

ANNUAL FINANCIAL REPORT

Town of Northlake, Texas

*Year ended September 30, 2012*

Town of Northlake, Texas  
 Annual Financial Report  
 Year ended September 30, 2012

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## Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the Town of Northlake, Texas, as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Northlake, Texas' management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Northlake, Texas, as of September 30, 2012, and the respective changes in financial position, cash flows, and the respective budgetary comparison for the Governmental Funds, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2013, on our consideration of the Town of Northlake'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 39 through 45 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Northlake, Texas' financial statements as a whole. The management's discussion and analysis on pages 3 through 9, and supplemental information schedules pages 38 to 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vail + Knauth, LLP*

Dallas, Texas  
January 22, 2013

# Town of Northlake, Texas

## Management's Discussion and Analysis

September 30, 2012

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, 2012. Please read it in conjunction with the Town's financial statements, which begin on page 10.

### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$6,314,778 (net assets). Of this amount, \$964,596 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors (page 29).
- The government's total net assets increased by \$64,691.
- As of the close of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$1,707,982, which is an increase of \$69,882 (page 14) in comparison with the prior year. The increase is due primarily to the rebuilding of reserves in the General Fund offset by the spending down of the Capital Projects Fund.
- At the end of the current fiscal year, unassigned fund balance for the general fund was a surplus of \$267,927 or 14.3% of total general fund expenditures.
- The Town's total long-term debt decreased by \$108,981 from \$2,220,395 to \$2,111,414 (see Note 5 on page 29).

### 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, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of activities presents information showing how the Town's net assets changed during the fiscal year. All changes in net assets 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.

# Town of Northlake, Texas

## Management's Discussion and Analysis

The government-wide financial statements can be found on pages 10 through 11 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 of 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 and 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 budgeted governmental funds to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 12 through 15 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 16 through 18 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 19 through 37 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 38 through 45 of this report.

# Town of Northlake, Texas

## Management's Discussion and Analysis

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September, 30 2012, the Town of Northlake's assets exceeded liabilities by \$6,314,778.

The largest portion of the Town's net assets (67%) 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 Assets:*

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Current and Other Assets	\$ 2,372,113	\$ 2,131,885	\$ 562,300	\$ 598,470	\$ 2,934,413	\$ 2,730,355
Capital Assets	4,889,607	5,093,060	990,256	980,989	5,879,863	6,074,049
<b>Total Assets</b>	<b>7,261,720</b>	<b>7,224,945</b>	<b>1,552,556</b>	<b>1,579,459</b>	<b>8,814,276</b>	<b>8,804,404</b>
Long-term Liabilities Outstanding	2,109,074	2,219,299	2,340	1,096	2,111,414	2,220,395
Other Liabilities	279,164	201,969	108,920	131,953	388,084	333,922
<b>Total Liabilities</b>	<b>2,388,238</b>	<b>2,421,268</b>	<b>111,260</b>	<b>133,049</b>	<b>2,499,498</b>	<b>2,554,317</b>
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	2,889,445	2,976,561	990,256	980,989	3,879,701	3,957,550
Restricted for Debt Service	24,363	11,158	-	-	24,363	11,158
Restricted for Capital Projects	-	51,582	-	-	-	51,582
Restricted for Court Technology and Security	120,521	141,549	-	-	120,521	141,549
Restricted for Economic Development	321,567	304,026	-	-	321,567	304,026
Restricted for Community Development	300,215	287,714	-	-	300,215	287,714
Restricted for Promotional Activities	644,018	570,029	-	-	644,018	570,029
Restricted for Police and Child Safety Activities	59,797	-	-	-	59,797	-
Unrestricted	513,556	461,058	451,040	465,421	964,596	926,479
<b>Total Net Assets</b>	<b>\$ 4,873,482</b>	<b>\$ 4,803,677</b>	<b>\$ 1,441,296</b>	<b>\$ 1,446,410</b>	<b>\$ 6,314,778</b>	<b>\$ 6,250,087</b>

The unrestricted net assets of \$964,596 may be used to meet the Town's ongoing obligations to citizens and creditors.

As of September 30, 2012, the Town is able to report a positive balance in all categories of net assets, for the government as a whole, as well as all categories for its separate governmental and business-type activities.

- Overall, there is an increase of \$64,690 in total net assets during the fiscal year as mentioned above. The increase is comprised of an increase in governmental activities net assets of \$113,819, offset by a decrease in business-type activities net assets of \$6,636 and by the net effect of two prior period adjustments of \$42,493 (See Footnote 11 on page 36).

# Town of Northlake, Texas

## Management's Discussion and Analysis

**Governmental Activities.** Governmental activities increased the Town's net assets by \$69,805 (\$113,819 increase in net assets less \$44,014 prior period adjustment). Total revenues increased by \$130,597. The increase was mainly due to an increase in sales tax revenues. Total expenses increased by \$123,870. The increase was mainly due to an increase of \$181,382 in public works expenses, which was offset by a decrease of \$80,429 in general government expenses.

**Business-Type Activities.** Business-type activities decreased the Town's net assets by \$5,115 (\$6,636 decrease in net assets plus \$1,521 prior period adjustment). Total operating revenue decreased by \$12,295 or (1.6%). This increase in revenue was offset by a decrease in total operating expenses by \$100,613 or (14.5%).

