

ANNUAL FINANCIAL REPORT
AND REQUIRED SUPPLEMENTARY INFORMATION
Town of Northlake, Texas
Fiscal year ended September 30, 2014

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Town of Northlake, Texas

Annual Financial Report

Year ended September 30, 2014

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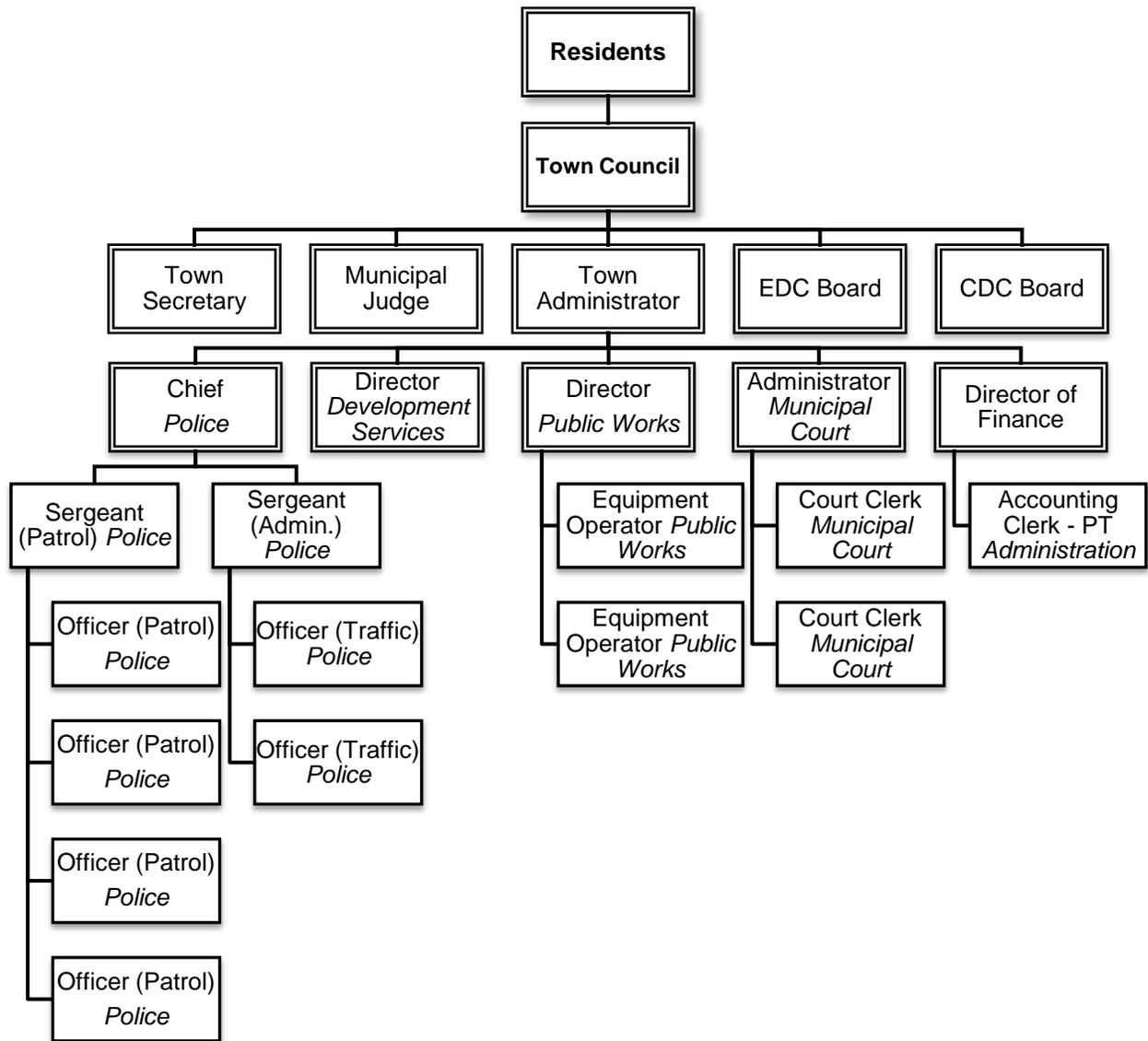
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Town of Northlake, Texas
Organizational Chart



List of Elected and Appointed Officials

Town of Northlake, Texas

Town Council
September 30, 2014

Peter Dewing
Mayor

Jean Young, Place 1
Mayor Pro Tem

Mike McBride, Place 2
Council Member

Michael Ganz, Place 3
Council Member

Roger Sessions, Place 4
Council Member

Danny Simpson, Place 5
Council Member

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Northlake (“The Town”), Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s responsibility

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

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

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, 2014,

and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information on pages 05–11 and 39–44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining schedules on pages 45 to 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Vail + Knauth, LLP

Dallas, Texas
January 22, 2015

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2014

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, 2014. Please read it in conjunction with the Town's financial statements, which begin on page 12.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$6,958,400 (net assets). Of this amount, \$2,053,804 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$263,110.
- As of the close of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$5,937,014 (page 16), which is an increase of \$3,878,939 in comparison with the prior year. The increase is due bond proceeds for a public improvement district, strong sales tax receipts, and increased development revenues from the building of new residential homes.
- At the end of the current fiscal year, unassigned fund balance for the general fund was a surplus of \$1,021,371 or 44.2% of total general fund expenditures.
- The Town's total long-term debt increased by \$4,441,252 from \$1,833,112 to \$6,274,364. The increase is due to the issuance of debt for the creation of a public improvement district (see Note 5 on page 31 through 33).

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
September 30, 2014

The government-wide financial statements can be found on pages 12 through 13 of this report.

Fund Financial Statements

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

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

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

The Town maintains five individual major governmental funds as well as other non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Capital Projects, Economic 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 14 through 17 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 18 through 20 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 21 through 38 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

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2014

Governmental Funds. Required supplementary information can be found on pages 39 through 44 of this report.

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 2014, the Town of Northlake's assets exceeded liabilities by \$6,958,400.

