Funds
Revenues			
Taxes			
Property	\$ 225,187	\$ -	\$ 225,187
Interest income	117	261	378
Miscellaneous	-	41,382	41,382
Total revenues	<u>225,304</u>	<u>41,643</u>	<u>266,947</u>
Expenditures			
Current			
General government	300	-	300
Municipal court	-	20,061	20,061
Police	-	3,966	3,966
Debt service			
Principal	135,000	-	135,000
Interest and fiscal charges	80,212	-	80,212
Total expenditures	<u>215,512</u>	<u>24,027</u>	<u>239,539</u>
Excess of revenues over expenditures	9,792	17,616	27,408
Other financing sources			
Transfers in	25,000	-	25,000
Transfers out	-	-	-
Total other financing sources	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Net change in fund balances	34,792	17,616	52,408
Fund balances - beginning	(28)	163,373	163,345
Fund balances - ending	<u>\$ 34,764</u>	<u>\$ 180,989</u>	<u>\$ 215,753</u>



VAIL & KNAUTH, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Town Council
Town of Northlake, Texas
1400 FM 407

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Northlake, Texas (The "Town"), 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, and have issued our report thereon dated February 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A rectangular box containing the handwritten signature "Vail + Knauth, LLP" in black ink.

Richardson, Texas

February 8, 2016