***Town of Northlake's Changes in Net Assets:***

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Revenues						
Program Revenues						
Fees, Fines and Charges for Services	\$ 767,002	\$ 852,065	\$ 746,696	\$ 756,536	\$ 1,513,698	\$ 1,608,601
General Revenues						
Property Taxes	787,266	796,926	-	-	787,266	796,926
Sales Taxes	408,620	290,432	-	-	408,620	290,432
Franchise Taxes	170,398	159,100	-	-	170,398	159,100
Hotel/Motel Taxes	101,127	106,392	-	-	101,127	106,392
Interest on Investments	4,301	3,491	483	752	4,784	4,243
Miscellaneous	243,495	143,206	1,521	3,707	245,016	146,913
<b>Total Revenues</b>	<b>2,482,209</b>	<b>2,351,612</b>	<b>748,700</b>	<b>760,995</b>	<b>3,230,909</b>	<b>3,112,607</b>
Expenses						
General Government	752,139	832,568	-	-	752,139	832,568
Municipal Court	256,949	229,453	-	-	256,949	229,453
Police	818,500	846,637	-	-	818,500	846,637
Public Works	442,859	261,477	-	-	442,859	261,477
Economic Development	132,902	92,559	-	-	132,902	92,559
Promotional	32,056	40,155	-	-	32,056	40,155
Interest on Long-Term Debt	94,911	103,596	-	-	94,911	103,596
Water and Sewer	-	-	591,889	692,502	591,889	692,502
<b>Total Expenses</b>	<b>2,530,316</b>	<b>2,406,445</b>	<b>591,889</b>	<b>692,502</b>	<b>3,122,205</b>	<b>3,098,947</b>
Change in Net Assets Before Transfers	(48,107)	(54,833)	156,811	68,493	108,704	13,660
Transfers	161,926	137,000	(163,447)	(137,000)	(1,521)	-
<b>Change in Net Assets</b>	<b>113,819</b>	<b>82,167</b>	<b>(6,636)</b>	<b>(68,507)</b>	<b>107,183</b>	<b>13,660</b>
Net Assets 9/30 Prior Year	4,803,677	4,635,242	1,446,411	1,508,816	6,250,088	6,144,058
Prior Period Adjustment	(44,014)	86,268	1,521	6,102	(42,493)	92,370
<b>Net Assets 9/30 Current Year</b>	<b>\$ 4,873,482</b>	<b>\$ 4,803,677</b>	<b>\$ 1,441,296</b>	<b>\$ 1,446,411</b>	<b>\$ 6,314,778</b>	<b>\$ 6,250,088</b>

# Town of Northlake, Texas

## Management's Discussion and Analysis

### 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 \$1,707,982, an increase of \$69,882 in comparison with the prior year. The unassigned fund balance at year end is a surplus of \$267,927. 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 court technology and security (\$120,521),
- to pay for economic development (\$321,567),
- to pay for community development (\$300,215),
- to pay for promotional activities (\$644,018), and
- to service future debt obligations (\$24,363)
- To pay for encumbrances (\$6,250)
- To pay for police and child safety activities (\$59,797).

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 2011-2012 of \$4,506 for the general fund (page 39).

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

Unrestricted net assets of the proprietary funds for business-type activities are \$451,040. The water and sewer fund had a decrease in net assets of \$5,114. Unrestricted net assets of the proprietary funds for governmental-type activities are \$94,570. The equipment fund had an increase in net assets of \$80,374.

### General Fund Budgetary Highlights

The Town of Northlake ended fiscal year 2011-2012 with a positive revenue budget variance of \$117,186 (page 39), which was primarily due to higher than anticipated municipal court fines due to a reduction of collection fee liabilities and an increase in miscellaneous revenues. The Town had a negative expenditure budget variance of \$71,022 that was caused primarily due to higher than anticipated costs for police department capital outlay and reclassification of lease payments back into the general fund (page 39).

### 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, 2012, amounts to \$5,879,863 (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 decrease in the Town's investment in capital assets for the current fiscal year was \$194,186. This was comprised of a decrease in capital assets for governmental activities of \$203,453 and offset by an increase in capital assets for business-type activities of \$9,267 (i.e., water and sewer services).

# Town of Northlake, Texas

## Management's Discussion and Analysis

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

- Purchase of one new police vehicle
- Retirement of three police vehicles
- Purchase of police radios
- Purchase of radio read meters (ongoing project)
- Resurface Florence Road

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

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Land	\$ 2,754,654	\$ 2,754,654	\$ 15,986	\$ 15,986	\$ 2,770,640	\$ 2,770,640
Buildings and Improvements	191,233	204,759	32,116	33,290	223,349	238,049
Automobiles	330,838	355,575	-	4,674	330,838	360,249
Equipment	31,630	8,281	2,828	1,431	34,458	9,712
Infrastructure	1,581,252	1,769,791	-	-	1,581,252	1,769,791
Water and Sewer System	-	-	939,326	925,608	939,326	925,608
Construction in Progress	-	-	-	-	-	-
<b>Total</b>	<b>\$ 4,889,607</b>	<b>\$ 5,093,060</b>	<b>\$ 990,256</b>	<b>\$ 980,989</b>	<b>\$ 5,879,863</b>	<b>\$ 6,074,049</b>

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 bonded debt outstanding of \$1,910,000. The debt is backed by the full faith and credit of the Town.

***Town of Northlake's Outstanding Debt:***

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Capital Leases	\$ 47,998	\$ 52,808	\$ -	\$ -	\$ 47,998	\$ 52,808
Note Payable	42,164	52,101	-	-	42,164	52,101
Certificates of Obligation	1,910,000	2,020,000	-	-	1,910,000	2,020,000
<b>Total</b>	<b>\$ 2,000,162</b>	<b>\$ 2,124,909</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,000,162</b>	<b>\$ 2,124,909</b>

During the fiscal year, the Town's total debt decreased by \$124,747. 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 29.

**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 2012-2013. Overall, general fund revenues are expected to be higher in the fiscal year 2012-2013. Sales tax revenue and permit fees are expected to increase slightly over fiscal year 2011-2012. Expenses for the general fund are expected to increase. This is due to the Town's complete year of staffing new positions, increase healthcare and retirement costs, and increase development related expenditures. Water and sewer fund revenues are expected to be higher than fiscal year 2012-2013 due to additional customers.