The largest portion of the Town's net assets (44%) 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 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 |
| Current and Other Assets | \$ 6,826,043 | \$ 2,694,789 | \$ 1,906,301 | \$ 439,498 | \$ 8,732,344 | \$ 3,134,287 |
| Capital Assets | 4,503,797 | 4,743,491 | 1,027,105 | 1,009,818 | 5,530,902 | 5,753,309 |
| Total Assets | 11,329,840 | 7,438,280 | 2,933,406 | 1,449,316 | 14,263,246 | 8,887,596 |
| Long-term Liabilities Outstanding | 553,602 | 1,912,629 | 390,616 | 1,337 | 944,218 | 1,913,966 |
| Other Liabilities | 5,937,103 | 215,415 | 423,525 | 62,925 | 6,360,628 | 278,340 |
| Total Liabilities | 6,490,705 | 2,128,044 | 814,141 | 64,262 | 7,304,846 | 2,192,306 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,472,711 | 2,939,603 | 603,580 | 1,009,818 | 3,076,291 | 3,949,421 |
| Restricted for Debt Service | (28) | 1,911 | - | - | (28) | 1,911 |
| Restricted for Capital Projects | (39,094) | (19,091) | - | - | (39,094) | (19,091) |
| Restricted for Court Technology and Security | 163,373 | 159,787 | - | - | 163,373 | 159,787 |
| Restricted for Economic Development | 455,140 | 370,860 | - | - | 455,140 | 370,860 |
| Restricted for Community Development | 433,937 | 349,259 | - | - | 433,937 | 349,259 |
| Restricted for Promotional Activities | 814,977 | 709,165 | - | - | 814,977 | 709,165 |
| Restricted for Police and Child Safety Activities | - | - | - | - | - | - |
| Unrestricted | 538,119 | 798,742 | 1,515,685 | 375,236 | 2,053,804 | 1,173,978 |
| Total Net Assets | \$ 4,839,135 | \$ 5,310,236 | \$ 2,119,265 | \$ 1,385,054 | \$ 6,958,400 | \$ 6,695,290 |

The unrestricted net assets of \$2,053,804 may be used to meet the Town's ongoing obligations to citizens and creditors.

As of September 30, 2014, 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 \$263,110 in total net assets during the fiscal year. The increase is comprised of a decrease in governmental activities net assets of (\$471,101) offset by an increase in business-type activities net assets of \$734,211. The decrease in governmental activities net assets is due to the transfer of assets for the construction of water infrastructure.

Governmental Activities. Even though governmental revenues increased by \$414,436 during fiscal year 2014 the issuance of debt for a public improvement district caused a decrease of (\$471,101) in total

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2014

governmental net assets. The increase in governmental revenues is attributable to increases in Fees, Fines and Charges for Services, Sales Taxes, and Hotel/Motel Taxes.

- When comparing Fees, Fines and Charges for Services to the prior year, an improving housing market increased building permits by \$265,658. The overall improvement in the economy enabled increased collections of \$113,664 in Municipal Court fines.
- Due to continued economic growth Sales Taxes and Motel/Hotel Taxes increased when compared to the prior year. During fiscal year 2014 Sales Taxes increased by \$132,338 and Hotel/Motel taxes increased by \$42,495.

When compared to the prior year total expenditures increased by \$432,291 and are primarily attributable to an increase in General Government expenditures for the issuance of debt for a public improvement district.

Business-Type Activities. Business-type activities increased the Town's net assets by \$734,211. The increase is mainly due to the transfer of \$765,000 from governmental activities for a water system expansion project.

Total operating revenue increased by \$225,016 or 26.8% while expenditures increased \$324,563 or 42.2%. The increase in revenue is attributable to increases in water and wastewater processing fees and the increase in expenditures is mainly due to increased charges from the Trinity River Authority for wastewater infrastructure expansions.

Town of Northlake's Changes in Net Assets:

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | FY 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Fees, Fines and Charges for Services | \$ 1,158,993 | \$ 867,532 | \$ 1,053,338 | \$ 837,075 | \$ 2,212,331 | \$ 1,704,607 |
| General Revenues: | | | | | | |
| Property Taxes | 683,502 | 704,349 | - | - | 683,502 | 704,349 |
| PID Assessment | 27,886 | - | - | - | 27,886 | - |
| Sales Taxes | 626,825 | 494,487 | - | - | 626,825 | 494,487 |
| Franchise Taxes | 198,913 | 224,394 | - | - | 198,913 | 224,394 |
| Hotel/Motel Taxes | 143,548 | 101,053 | - | - | 143,548 | 101,053 |
| Interest on Investment | 5,377 | 4,012 | 674 | 403 | 6,051 | 4,415 |
| Miscellaneous | 355,425 | 390,206 | 8,482 | - | 363,907 | 390,206 |
| | 3,200,469 | 2,786,033 | 1,062,494 | 837,478 | 4,262,963 | 3,623,511 |
| Expenses | | | | | | |
| General Government | 1,161,129 | 614,116 | - | - | 1,161,129 | 614,116 |
| Municipal Court | 274,826 | 289,882 | - | - | 274,826 | 289,882 |
| Police | 819,258 | 971,836 | - | - | 819,258 | 971,836 |
| Public Works | 386,805 | 416,806 | - | - | 386,805 | 416,806 |
| Economic Development | 94,047 | 106,448 | - | - | 94,047 | 106,448 |
| Promotional | 38,416 | 26,548 | - | - | 38,416 | 26,548 |
| Interest on Long-Term Debt | 132,088 | 48,643 | - | - | 132,088 | 48,643 |
| Water and Sewer | - | - | 1,093,283 | 768,720 | 1,093,283 | 768,720 |
| | 2,906,570 | 2,474,279 | 1,093,283 | 768,720 | 3,999,853 | 3,242,999 |
| Change in Net Assets Before Transfers | 293,899 | 311,754 | (30,789) | 68,758 | 263,110 | 380,512 |
| Transfers | (765,000) | 125,000 | 765,000 | (125,000) | - | - |
| Change in Net Assets | (471,101) | 436,754 | 734,211 | (56,242) | 263,110 | 380,512 |
| Net Assets 9/30 Prior Year | 5,310,236 | 4,873,482 | 1,385,054 | 1,441,296 | 6,695,290 | 6,314,778 |
| Prior Period Adjustment | - | - | - | - | - | - |
| Net Assets 9/30 Current Year | \$ 4,839,135 | \$ 5,310,236 | \$ 2,119,265 | \$ 1,385,054 | \$ 6,958,400 | \$ 6,695,290 |

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2014

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 \$5,937,014, an increase of \$3,878,939 in comparison with the prior year. The unassigned fund balance at year end is a surplus of \$1,021,371 while \$3,087,338 is assigned for a public improvement districts development and water infrastructure expenditures. 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, \$163,373
- to pay for economic and community development, \$889,077
- to pay for promotional activities, \$814,977
- to service future debt obligations, (\$28)
- To pay for capital projects, (\$39,094)

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 2013-2014 of \$112,998 for the general fund (page 40).