# Town of Northlake, Texas

## Management's Discussion and Analysis

### **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](mailto:townsecretary@town.northlake.tx.us).

## BASIC FINANCIAL STATEMENTS

Town of Northlake, Texas

Statement of Net Assets

September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,099,944	\$ 176,172	\$ 2,276,116
Receivables (net of allowance for uncollectibles)	250,171	98,128	348,299
Deferred charges	21,998	-	21,998
Other assets	-	288,000	288,000
Capital Assets (net of accumulated depreciation):			
Land	2,754,654	15,986	2,770,640
Buildings and improvements	191,233	32,116	223,349
Automobiles	330,838	-	330,838
Equipment	31,630	2,828	34,458
Infrastructure	1,581,252	-	1,581,252
Water and sewer system	-	939,326	939,326
Total assets	7,261,720	1,552,556	8,814,276
<b>Liabilities</b>			
Cash overdraft	36,677	35,215	71,892
Accounts payable	166,033	38,177	204,210
Accrued liabilities	76,454	35,528	111,982
Unearned revenue	-	-	-
Noncurrent liabilities			
Due within one year	235,744	1,520	237,264
Due in more than one year	1,873,330	820	1,874,150
Total liabilities	2,388,238	111,260	2,499,498
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,889,445	990,256	3,879,701
Restricted for:			
Debt service	24,363	-	24,363
Court technology and security	120,521	-	120,521
Economic development	321,567	-	321,567
Community development	300,215	-	300,215
Promotional activities	644,018	-	644,018
Police and child safety activities	59,797	-	59,797
Unrestricted	513,556	451,040	964,596
Total net assets	\$ 4,873,482	\$ 1,441,296	\$ 6,314,778

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

Town of Northlake, Texas  
Statement of Activities  
Year Ended September 30, 2012

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 752,139	\$ 67,092	\$ -	\$ -	\$ (685,047)	\$ -	\$ (685,047)
Municipal court	256,949	699,910	-	-	442,961	-	442,961
Police	818,500	-	-	-	(818,500)	-	(818,500)
Public works	442,859	-	-	-	(442,859)	-	(442,859)
Economic development	132,902	-	-	-	(132,902)	-	(132,902)
Promotional	32,056	-	-	-	(32,056)	-	(32,056)
Interest on long-term debt	94,911	-	-	-	(94,911)	-	(94,911)
Total governmental activities	<u>2,530,316</u>	<u>767,002</u>	<u>-</u>	<u>-</u>	<u>(1,763,314)</u>	<u>-</u>	<u>(1,763,314)</u>
Business-type activities:							
Water and sewer	591,889	746,696	-	-	-	154,807	154,807
Total business-type activities	<u>591,889</u>	<u>746,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>154,807</u>	<u>154,807</u>
Total primary government	<u>\$ 3,122,205</u>	<u>\$ 1,513,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,763,314)</u>	<u>154,807</u>	<u>(1,608,507)</u>
General revenues:							
Taxes							
Property taxes					787,266	-	787,266
Sales taxes					408,620	-	408,620
Franchise taxes					170,398	-	170,398
Hotel/Motel taxes					101,127	-	101,127
Interest					4,301	483	4,784
Miscellaneous					243,495	1,521	245,016
Transfers					161,926	(163,447)	(1,521)
Total general revenues and transfers					<u>1,877,133</u>	<u>(161,443)</u>	<u>1,715,690</u>
Change in net assets					113,819	(6,636)	107,183
Net assets - beginning					4,803,677	1,446,411	6,250,088
Prior period adjustment					(44,014)	1,521	(42,493)
Net assets - ending					<u>\$ 4,873,482</u>	<u>\$ 1,441,296</u>	<u>\$ 6,314,778</u>

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

Town of Northlake, Texas  
Balance Sheet - Governmental Funds

September 30, 2012

	General Fund	Capital Projects Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 549,864	\$ -	\$ 304,484	\$ 308,133	\$ 636,792	206,101	\$ 2,005,374
Receivables:							
Property taxes, net of allowance	8,216	-	-	-	-	1,612	9,828
Sales taxes	35,162	-	17,581	17,581	-	-	70,324
Franchise taxes	12,275	-	-	-	-	-	12,275
Hotel/Motel taxes	-	-	-	-	7,579	-	7,579
Municipal court receivable, net	66,614	-	-	-	-	-	66,614
Other accounts receivable	83,550	-	-	-	-	-	83,550
Due from other funds	-	-	-	-	-	-	-
Total assets	<u>\$ 755,681</u>	<u>\$ -</u>	<u>\$ 322,065</u>	<u>\$ 325,714</u>	<u>\$ 644,371</u>	<u>\$ 207,713</u>	<u>\$ 2,255,544</u>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Cash Overdraft	-	36,676	-	-	-	-	36,676
Accounts payable	145,470	-	183	18,934	26	1,420	166,033
Accrued liabilities	33,904	-	315	315	327	-	34,861
Deferred revenue	308,380	-	-	-	-	1,612	309,992
Due to other funds	-	-	-	-	-	-	-
Total liabilities	<u>487,754</u>	<u>36,676</u>	<u>498</u>	<u>19,249</u>	<u>353</u>	<u>3,032</u>	<u>547,562</u>
Fund balances:							
Nonspendable	-	-	-	-	-	-	-
Restricted for							
Encumbrances	-	-	-	6,250	-	-	6,250
Debt service	-	-	-	-	-	24,363	24,363
Court technology and security	-	-	-	-	-	120,521	120,521
Economic development	-	-	321,567	-	-	-	321,567
Community development	-	-	-	300,215	-	-	300,215
Promotional activities	-	-	-	-	644,018	-	644,018
Equipment	-	-	-	-	-	-	-
Police and child safety activities	-	-	-	-	-	59,797	59,797
Committed to	-	-	-	-	-	-	-
Assigned for capital projects	-	(36,676)	-	-	-	-	(36,676)
Unassigned	<u>267,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>267,927</u>
Total fund balances	<u>267,927</u>	<u>(36,676)</u>	<u>321,567</u>	<u>306,465</u>	<u>644,018</u>	<u>204,681</u>	<u>1,707,982</u>
Total liabilities and fund balances	<u>\$ 755,681</u>	<u>\$ -</u>	<u>\$ 322,065</u>	<u>\$ 325,714</u>	<u>\$ 644,371</u>	<u>\$ 207,713</u>	<u>\$ 2,255,544</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 Assets  
 September 30, 2012

Total fund balances - governmental funds	\$ 1,707,982
Amounts reported for governmental activities in the statement of net assets 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.	4,889,607
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	309,992
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.	21,998
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.	(41,593)
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.	(2,109,074)
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 assets.	<u>94,570</u>
Net assets of governmental activities	<u>\$ 4,873,482</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, 2012

	General Fund	Capital Projects Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes:							
Property	\$ 580,645	\$ -	\$ -	\$ -	\$ -	\$ 206,621	\$ 787,266
Sales and beverage	204,310	-	102,155	102,155	-	-	408,620
Franchise	170,398	-	-	-	-	-	170,398
Hotel/Motel	-	-	-	-	101,127	-	101,127
Building permits, plant and other fees	67,092	-	-	-	-	-	67,092
Municipal court	689,157	-	-	-	-	-	689,157
Interest income	1,362	70	635	618	1,287	329	4,301
Miscellaneous	78,947	43,987	-	-	-	119,000	241,934
Total revenues	1,791,911	44,057	102,790	102,773	102,414	325,950	2,469,895
<b>Expenditures</b>							
Current:							
General government	562,069	-	-	-	-	300	562,369
Municipal court	241,416	-	-	-	-	14,598	256,014
Police	782,314	-	-	-	-	19,673	801,987
Public works	228,070	96,883	-	-	-	-	324,953
Economic development	-	-	65,249	64,022	-	-	129,271
Promotional	-	-	-	-	28,425	-	28,425
Capital outlay	26,422	27,284	-	-	-	-	53,706
Debt service							
Principal	26,331	-	-	-	-	110,000	136,331
Interest and fiscal charges	1,351	-	-	-	-	95,054	96,405
Total expenditures	1,867,973	124,167	65,249	64,022	28,425	239,625	2,389,461
Excess (deficiency) of revenues over expenditures	(76,062)	(80,110)	37,541	38,751	73,989	86,325	80,434
Other financing sources (uses)							
Transfers in	190,000	5,851	-	-	-	268	196,119
Transfers out	(40,561)	-	(20,000)	(20,000)	-	(43,000)	(123,561)
Total other financing sources (uses)	149,439	5,851	(20,000)	(20,000)	-	(42,732)	72,558
Net change in fund balances	73,377	(74,259)	17,541	18,751	73,989	43,593	152,992
Fund balances - beginning	277,660	37,583	304,026	287,714	570,029	161,088	1,638,100
Prior period adjustment	(83,110)	-	-	-	-	-	(83,110)
Fund balances - ending	\$ 267,927	\$ (36,676)	\$ 321,567	\$ 306,465	\$ 644,018	\$ 204,681	\$ 1,707,982

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 Balance of Governmental Funds to the Statement of Activities

Year ended September 30, 2012

Net changes in fund balances - total governmental funds	\$ 152,992
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.	78,172
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.	(344,013)
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.	175,520
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.	(14,522)
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.	2,098
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.	12,314
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>51,258</u>
Change in net assets of governmental activities	<u><u>\$ 113,819</u></u>

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

Town of Northlake, Texas

Statement of Net Assets

Proprietary Funds

September 30, 2012

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Water and Sewer</u>	<u>Equipment</u>
<b>Assets</b>		
Current assets:		
Deposits and investments	\$ 176,171	\$ 94,570
Accounts receivable, net	98,129	-
Total current assets	<u>274,300</u>	<u>94,570</u>
Non-current assets:		
Other assets	288,000	-
Property, plant and equipment:		
Land	15,986	-
Buildings and improvements	35,211	-
Automobiles	17,714	29,715
Water and sewer system	1,193,270	-
Equipment	26,993	-
	<u>1,289,174</u>	<u>29,715</u>
Less accumulated depreciation	298,918	8,254
Net property, plant and equipment	<u>990,256</u>	<u>21,461</u>
Total Assets	1,552,556	116,031
<b>Liabilities</b>		
Current liabilities:		
Cash overdraft	35,215	-
Accounts payable	38,177	-
Accrued liabilities	35,528	-
Total current liabilities	<u>108,920</u>	<u>-</u>
Noncurrent liabilities:		
Note payable	-	21,657
Compensated absences	2,340	-
Total Liabilities	<u>111,260</u>	<u>21,657</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	990,256	(196)
Equipment	-	-
Unrestricted	451,040	94,570
Total Net Assets	<u>\$ 1,441,296</u>	<u>\$ 94,374</u>

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

Town of Northlake, Texas

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year ended September 30, 2012

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Water and Sewer</u>	<u>Equipment</u>
Operating revenues:		
Water and sewer service	\$ 748,863	\$ -
Total operating revenues	<u>748,863</u>	<u>-</u>
Operating expenses:		
Operating expenses	554,659	740
Depreciation	37,230	8,254
Total operating expenses	<u>591,889</u>	<u>8,994</u>
Operating income (loss)	156,974	(8,994)
Nonoperating revenues (expenses):		
Interest income	483	-
Miscellaneous revenue (expense)	(645)	-
Total nonoperating revenues	<u>(162)</u>	<u>-</u>
Income (loss) before transfers	156,812	(8,994)
Transfers in	-	89,368
Transfers out	(161,926)	-
Change in net assets	<u>(5,114)</u>	<u>80,374</u>
Net assets - beginning	1,446,410	14,000
Prior period adjustment	-	-
Net assets - ending	<u>\$ 1,441,296</u>	<u>\$ 94,374</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, 2012