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 \$1,092,160. The water and sewer fund had an increase in net assets of \$734,211. Unrestricted net assets of the Internal Service Funds for Governmental Activities are \$99,330 and net assets increased during fiscal year 2014 by \$32,873.

General Fund Budgetary Highlights

The Town of Northlake ended fiscal year 2013-2014 with a positive revenue budget variance of \$3,509,527 (page 40), which was primarily due to \$4,169,281 in bond proceeds for a public improvement districts development and water infrastructure expenditures. Miscellaneous revenues incurred a \$232,632 positive budget variance that is mainly due to \$161,069 in developer expenditure reimbursements. The Town had a negative expenditure budget variance of (\$202,030) that was primarily due to bond issuance costs for the public improvement district and for unanticipated costs for police department capital outlays (page 40).

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, 2014, amounts to \$5,530,902 (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 (\$222,407). This was comprised of a decrease in capital assets for

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2014

governmental activities of (\$2,396,694) and was partially offset by an increase in capital assets for business-type activities of \$17,287 (i.e., water and sewer services).

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

- Purchase of an asphalt roller
- Purchase of police vehicle video equipment and Toughbook vehicle computers
- Administration laptop computers
- Purchase of radio read meters (ongoing project)

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

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | FY 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 |
| Land | \$ 2,754,654 | \$ 2,754,654 | \$ 15,986 | \$ 15,986 | \$ 2,770,640 | \$ 2,770,640 |
| Buildings and Improvements | 164,182 | 177,708 | 29,768 | 30,943 | 193,950 | 208,651 |
| Automobiles | 273,775 | 353,284 | - | - | 273,775 | 353,284 |
| Equipment | 112,611 | 67,931 | 3,220 | 3,233 | 115,831 | 71,164 |
| Infrastructure | 1,198,575 | 1,389,914 | - | - | 1,198,575 | 1,389,914 |
| Water and Dewer System | - | - | 978,131 | 959,656 | 978,131 | 959,656 |
| Construction in Progress | - | - | - | - | - | - |
| Total | \$ 4,503,797 | \$ 4,743,491 | \$ 1,027,105 | \$ 1,009,818 | \$ 5,530,902 | \$ 5,753,309 |

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

Long-term Debt. At the end of the current fiscal year, the Town had total debt of \$6,274,364 of which \$6,255,000 is Certificates of Obligation. 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 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 | FY 2013-14 | FY 2012-13 |
| Capital Leases | \$ 2,645 | \$ 13,888 | \$ - | \$ - | \$ 2,645 | \$ 13,888 |
| Note Payable | 16,719 | 29,224 | - | - | 16,719 | 29,224 |
| Certificates of Obligation | 5,835,000 | 1,790,000 | 420,000 | - | 6,255,000 | 1,790,000 |
| Total | \$ 5,854,364 | \$ 1,833,112 | \$ 420,000 | \$ - | \$ 6,274,364 | \$ 1,833,112 |

During the fiscal year, the Town retired \$151,521 in debt and increased debt by \$4,592,773. 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 31 through 33.

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 2014-2015. Overall, general fund revenues are expected to be higher in the fiscal year 2013-2014. Sales tax revenue and permit fees are expected to increase slightly over fiscal year 2013-2014. Expenses for the general fund are expected to increase. This is due to the Town's complete year of staffing new positions,

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2014

increase healthcare and retirement costs, and increase development related expenditures. Water and sewer fund revenues are expected to be higher than fiscal year 2013-2014 due to additional customers.

Request for Information

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

BASIC FINANCIAL STATEMENTS

Town of Northlake, Texas
Statement of Net Position
September 30, 2014

| | Primary Government | | |
|--|----------------------------|-----------------------------|--------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 6,463,314 | \$ 1,472,344 | \$ 7,935,658 |
| Receivables (net of allowance for uncollectibles) | 362,729 | 145,957 | 508,686 |
| Prepaid expense | - | - | - |
| Internal balances | - | - | - |
| Deferred charges | - | - | - |
| Other assets | - | 288,000 | 288,000 |
| Capital Assets (net of accumulated depreciation): | | | |
| Land | 2,754,654 | 15,986 | 2,770,640 |
| Buildings and improvements | 164,182 | 29,768 | 193,950 |
| Automobiles | 273,775 | - | 273,775 |
| Equipment | 112,611 | 3,220 | 115,831 |
| Infrastructure | 1,198,575 | - | 1,198,575 |
| Water and sewer system | - | 978,131 | 978,131 |
| Total assets | 11,329,840 | 2,933,406 | 14,263,246 |
| Liabilities | | | |
| Cash overdraft | - | 257,748 | 257,748 |
| Accounts payable | 453,805 | 79,098 | 532,903 |
| Accrued liabilities | 99,797 | 53,770 | 153,567 |
| Noncurrent liabilities | | | |
| Due within one year | 304,662 | 17,115 | 321,777 |
| Due in more than one year | 5,632,441 | 406,410 | 6,038,851 |
| Total liabilities | 6,490,705 | 814,141 | 7,304,846 |
| Net Position | | | |
| Invested in capital assets, net of related debt | 2,472,711 | 603,580 | 3,076,291 |
| Restricted for: | | | |
| Debt service | (28) | - | (28) |
| Capital projects | (39,094) | - | (39,094) |
| Court technology and security | 163,373 | - | 163,373 |
| Economic development | 455,140 | - | 455,140 |
| Community development | 433,937 | - | 433,937 |
| Promotional activities | 814,977 | - | 814,977 |
| Unrestricted | 538,119 | 1,515,685 | 2,053,804 |
| Total net position | \$ 4,839,135 | \$ 2,119,265 | \$ 6,958,400 |