	Business Type Activities - Enterprise Fund <u>Water and Sewer</u>	Governmental Activities - Internal Service Funds <u>Equipment</u>
<b>Operating Activities</b>		
Cash received from customers	\$ 755,948	\$ -
Cash payments to suppliers for goods and services	<u>(576,357)</u>	<u>(740)</u>
Net cash provided by operating activities	179,591	(740)
<b>Noncapital Financing Activities</b>		
Transfers (to) from other funds	(161,926)	89,368
Cost recovery fees	<u>(2,167)</u>	<u>-</u>
Net cash used in noncapital financing activities	(164,093)	89,368
<b>Capital and Related Financing Activities</b>		
Capital expenditures	(45,066)	(29,715)
Proceed from note	<u>-</u>	<u>21,657</u>
Net cash used in capital and related financing activities	(45,066)	(8,058)
<b>Investing Activities</b>		
Interest received	<u>483</u>	<u>-</u>
Net cash provided by investing activities	483	-
Net decrease in cash and cash equivalents	(29,085)	80,570
Cash and cash equivalents - beginning	205,256	14,000
Cash and cash equivalents - ending	<u>\$ 176,171</u>	<u>\$ 94,570</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 156,974	\$ (8,994)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	35,799	8,254
Change in assets and liabilities:		
Accounts receivable	7,085	-
Overdraft	35,215	-
Other assets	-	-
Accounts payable and accrued liabilities	<u>(55,482)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 179,591</u>	<u>\$ (740)</u>

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

# Town of Northlake, Texas

## Notes to Basic Financial Statements

September 30, 2012

### **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 assets 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 4A Fund**

The Community Development Corporation 4A 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 Assets. 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 assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. 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 Assets

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

##### 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.

##### 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.

# Town of Northlake, Texas

## Notes to Basic Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### C. Measurement Focus/Basis of Accounting (continued)

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 Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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.

### 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, 2012, the Town had the following investments:

<u>Investment Type</u>	<u>Weighted Average Amount</u>	<u>Maturity</u>
Logic	\$ 929,350	48 days
Wells Fargo	\$ 1,017,541	0 days

As of September 30, 2012, the Town did not invest in any securities that are highly sensitive to interest rate fluctuations.

# Town of Northlake, Texas

## Notes to Basic Financial Statements

### 2. Deposits and Investments (continued)

#### 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, 2012</u>
Logic	\$ 929,350	AAA	AAA
Wells Fargo	\$ 1,017,541	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, 2012, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

#### 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, 2012, the carrying amount of the Town's cash on hand and deposits were \$1,274,233 and the bank balance was \$1,324,823. 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.

Town of Northlake, Texas

Notes to Basic Financial Statements

**2. Deposits and Investments (continued)**

**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.

**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, 2012, 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	\$ 10,974	\$ 240,362	\$ 1,924	\$ 100,003
Less allowance for uncollectibles	(2,758)	(173,748)	(311)	(1,874)
Net receivables	<u>\$ 8,216</u>	<u>\$ 66,614</u>	<u>\$ 1,613</u>	<u>\$ 98,129</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

**4. Capital Assets**

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance September 30, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,754,654	\$ -	\$ -	2,754,654
Construction in progress	-	-	-	-
Total capital assets not being depreciated	2,754,654	-	-	2,754,654
Capital assets being depreciated				
Buildings and improvements	290,726	-	-	290,726
Automobiles	554,323	58,578	-	612,901
Equipment	111,905	43,629	-	155,534
Infrastructure	3,206,147	44,775	-	3,250,922
Total capital assets being depreciated	4,163,101	146,982	-	4,310,083
Less accumulated depreciation				
Buildings and improvements	85,967	13,526	-	99,493
Automobiles	198,748	83,314	-	282,062
Equipment	103,624	20,282	-	123,906
Infrastructure	1,436,356	233,312	-	1,669,668
Total accumulated depreciation	1,824,695	350,434	-	2,175,129
Total capital assets being depreciated, net	2,338,406	(203,452)	-	2,134,954
Governmental activities capital assets, net	<u>\$ 5,093,060</u>	<u>\$ (203,452)</u>	<u>\$ -</u>	<u>\$ 4,889,608</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

**4. Capital Assets (continued)**

	Balance September 30, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 15,986	\$ -	\$ -	\$ 15,986
Construction in progress	-	-	-	-
Total capital assets not being depreciated	15,986	-	-	15,986
Capital assets being depreciated				
Buildings and improvements	35,211	-	-	35,211
Equipment	24,500	2,493	-	26,993
Automobiles	17,714	-	-	17,714
Water and sewer system	1,150,697	42,573	-	1,193,270
Total capital assets being depreciated	1,228,122	45,066	-	1,273,188
Less accumulated depreciation				
Buildings and improvements	1,921	1,174	-	3,095
Equipment	23,069	1,096	-	24,165
Automobiles	13,040	4,674	-	17,714
Water and sewer system	225,089	28,855	-	253,944
Total accumulated depreciation	263,119	35,799	-	298,918
Total capital assets being depreciated, net	965,003	9,267	-	974,270
Business-type capital assets, net	<u>\$ 980,989</u>	<u>\$ 9,267</u>	<u>\$ -</u>	<u>\$ 990,256</u>

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

**Governmental activities**

General government	\$ 32,873
Municipal court	935
Police	83,314
Public works	<u>233,312</u>