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

Town of Northlake, Texas
Statement of Activities
Year Ended September 30, 2014

| Program Activities | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|--------------|--|---------------------------------------|-------------------------------------|--|-----------------------------|--------------|
| | | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-Type Activities | |
| Primary Government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,161,129 | \$ 467,657 | \$ - | \$ - | \$ (693,472) | \$ - | \$ (693,472) |
| Municipal court | 274,826 | 691,336 | - | - | 416,510 | - | 416,510 |
| Police | 819,258 | - | - | - | (819,258) | - | (819,258) |
| Public works | 386,805 | - | - | - | (386,805) | - | (386,805) |
| Economic development | 94,047 | - | - | - | (94,047) | - | (94,047) |
| Promotional | 38,416 | - | - | - | (38,416) | - | (38,416) |
| Interest on long-term debt | 132,088 | - | - | - | (132,088) | - | (132,088) |
| Total governmental activities | 2,906,570 | 1,158,993 | - | - | (1,747,577) | - | (1,747,577) |
| Business-type activities: | | | | | | | |
| Water and sewer | 1,093,283 | 1,053,338 | - | - | - | (39,945) | (39,945) |
| Total business-type activities | 1,093,283 | 1,053,338 | - | - | - | (39,945) | (39,945) |
| Total primary government | \$ 3,999,853 | \$ 2,212,331 | \$ - | \$ - | (1,747,577) | (39,945) | (1,787,522) |
| General revenues: | | | | | | | |
| Taxes | | | | | | | |
| Property taxes | | | | | 683,502 | - | 683,502 |
| PID Assessment | | | | | 27,886 | - | 27,886 |
| Sales taxes | | | | | 626,825 | - | 626,825 |
| Franchise taxes | | | | | 198,913 | - | 198,913 |
| Hotel/Motel taxes | | | | | 143,548 | - | 143,548 |
| Interest | | | | | 5,377 | 674 | 6,051 |
| Miscellaneous | | | | | 355,425 | 8,482 | 363,907 |
| Transfers | | | | | (765,000) | 765,000 | - |
| Total general revenues and transfers | | | | | 1,276,476 | 774,156 | 2,050,632 |
| Change in net position | | | | | (471,101) | 734,211 | 263,110 |
| Net position - beginning | | | | | 5,310,236 | 1,385,054 | 6,695,290 |
| Net position - ending | | | | | \$ 4,839,135 | \$ 2,119,265 | \$ 6,958,400 |

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

Town of Northlake, Texas
Balance Sheet - Governmental Funds
September 30, 2014

| | General Fund | Capital Projects Fund | Economic Development Corporation 4A | Community Development Corporation 4B | Hotel/Motel Tax Fund | Non Major Governmental Funds | Total Governmental Funds |
|-------------------------------------|---------------------|-----------------------------|---|--|-------------------------|------------------------------------|--------------------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 4,543,936 | \$ - | 428,024 | \$ 406,821 | \$ 793,406 | \$ 188,783 | \$ 6,360,970 |
| Receivables: | | | | | | | |
| Property taxes, net of allowance | 9,168 | - | - | - | - | 1,809 | 10,977 |
| Sales taxes | 57,688 | - | 28,844 | 28,844 | - | - | 115,376 |
| Franchise taxes | 49,624 | - | - | - | - | - | 49,624 |
| Hotel/Motel taxes | - | - | - | - | 21,968 | - | 21,968 |
| Municipal court receivable, net | 111,943 | - | - | - | - | - | 111,943 |
| Other accounts receivable | 52,715 | - | - | - | - | 126 | 52,841 |
| Due from other funds | 39,094 | - | - | - | - | - | 39,094 |
| Total assets | <u>\$ 4,864,168</u> | <u>\$ -</u> | <u>\$ 456,868</u> | <u>\$ 435,665</u> | <u>\$ 815,374</u> | <u>\$ 190,718</u> | <u>\$ 6,762,793</u> |
| Liabilities and Fund Balance | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 425,405 | - | 1,357 | 1,357 | 26 | 25,291 | 453,436 |
| Accrued liabilities | 25,655 | - | 371 | 371 | 371 | - | 26,768 |
| Deferred revenue | 304,399 | - | - | - | - | 2,082 | 306,481 |
| Due to other funds | - | 39,094 | - | - | - | - | 39,094 |
| Total liabilities | <u>755,459</u> | <u>39,094</u> | <u>1,728</u> | <u>1,728</u> | <u>397</u> | <u>27,373</u> | <u>825,779</u> |
| Fund balance: | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - |
| Restricted for | | | | | | | |
| Debt service | - | - | - | - | - | (28) | (28) |
| Court technology and security | - | - | - | - | - | 163,373 | 163,373 |
| Economic development | - | - | 455,140 | - | - | - | 455,140 |
| Community development | - | - | - | 433,937 | - | - | 433,937 |
| Promotional activities | - | - | - | - | 814,977 | - | 814,977 |
| Capital projects | - | (39,094) | - | - | - | - | (39,094) |
| Assigned for | 3,087,338 | - | - | - | - | - | 3,087,338 |
| Unassigned | 1,021,371 | - | - | - | - | - | 1,021,371 |
| Total fund balance | <u>4,108,709</u> | <u>(39,094)</u> | <u>455,140</u> | <u>433,937</u> | <u>814,977</u> | <u>163,345</u> | <u>5,937,014</u> |
| Total liabilities and fund balance | <u>\$ 4,864,168</u> | <u>\$ -</u> | <u>\$ 456,868</u> | <u>\$ 435,665</u> | <u>\$ 815,374</u> | <u>\$ 190,718</u> | <u>\$ 6,762,793</u> |

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

Town of Northlake, Texas
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 September 30, 2014

| | |
|---|----------------------------|
| Total fund balances - governmental funds | \$ 5,937,014 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. | 4,417,129 |
| Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements. | 306,481 |
| 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. | - |
| 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. | (73,029) |
| Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the fund financial statements. | (5,934,458) |
| Internal service funds are used by management to charge the costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | <u>185,998</u> |
| Net position of governmental activities | <u><u>\$ 4,839,135</u></u> |

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

Town of Northlake, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year ended September 30, 2014