Total depreciation expense - Governmental activities \$ 350,434

**Business-type activities**

Water and sewer	<u>\$ 35,799</u>
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Total depreciation expense - Business-type activities \$ 35,799

Town of Northlake, Texas

Notes to Basic Financial Statements

**5. Long-term Debt**

Amounts payable at September 30, 2012 are comprised of the following individual issues:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital leases		
Various lease agreements for various types of equipment, with terms of 36 months with effective interest rates ranging from 6.5 to 12.0%	<u>\$ 47,998</u>	<u>-</u>
Certificates of Obligation		
\$1,900,000 Series 2005 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$10,000 to \$190,000 through April 15, 2025, with interest at 4.97%	<u>\$ 1,730,000</u>	<u>-</u>
Certificates of Obligation		
\$245,000 Series 2010 Limited Tax Note due in annual installments of \$34,000 to \$41,000 through February 15, 2017, with interest at 4.97%	<u>\$ 180,000</u>	<u>-</u>
Note Payable		
\$60,000 note payable due in 60 monthly installments of \$1,160 through January 2016 with interest at 5.985%	<u>\$ 42,164</u>	<u>-</u>

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2012:

	<u>Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of Year</u>	<u>Within One Year</u>
<b>Governmental Activities</b>					
Capital Leases	\$ 52,808	\$ 29,715	\$ 34,525	\$ 47,998	\$ 34,110
Certificates of Obligation	2,020,000	-	110,000	1,910,000	120,000
Note payable	52,101	-	9,937	42,164	11,780
Compensated Absences	94,390	14,522	-	108,912	27,228
Total governmental activities	<u>\$ 2,219,299</u>	<u>\$ 44,237</u>	<u>\$ 154,462</u>	<u>\$ 2,109,074</u>	<u>\$ 193,118</u>
<b>Business-type Activities</b>					
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated Absences	1,095	1,245	-	2,340	1,521
Total business-type activities	<u>\$ 1,095</u>	<u>\$ 1,245</u>	<u>\$ -</u>	<u>\$ 2,340</u>	<u>\$ 1,521</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

**5. Long-term Debt (continued)**

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2012, are as follows:

Certificates of Obligation:

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 120,000	\$ 90,625	\$ -	\$ -	\$ 210,625
2014	125,000	85,587	-	-	210,587
2015	135,000	80,213	-	-	215,213
2016	140,000	74,228	-	-	214,228
2017	150,000	67,785	-	-	217,785
2018-2022	700,000	243,530	-	-	943,530
2023-2025	540,000	54,670	-	-	594,670
	<u>\$ 1,910,000</u>	<u>\$ 696,637</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,606,637</u>

Note Payable:

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 11,780	\$ 2,135	\$ -	\$ -	\$ 13,915
2014	12,505	1,410	-	-	13,915
2015	13,275	640	-	-	13,915
2016	4,604	34	-	-	4,638
	<u>\$ 42,164</u>	<u>\$ 4,219</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,383</u>

Capital Leases:

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 34,110	\$ 1,270	\$ -	\$ -	\$ 35,380
2014	12,173	353	-	-	12,526
2015	1,715	19	-	-	-
	<u>\$ 47,998</u>	<u>\$ 1,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,906</u>

Town of Northlake, Texas

Notes to Basic Financial Statements

**5. Long-term Debt (continued)**

**Operating Leases**

The Town is committed under various noncancelable operating leases and equipment (principally in the General Fund). Future minimum operating lease commitments are as follows for fiscal years ending September 30:

2013	\$	648
2014		648
2015		162
	\$	<u>1,458</u>

Rent expenditures were \$36,257 for the year ended September 30, 2012.

**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 numbers of fees and charges (equity fee, subscription fee, volume charges, etc.) associated with the water contract.

In addition, the Town financed the payment of a \$60,000 equity fee, an initial fee required by the contract, over 60 months (see Footnote 5).

# 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.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	150,000
General Fund	4A Fund	20,000
General Fund	4B Fund	20,000
		<u>190,000</u>
Internal Service Fund	General Fund	37,368
Internal Service Fund	Police Seizure Fund	43,000
Internal Service Fund	Water and Sewer Fund	9,000
		<u>89,368</u>

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2012.

# Town of Northlake, Texas

## Notes to Basic Financial Statements

### 9. Employee Retirement System

#### Plan Description

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

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

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 2012</u>	<u>Plan Year 2011</u>
Deposit rate:	7%	7%
Matching ratio (Town to Employee):	2 to1	2 to1
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

#### Contributions

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

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

Town of Northlake, Texas

Notes to Basic Financial Statements

**9. Employee Retirement System (continued)**

The annual pension cost and net pension obligation are as follows:

	Plan Year		
	2010	2011	2012
Annual required contribution (ARC)	\$ 52,796	\$ 74,520	\$ 64,063
Interest on net pension obligation	-	-	-
Adjustment to the ARC	-	-	-
Annual pension cost (APC)	52,796	74,520	64,063
Contributions made (100% contributed)	(52,796)	(74,520)	(64,063)
Increase (decrease) in net pension obligation	-	-	-
Net pension obligation (asset), beginning of year	-	-	-
Net pension obligation (asset), end of year	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	23.5 years; closed period	23.2 years; closed period	22.6 years; closed period
Amortization Period for New Gains/Losses	25 years	24 years	24 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return*	7.50%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

Town of Northlake, Texas

Notes to Basic Financial Statements

**9. Employee Retirement System (continued)**

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 818,166	\$ 1,037,928	78.80%	\$ 219,762	\$ 1,001,795	21.90%

The schedule of funding progress, presented as Require Supplementary Information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**Supplemental Death Benefits**

**Plan Description**

The Town also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The Town elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Town may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 or any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding month of death); retired employees are insured for \$7,500. This coverage is an “other postemployment benefit,” or OPEB.