| | General Fund | Capital Projects Fund | Economic Development Corporation 4A | Community Development Corporation 4B | Hotel/Motel Tax Fund | Non Major Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------|---|--|-------------------------|------------------------------------|--------------------------------|
| Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property | \$ 474,563 | \$ - | \$ - | \$ - | \$ - | \$ 208,939 | \$ 683,502 |
| PID Assessment | 27,886 | - | - | - | - | - | 27,886 |
| Sales and beverage | 313,413 | - | 156,706 | 156,706 | - | - | 626,825 |
| Franchise | 198,913 | - | - | - | - | - | 198,913 |
| Hotel/Motel | - | - | - | - | 143,548 | - | 143,548 |
| Building permits, plant and other fees | 467,657 | - | - | - | - | - | 467,657 |
| Municipal court | 691,517 | - | - | - | - | 45,505 | 737,022 |
| Interest income | 2,669 | - | 680 | 631 | 1,382 | 282 | 5,644 |
| Miscellaneous | 304,693 | 94,465 | - | - | - | 6,141 | 405,299 |
| Total revenues | <u>2,481,311</u> | <u>94,465</u> | <u>157,386</u> | <u>157,337</u> | <u>144,930</u> | <u>260,867</u> | <u>3,296,296</u> |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| General government | 992,606 | 23,000 | - | - | - | 300 | 1,015,906 |
| Municipal court | 224,754 | - | - | - | - | 47,066 | 271,820 |
| Police | 851,133 | - | - | - | - | 1,267 | 852,400 |
| Public works | 240,582 | - | - | - | - | - | 240,582 |
| Economic development | - | - | 48,106 | 47,659 | - | - | 95,765 |
| Promotional | - | - | - | - | 39,118 | - | 39,118 |
| Capital outlay | - | 91,468 | - | - | - | - | 91,468 |
| Debt service | | | | | | | |
| Principal | 3,864 | - | - | - | - | 125,000 | 128,864 |
| Interest and fiscal charges | 127 | - | - | - | - | 85,587 | 85,714 |
| Total expenditures | <u>2,313,066</u> | <u>114,468</u> | <u>48,106</u> | <u>47,659</u> | <u>39,118</u> | <u>259,220</u> | <u>2,821,637</u> |
| Excess (deficiency) of revenues over expenditures | 168,245 | (20,003) | 109,280 | 109,678 | 105,812 | 1,647 | 474,659 |
| Other financing sources (uses) | | | | | | | |
| Bond proceeds | 4,169,280 | - | - | - | - | - | 4,169,280 |
| Transfers in | 175,000 | - | - | - | - | - | 175,000 |
| Transfers out | (890,000) | - | (25,000) | (25,000) | - | - | (940,000) |
| Total other financing sources (uses) | <u>3,454,280</u> | <u>-</u> | <u>(25,000)</u> | <u>(25,000)</u> | <u>-</u> | <u>-</u> | <u>3,404,280</u> |
| Net change in fund balances | 3,622,525 | (20,003) | 84,280 | 84,678 | 105,812 | 1,647 | 3,878,939 |
| Fund balances - beginning | 486,184 | (19,091) | 370,860 | 349,259 | 709,165 | 161,698 | 2,058,075 |
| Prior period adjustment | - | - | - | - | - | - | - |
| Fund balances - ending | <u>\$ 4,108,709</u> | <u>\$ (39,094)</u> | <u>\$ 455,140</u> | <u>\$ 433,937</u> | <u>\$ 814,977</u> | <u>\$ 163,345</u> | <u>\$ 5,937,014</u> |

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

Town of Northlake, Texas
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance of Governmental Funds to the Statement of Activities
 Year ended September 30, 2014

| | |
|---|--------------|
| Net changes in fund balances - total governmental funds | \$ 3,878,939 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>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.</p> | 91,468 |
| <p>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.</p> | (339,648) |
| <p>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.</p> | (4,101,821) |
| <p>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.</p> | 12,685 |
| <p>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.</p> | (33,689) |
| <p>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.</p> | (45,686) |
| <p>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.</p> | 32,874 |
| Change in net position of governmental activities | \$ (504,878) |

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

Town of Northlake, Texas
Statement of Net Position
Proprietary Funds
September 30, 2014

| | Business Type Activities - Enterprise Fund Water and Sewer | Governmental Activities - Internal Service Funds Equipment |
|-----------------------------------|---|---|
| Assets | | |
| Current assets: | | |
| Deposits and investments | \$ 1,472,344 | \$ 102,344 |
| Accounts receivable, net | 145,957 | - |
| Total current assets | 1,618,301 | 102,344 |
| Non-current assets: | | |
| Other assets | 288,000 | - |
| Property, plant and equipment: | | |
| Land | 15,986 | - |
| Buildings and improvements | 35,211 | - |
| Automobiles | 42,214 | - |
| Water and sewer system | 1,294,186 | - |
| Equipment | 6,446 | 160,758 |
| | 1,394,043 | 160,758 |
| Less accumulated depreciation | 366,938 | 74,090 |
| Net property, plant and equipment | 1,027,105 | 86,668 |
| Total Assets | 2,933,406 | 189,012 |
| Liabilities | | |
| Current liabilities: | | |
| Cash overdraft | 257,748 | - |
| Accounts payable | 79,098 | 369 |
| Accrued liabilities | 53,770 | - |
| Current Portion of LT Debt | 14,940 | - |
| Total current liabilities | 405,556 | 369 |
| Noncurrent liabilities: | | |
| Capital Lease Payable | - | 2,645 |
| LT Debt payable | 405,060 | - |
| Compensated absences | 3,525 | - |
| Total Liabilities | 814,141 | 3,014 |
| Net position | | |
| Net investment in capital assets | 1,027,105 | 86,668 |
| Equipment | - | - |
| Unrestricted | 1,092,160 | 99,330 |
| Total Net Position | \$ 2,119,265 | \$ 185,998 |

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

Town of Northlake, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended September 30, 2014

| | Business Type Activities - Enterprise Fund <u>Water and Sewer</u> | Governmental Activities - Internal Service Funds <u>Equipment</u> |
|-----------------------------------|--|--|
| Operating revenues: | | |
| Water and sewer service | \$ 1,053,338 | \$ - |
| Equipment service revenue | - | 76,889 |
| Total operating revenues | <u>1,053,338</u> | <u>76,889</u> |
| Operating expenses: | | |
| Operating expenses | 1,030,717 | 4,445 |
| Depreciation | 33,771 | 39,304 |
| Total operating expenses | <u>1,064,488</u> | <u>43,749</u> |
| Operating income (loss) | (11,150) | 33,140 |
| Nonoperating revenues (expenses): | | |
| Interest income (expense) | 674 | (267) |
| Miscellaneous revenue (expense) | (20,313) | - |
| Total nonoperating revenues | <u>(19,639)</u> | <u>(267)</u> |
| Income (loss) before transfers | (30,789) | 32,873 |
| Transfers in | 890,000 | - |
| Transfers out | (125,000) | - |
| Change in net position | <u>734,211</u> | <u>32,873</u> |
| Net position - beginning | <u>1,385,054</u> | <u>153,125</u> |
| Net position - ending | <u>\$ 2,119,265</u> | <u>\$ 185,998</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, 2014

| | Business Type Activities - Enterprise Fund Water and Sewer | Governmental Activities - Internal Service Funds Equipment |
|---|---|---|
| Operating Activities | | |
| Cash received from customers | \$ 1,016,027 | \$ 76,889 |
| Cash payments to suppliers for goods and services | (836,460) | (4,076) |
| Payments received from other funds | - | - |
| Net cash provided by operating activities | 179,567 | 72,813 |
| Noncapital Financing Activities | | |
| Transfers from other funds | 890,000 | - |
| Transfers to other funds | (125,000) | - |
| Cost recovery fees | 9,687 | - |
| Net cash used in noncapital financing activities | 774,687 | - |
| Capital and Related Financing Activities | | |
| Capital expenditures | (51,058) | (48,327) |
| Insurance proceeds on equipment | | - |
| Bond Proceed | 390,000 | |
| Payments on note | - | (10,182) |
| Net cash used in capital and related financing activities | 338,942 | (58,509) |
| Investing Activities | | |
| Interest received | 674 | (267) |
| Net cash provided by investing activities | 674 | (267) |
| Net increase in cash and cash equivalents | 1,293,870 | 14,037 |
| Cash and cash equivalents - beginning | 178,474 | 88,307 |
| Cash and cash equivalents - ending | \$ 1,472,344 | \$ 102,344 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income (loss) | \$ (11,150) | \$ 33,140 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 33,771 | 39,304 |
| Change in assets and liabilities: | | |
| Accounts receivable | (37,311) | |
| Overdraft | 122,126 | - |
| Other assets | - | - |
| Accounts payable and accrued liabilities | 72,131 | 369 |
| Net cash provided by (used in) operating activities | \$ 179,567 | \$ 72,813 |

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

Town of Northlake, Texas

Notes to Basic Financial Statements

September 30, 2014

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 4B Fund

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

Hotel/Motel Tax Fund

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

Other Non Major Funds

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

Proprietary Funds

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

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.

Cash and Cash Equivalents

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

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

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

Inventories and Prepaid Items

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

Interfund Receivables and Payables

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

Transactions between Funds

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

Town of Northlake, Texas

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting (continued)

Capital Assets

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

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

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

Compensated Absences

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

Net Position

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

Town of Northlake, Texas

Notes to Basic Financial Statements

2. Deposits and Investments

A. Disclosures Relating to Interest Rate Risk

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

As of September 30, 2014, the Town had the following investments:

| <u>Investment Type</u> | <u>Weighted Average Amount</u> | <u>Maturity</u> |
|------------------------|--|-----------------|
| Logic | \$ 2,470,478 | 57 days |
| Wells Fargo | \$ 4,517,256 | 0 days |

As of September 30, 2014, the Town did not invest in any securities that are highly sensitive to interest rate fluctuations.

B. Disclosures Relating to Credit Risk

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

| <u>Investment Type</u> | <u>Amount</u> | <u>Minimum Legal Rating</u> | <u>Rating as of September 30, 2014</u> |
|------------------------|---------------|-------------------------------------|--|
| Logic | \$ 2,470,478 | AAA | AAA |
| Wells Fargo | \$ 4,517,256 | 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, 2014, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

Town of Northlake, Texas

Notes to Basic Financial Statements

2. Deposits and Investments (continued)

D. Custodial Credit Risk

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

2. Deposits and Investments (continued)

At September 30, 2014, the carrying amount of the Town's cash on hand and deposits were \$2,330,351 and the bank balance was \$2,377,439. The bank balance was fully covered by federal depository insurance and collateral pledged.

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

E. Investment in State Investment Pools

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

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

Town of Northlake, Texas

Notes to Basic Financial Statements

3. Accounts Receivable

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible amounts as of September 30, 2014, 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 | \$ 12,065 | \$ 358,449 | \$ 2,099 | \$ 149,046 |
| Less allowance for uncollectibles | (2,897) | (246,506) | (290) | (3,089) |
| Net receivables | <u>\$ 9,168</u> | <u>\$ 111,943</u> | <u>\$ 1,809</u> | <u>\$ 145,957</u> |

4. Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

| | Balance September 30, 2013 | Additions/ Completions | Retirements/ Adjustments | Balance September 30, 2014 |
|---|----------------------------|------------------------|--------------------------|----------------------------|
| Governmental activities | | | | |
| 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 | 745,301 | 44,759 | - | 790,060 |
| Equipment | 210,598 | 95,036 | - | 305,634 |
| Infrastructure | 3,250,922 | - | - | 3,250,922 |
| Total capital assets being depreciated | 4,497,547 | 139,795 | - | 4,637,342 |
| | | | | 7,391,996 |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 113,018 | 13,526 | - | 126,544 |
| Automobiles | 385,723 | 130,562 | - | 516,285 |
| Equipment | 144,427 | 48,596 | - | 193,023 |
| Infrastructure | 1,861,008 | 191,339 | - | 2,052,347 |
| Total accumulated depreciation | 2,504,176 | 384,023 | - | 2,888,199 |
| Total capital assets being depreciated, net | 1,993,371 | (244,228) | - | 1,749,143 |
| Governmental activities capital assets, net | <u>\$ 4,748,025</u> | <u>\$ (244,228)</u> | <u>\$ -</u> | <u>\$ 4,503,797</u> |

Town of Northlake, Texas

Notes to Basic Financial Statements

4. Capital Assets (continued)

| | Balance September 30, 2013 | Additions/ Completions | Retirements/ Adjustments | Balance September 30, 2014 |
|---|----------------------------------|---------------------------|-----------------------------|----------------------------------|
| Business-type activities | | | | |
| 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 | 5,379 | 1,067 | - | 6,446 |
| Automobiles | 42,214 | - | - | 42,214 |
| Water and sewer system | 1,244,195 | 49,991 | - | 1,294,186 |
| Total capital assets being depreciated | 1,326,999 | 51,058 | - | 1,378,057 |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 4,269 | 1,174 | - | 5,443 |
| Equipment | 42,214 | - | - | 42,214 |
| Automobiles | 2,146 | 1,080 | - | 3,226 |
| Water and sewer system | 284,539 | 31,516 | - | 316,055 |
| Total accumulated depreciation | 333,168 | 33,770 | - | 366,938 |
| Total capital assets being depreciated, net | 993,831 | 17,288 | - | 1,011,119 |
| Business-type capital assets, net | <u>\$ 1,009,817</u> | <u>\$ 17,288</u> | <u>\$ -</u> | <u>\$ 1,027,105</u> |

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

| | |
|---|-------------------|
| Governmental activities | |
| General government | \$ 182,546 |
| Municipal court | 10,655 |
| Police | 60,448 |
| Public works | 130,374 |
| Total depreciation expense - Governmental activities | <u>\$ 384,023</u> |
| Business-type activities | |
| Water and sewer | \$ 33,770 |
| Total depreciation expense - Business-type activities | <u>\$ 33,770</u> |