**Contributions**

The Town contributes to the SDBF at a contractually required rate as determined by the annual actuarial valuation. The rate is equal to the cost of providing one-year life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers. The Town’s contribution rates to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$64,063, \$74,520, and \$52,796, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates  
(Retiree-only portion of the rate)

Plan Year	Annual Required Contribution (Rate)	Annual	
		Contribution Made (Rate)	% of ARC Contributed
2009	0.00%	0.00%	100.00%
2010	0.01%	0.01%	100.00%
2011	0.01%	0.01%	100.00%
2012	0.01%	0.01%	100.00%

# Town of Northlake, Texas

## Notes to Basic Financial Statements

### 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 which the Town carries commercial insurance.

The Town had no significant changes in insurance coverage from the year ended September 30, 2012. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2012 or any of the three preceding years.

### 11. Prior Period Adjustments

Correction of errors in the prior year's government-wide and fund level statements are reported as prior period adjustments. During the fiscal year ended September 30, 2012, the town performed a physical inventory of capital assets and identified capital equipment that was previously expensed in the government wide financial statements. The net impact of this prior period adjustment was approximately \$39,000 increase in equipment and fund balance for the general fund.

Additionally, the Town recorded a prior period adjustment of approximately \$83,000 to record revenue in fiscal year 2012 that was incorrectly recorded in fiscal year 2011. The adjustment was for franchise fees not available within 60 days.

Summary of Prior Period Adjustments  
Increases (Decreases)

	Government-wide Adjustments		Fund Level Adjustments	
	Governmental Net Assets	Business-type Net Assets	Fund Balance	Proprietary Net Assets
Add capital lease obligation acquired in prior year	\$ 39,000	\$ -	\$ -	\$ -
Sub-total general fund	39,000	-	-	-
Adjust beginning deferred revenue	(83,000)	-	(83,000)	-
Total prior period adjustments	\$ (44,000)	\$ -	\$ (83,000)	\$ -

# Town of Northlake, Texas

## Notes to Basic Financial Statements

### **12. Contingent Liabilities**

The Town is involved in a pending litigation matter. That litigation was filed on or about September 18, 2009 and was styled and numbered: Somchai Saramanee & Andrew Terrell Boggess v. Town of Northlake; Cause No. 2009-30299-211, pending in the 211<sup>th</sup> District Court of Denton County, Texas. The suit concerned alleged personal injuries suffered by the Plaintiffs Saramanee and Boggess during a traffic stop effected by a Town Police Officer. The Town believed the claims of the Plaintiffs to be wholly without merit and vigorously contested the allegations of the Plaintiffs. On May 10, 2010, the trial court Judge granted the Town's Plea to the Jurisdiction and entered an Order disposing of all of the Plaintiffs' claims. The Plaintiffs appealed the determination of the trial court, and on March 17, 2011, the Court of Appeals reversed the ruling of the trial court.

The Town sought review of the appellate court's decision and the Texas Supreme Court in February of 2012 declined the Town's Petition for Review and declined to overturn the appellate court's decision. Consequently, the matter was remanded to the trial court for further proceedings. The Town will continue to vigorously oppose the Plaintiffs' action and believes that the Plaintiffs have little likelihood of success on the merits of their claims. The Town is represented in that appeal by counsel engaged on behalf of the Town by the Texas Municipal League's Intergovernmental Risk Pool. An estimate of loss or possible loss cannot be made at this time.

### **13. Subsequent Events**

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through January 22, 2012, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

Town of Northlake, Texas

Required Supplementary Information  
 Schedule of Funding Progress for Participation in Texas Municipal Retirement System

September 30, 2012

Texas Municipal Retirement System  
 Schedule of Funding Progress:

*(unaudited)*

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Covered Payroll	Unfunded Actuarial Accrued Liability as a percentage of Covered Payroll
12/31/09	\$ 448,449	\$ 633,204	70.80%	\$ 184,755	\$ 873,371	21.20%
12/31/10	641,457	939,591	68.30%	298,134	945,890	31.50%
12/31/11	818,166	1,037,928	78.80%	219,762	1,001,795	21.90%

Town of Northlake, Texas

Budgetary Comparison Schedule - General Fund

Year ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes				
Property	\$ 553,877	\$ 579,100	\$ 580,645	\$ 1,545
Sales and beverage	150,000	195,000	204,310	9,310
Franchise	194,500	162,200	170,398	8,198
Building permits, plat and other fees	139,000	85,750	67,092	(18,658)
Municipal court	645,000	625,000	689,157	64,157
Interest income	1,500	1,500	1,362	(138)
Miscellaneous	16,075	26,175	78,947	52,772
Total revenues	<u>1,699,952</u>	<u>1,674,725</u>	<u>1,791,911</u>	<u>117,186</u>
Expenditures				
Current				
General government	567,183	530,286	562,069	(31,783)
Municipal court	235,330	242,930	241,416	1,514
Police	765,940	776,150	782,314	(6,164)
Public works	234,295	246,085	228,070	18,015
Capital outlay	-	1,500	26,422	(24,922)
Debt service				
Principal	-	-	26,331	(26,331)
Interest and fiscal charges	-	-	1,351	(1,351)
Total expenditures	<u>1,802,748</u>	<u>1,796,951</u>	<u>1,867,973</u>	<u>(71,022)</u>
Excess (deficiency) of revenues over expenditures	(102,796)	(122,226)	(76,062)	46,164
Other financing sources (uses):				
Transfers in	190,000	190,000	190,000	-
Transfers out	(60,000)	(63,268)	(40,561)	(22,707)
Total other financing sources (uses)	<u>130,000</u>	<u>126,732</u>	<u>149,439</u>	<u>(22,707)</u>
Net change in fund balances	<u>27,204</u>	<u>4,506</u>	<u>73,377</u>	<u>68,871</u>
Fund balance, beginning of year (as restated)	<u>338,181</u>	<u>338,181</u>	<u>194,550</u>	<u>143,631</u>
Fund balance, end of year	<u>\$ 365,385</u>	<u>\$ 342,687</u>	<u>\$ 267,927</u>	<u>\$ (74,760)</u>