Town of Northlake, Texas

Notes to Basic Financial Statements

5. Long-term Debt

Amounts payable at September 30, 2014 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>\$ 2,645</u> | <u>-</u> |
| Certificates of Obligation \$4,170,000 Series 2014A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$135,000 to \$285,000 through August 15, 2034, with interest at 2% | <u>\$ 4,170,000</u> | <u>-</u> |
| Certificates of Obligation \$420,000 Series 2014B Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$15,000 to \$25,000 through August 15, 2034, with interest at 3% | <u>\$ -</u> | <u>420,000</u> |
| Certificates of Obligation \$1,900,000 Series 2005 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$100,000 to \$190,000 through April 15, 2025, with interest at 4.97% | <u>\$ 1,555,000</u> | <u>-</u> |
| Certificates of Obligation \$245,000 Series 2010 Limited Tax Note due in annual installments of \$35,000 to \$40,000 through February 15, 2017, with interest at 4.97% | <u>\$ 110,000</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>\$ 16,719</u> | <u>-</u> |

Town of Northlake, Texas

Notes to Basic Financial Statements

5. Long-term Debt (continued)

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2014:

| | Beginning of Year | Increase | Decrease | End of Year | Within One Year |
|---------------------------------|----------------------|---------------------|-------------------|---------------------|--------------------|
| Governmental Activities | | | | | |
| Capital Leases | \$ 13,888 | \$ 2,773 | \$ 14,016 | \$ 2,645 | \$ 2,645 |
| Certificates of Obligation | 1,790,000 | 4,170,000 | 125,000 | 5,835,000 | 270,000 |
| Note Payable | 29,224 | - | 12,505 | 16,719 | 13,274 |
| Compensated Absences | 79,487 | 49,161 | 45,909 | 82,739 | 18,743 |
| Total governmental activities | <u>\$ 1,912,599</u> | <u>\$ 4,221,934</u> | <u>\$ 197,430</u> | <u>\$ 5,937,103</u> | <u>\$ 304,662</u> |
| Business-type Activities | | | | | |
| Capital Leases | \$ - | \$ - | \$ - | \$ - | \$ - |
| Certificates of Obligation | - | 420,000 | - | 420,000 | 15,000 |
| Compensated Absences | 1,337 | 5,749 | 2,884 | 4,202 | 2,115 |
| Total business-type activities | <u>\$ 1,337</u> | <u>\$ 425,749</u> | <u>\$ 2,884</u> | <u>\$ 424,202</u> | <u>\$ 17,115</u> |

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

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2014, are as follows:

Certificates of Obligation:

| | Governmental Activities | | Business-type Activities | | Total |
|-----------|-------------------------|---------------------|--------------------------|-------------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 2015 | \$ 270,000 | \$ 215,923 | \$ 15,000 | \$ 13,235 | \$ 514,159 |
| 2016 | 300,000 | 189,253 | 15,000 | 11,181 | 515,434 |
| 2017 | 315,000 | 179,610 | 15,000 | 10,881 | 520,491 |
| 2018 | 290,000 | 170,153 | 20,000 | 10,581 | 490,734 |
| 2019 | 305,000 | 160,789 | 20,000 | 10,181 | 495,970 |
| 2020-2024 | 1,745,000 | 641,378 | 100,000 | 44,756 | 2,531,134 |
| 2025-2029 | 1,820,000 | 580,768 | 110,000 | 31,756 | 2,542,524 |
| 2030-2034 | 1,695,000 | 515,123 | 125,000 | 13,063 | 2,348,185 |
| | <u>\$ 6,740,000</u> | <u>\$ 2,652,995</u> | <u>\$ 420,000</u> | <u>\$ 145,636</u> | <u>\$ 9,958,631</u> |

Town of Northlake, Texas

Notes to Basic Financial Statements

Note Payable:

| | Governmental Activities | | Business Activities | | Total |
|------|-------------------------|---------------|---------------------|-------------|------------------|
| | Principal | Interest | Principal | Interest | |
| 2015 | \$ 13,274 | \$ 640 | \$ - | \$ - | \$ 13,915 |
| 2016 | 3,444 | 34 | - | - | 3,479 |
| | <u>\$ 16,718</u> | <u>\$ 675</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,393</u> |

5. Long-term Debt (continued)

Capital Leases:

| | Governmental Activities | | Business Activities | | Total |
|------|-------------------------|--------------|---------------------|-------------|-----------------|
| | Principal | Interest | Principal | Interest | |
| 2015 | \$ 2,645 | \$ 19 | \$ - | \$ - | \$ 2,664 |
| | <u>\$ 2,645</u> | <u>\$ 19</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,664</u> |

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

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

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

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

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

Town of Northlake, Texas

Notes to Basic Financial Statements

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

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 over 60 months (see Footnote 5 – Note Payable).

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.

Town of Northlake, Texas

Notes to Basic Financial Statements

| Transfer to | Transfer from | Amount |
|----------------------|----------------------|------------|
| General Fund | Water and Sewer Fund | \$ 125,000 |
| General Fund | 4A Fund | 25,000 |
| General Fund | 4B Fund | 25,000 |
| | | \$ 175,000 |
| Water and Sewer Fund | General Fund | 890,000 |
| | | 890,000 |

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2014.

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.

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:

| | Plan Year 2014 | Plan Year 2013 |
|---|------------------------------|------------------------------|
| 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

Town of Northlake, Texas

Notes to Basic Financial Statements

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.

9. Employee Retirement System (continued)

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

| | Plan Year | | |
|---|-----------|-----------|-----------|
| | 2011 | 2012 | 2013 |
| Annual required contribution (ARC) | \$ 74,520 | \$ 64,063 | \$ 71,140 |
| Interest on net pension obligation | - | - | - |
| Adjustment to the ARC | - | - | - |
| Annual pension cost (APC) | \$ 74,520 | 64,063 | 71,140 |
| Contributions made (100% contributed) | (74,520) | (64,063) | (71,140) |
| 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, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

| Valuation Date | 12/31/2011 | 12/31/2012 | 12/30/2013 |
|---|---------------------------|---------------------------|---------------------------|
| Actuarial Cost Method | Projected Unit Credit | Projected Unit Credit | Entry Age Normal |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| GASB 25 Equivalent Single Amortization Period | 22.6 years; closed period | 23.1 years; closed period | 30 years; closed period |
| Amortization Period for New Gains/Losses | 24 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* | 7.00% | 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, 2013, 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 |
|--------------------------------|---------------------------------|---|-----------------|------------------------|--------------------|---|
| 12/31/13 | \$ 1,143,847 | \$ 1,280,161 | 89.35% | \$ 136,314 | \$ 1,115,053 | 12.22% |

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 2013, 2012 and 2011 were \$71,140, \$64,063, and \$74,520, 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 |
|--------------|--|---------------------------------------|-------------------------|
| 2011 | 0.01% | 0.01% | 100.00% |
| 2012 | 0.01% | 0.01% | 100.00% |
| 2013 | 0.01% | 0.01% | 100.00% |
| 2014 | 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, 2014. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2014 or any of the three preceding years.