Town of Northlake, Texas

Budgetary Comparison Schedule - Economic Development Corporation 4A

Year ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 75,000	\$ 97,500	\$ 102,155	\$ 4,655
Interest income	1,000	600	635	35
Total revenues	76,000	98,100	102,790	4,690
Expenditures				
General Government	-	-	-	-
Economic development	41,255	76,309	65,249	11,060
Total expenditures	41,255	76,309	65,249	11,060
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	(20,000)	(20,000)	(20,000)	-
Net change in fund balances	14,745	1,791	17,541	15,750
Fund balance, beginning of year (as restated)	266,308	266,308	304,026	37,718
Fund balance, end of year	\$ 281,053	\$ 268,099	\$ 321,567	\$ 53,468

Town of Northlake, Texas

Budgetary Comparison Schedule - Community Development Corporation 4B

Year ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues				
Sales taxes	75,000	97,500	102,155	4,655
Interest income	1,000	550	618	68
Total revenues	<u>76,000</u>	<u>98,050</u>	<u>102,773</u>	<u>4,723</u>
Expenditures				
General Government	-	-	-	-
Economic development	41,255	75,610	64,022	11,588
Total expenditures	<u>41,255</u>	<u>75,610</u>	<u>64,022</u>	<u>11,588</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net change in fund balances	14,745	2,440	18,751	16,311
Fund balance, beginning of year (as restated)	<u>252,243</u>	<u>252,243</u>	<u>287,714</u>	<u>(35,471)</u>
Fund balance, end of year	<u>\$ 266,988</u>	<u>\$ 254,683</u>	<u>\$ 306,465</u>	<u>\$ 51,782</u>

Town of Northlake, Texas

Budgetary Comparison Schedule - Hotel/Motel Tax Fund

Year ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Hotel/Motel tax	\$ 110,000	\$ 100,000	\$ 101,127	\$ 1,127
Interest income	1,000	1,000	1,287	287
Total revenues	111,000	101,000	102,414	1,414
Expenditures				
Promotional	41,405	41,307	28,425	12,882
Total expenditures	41,405	41,307	28,425	12,882
Other financing sources (uses)				
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	69,595	59,693	73,989	14,296
Fund balance, beginning of year (as restated)	568,787	568,787	570,029	(1,242)
Fund balance, end of year	\$ 638,382	\$ 628,480	\$ 644,018	\$ 15,538

Town of Northlake, Texas

Notes to Required Supplementary Information

September 30, 2012

**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, 2012

	Debt Service Fund	Special Revenue Fund	Total Non Major Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>			
Cash and cash equivalents	\$ 24,363	\$ 181,738	\$ 206,101
Receivables			
Property taxes, net of allowance	1,612	-	1,612
Total assets and other debits	<u>\$ 25,975</u>	<u>\$ 181,738</u>	<u>\$ 207,713</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	\$ 1,420	1,420
Deferred revenue	1,612	-	1,612
Due to other governmental funds	-	-	-
Total liabilities	<u>1,612</u>	<u>1,420</u>	<u>3,032</u>
Fund balances:			
Restricted for			
Debt service	24,363	-	24,363
Equipment	-	-	-
Police and child safety activities	-	59,797	59,797
Court technology and security	-	120,521	120,521
Total fund balances	<u>24,363</u>	<u>180,318</u>	<u>204,681</u>
Total liabilities and fund balances	<u>\$ 25,975</u>	<u>\$ 181,738</u>	<u>\$ 207,713</u>

Town of Northlake, Texas

Combining Schedule of Revenues, Expenditures and Changes  
in Fund Balances - Non Major Governmental Funds

September 30, 2012

	Debt Service Fund	Special Revenue Fund	Total Non Major Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues			
Taxes			
Property	\$ 206,621	\$ -	\$ 206,621
Interest income	47	282	329
Miscellaneous	-	119,000	119,000
Total revenues	<u>206,668</u>	<u>119,282</u>	<u>325,950</u>
Expenditures			
Current			
General government	300	-	300
Municipal court	-	14,598	14,598
Police	-	19,673	19,673
Debt service			
Principal	110,000	-	110,000
Interest and fiscal charges	95,054	-	95,054
Total expenditures	<u>205,354</u>	<u>34,271</u>	<u>239,625</u>
Excess of revenues over expenditures	1,314	85,011	86,325
Other financing sources			
Transfers in	-	268	268
Transfers out	-	(43,000)	(43,000)
Total other financing sources	<u>-</u>	<u>(42,732)</u>	<u>(42,732)</u>
Net change in fund balances	1,314	42,279	43,593
Fund balances - beginning	23,049	138,039	161,088
Fund balances - ending	<u>\$ 24,363</u>	<u>\$ 180,318</u>	<u>\$ 204,681</u>



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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Northlake, Texas, as of and for the year ended September 30, 2012, which collectively comprise the Town of Northlake, Texas' basic financial statements and have issued our report thereon dated January 22, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Northlake, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Northlake, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Northlake, Texas' internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. 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.

The Town of Northlake currently does not have the capability to prepare its own government-wide financial statements. Vail & Knauth, LLP prepared the government wide financials. The Town utilizes a GASB 34 reporting tool to STW accounting software to facilitate preparation of the government-wide financial statements.

We noted outstanding checks over 90 days old on the bank reconciliation. We recommend to follow up to clear these items on timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Northlake, Texas' financial statements are free of 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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vail + Knauth, LLP*

Dallas, Texas  
January 22, 2012