11. Contingent Liabilities

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

12. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through January 22, 2014, 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, 2014

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 |
|--------------------------------|---------------------------------|-----------------------------------|-----------------|---|--------------------|--|
| 12/31/11 | 818,166 | 1,037,928 | 78.80% | 219,762 | 1,001,795 | 21.90% |
| 12/31/12 | 941,542 | 1,066,627 | 88.27% | 125,085 | 1,059,338 | 11.81% |
| 12/31/13 | 1,143,847 | 1,280,161 | 89.35% | 136,314 | 1,115,053 | 12.22% |

Town of Northlake, Texas
 Budgetary Comparison Schedule - General Fund
 September 30, 2014

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|------------------|------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | | | | |
| Property | \$ 473,923 | \$ 473,923 | \$ 474,563 | \$ 640 |
| PID Assessment | - | - | 27,886 | - |
| Sales and beverage | 230,000 | 275,000 | 313,413 | 38,413 |
| Franchise | 157,700 | 178,900 | 198,913 | 20,013 |
| Building permits, plat and other fees | 310,850 | 397,850 | 467,657 | 69,807 |
| Municipal court | 650,300 | 650,300 | 691,517 | 41,217 |
| Interest income | 1,000 | 1,000 | 2,669 | 1,669 |
| Miscellaneous | 68,460 | 72,060 | 304,693 | 232,633 |
| Total revenues | 1,892,233 | 2,049,033 | 2,481,311 | 404,392 |
| Expenditures | | | | |
| Current | | | | |
| General government | 629,201 | 727,094 | 992,606 | (265,513) |
| Municipal court | 259,550 | 239,650 | 224,754 | 14,896 |
| Police | 833,622 | 825,022 | 851,133 | (26,111) |
| Public works | 250,450 | 311,200 | 240,582 | 70,618 |
| Capital outlay | - | 4,050 | - | 4,050 |
| Debt service | | | | |
| Principal | 4,000 | 4,000 | 3,864 | 136 |
| Interest and fiscal charges | 20 | 20 | 127 | (107) |
| Total expenditures | 1,976,843 | 2,111,035 | 2,313,066 | (202,031) |
| Excess (deficiency) of revenues over expenditures | (84,610) | (62,002) | 168,245 | 202,361 |
| Other financing sources (uses): | | | | |
| Bond proceeds | - | - | 4,169,280 | (4,169,280) |
| Transfers in | 175,000 | 175,000 | 175,000 | - |
| Transfers out | - | - | (890,000) | 890,000 |
| Total other financing sources (uses) | 175,000 | 175,000 | 3,454,280 | (3,279,280) |
| Net change in fund balances | 90,391 | 112,998 | 3,622,525 | 3,509,527 |
| Fund balance, beginning of year (as restated) | 365,385 | 342,687 | 486,184 | (143,497) |
| Fund balance, end of year | \$ 455,776 | \$ 455,685 | \$ 4,108,709 | \$ 3,653,024 |

Town of Northlake, Texas
 Budgetary Comparison Schedule - Economic Development Corporation 4A
 Year ended September 30, 2014

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|--------------------------|--------------------------|--------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Sales taxes | \$ 115,000 | \$ 137,500 | \$ 156,706 | \$ 19,206 |
| Interest income | 650 | 650 | 680 | 30 |
| Total revenues | <u>115,650</u> | <u>138,150</u> | <u>157,386</u> | <u>19,236</u> |
| Expenditures | | | | |
| General Government | - | - | - | - |
| Economic development | 70,108 | 69,608 | 48,106 | 21,502 |
| Total expenditures | <u>70,108</u> | <u>69,608</u> | <u>48,106</u> | <u>21,502</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | <u>(25,000)</u> | <u>(25,000)</u> | <u>(25,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(25,000)</u> | <u>(25,000)</u> | <u>(25,000)</u> | <u>-</u> |
| Net change in fund balances | 20,542 | 43,542 | 84,280 | 40,738 |
| Fund balance, beginning of year (as restated) | <u>281,053</u> | <u>268,099</u> | <u>370,860</u> | <u>102,761</u> |
| Fund balance, end of year | <u><u>\$ 301,595</u></u> | <u><u>\$ 311,641</u></u> | <u><u>\$ 455,140</u></u> | <u><u>\$ 143,499</u></u> |

Town of Northlake, Texas
 Budgetary Comparison Schedule - Community Development Corporation 4B
 Year ended September 30, 2014

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Sales taxes | 99,000 | 115,000 | 156,706 | 41,706 |
| Interest income | 750 | 750 | 631 | (119) |
| Total revenues | <u>99,750</u> | <u>115,750</u> | <u>157,337</u> | <u>41,587</u> |
| Expenditures | | | | |
| General Government | - | - | - | - |
| Economic development | 70,108 | 69,608 | 47,659 | 21,949 |
| Total expenditures | <u>70,108</u> | <u>69,608</u> | <u>47,659</u> | <u>21,949</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | 25,000 | 25,000 | (25,000) | 50,000 |
| Total other financing sources (uses) | 25,000 | 25,000 | (25,000) | 50,000 |
| Net change in fund balances | 54,642 | 71,142 | 84,678 | 13,536 |
| Fund balance, beginning of year (as restated) | <u>266,988</u> | <u>254,683</u> | <u>349,259</u> | <u>94,576</u> |
| Fund balance, end of year | <u>\$ 321,630</u> | <u>\$ 325,825</u> | <u>\$ 433,938</u> | <u>\$ 108,113</u> |

Town of Northlake, Texas
 Budgetary Comparison Schedule - Hotel/Motel Tax Fund
 Year ended September 30, 2014

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Hotel/Motel tax | \$ 100,000 | \$ 120,000 | \$ 143,548 | \$ 23,548 |
| Interest income | 1,300 | 1,300 | 1,382 | 82 |
| Total revenues | <u>101,300</u> | <u>121,300</u> | <u>144,929</u> | <u>23,629</u> |
| Expenditures | | | | |
| Promotional | 42,106 | 42,106 | 39,118 | 2,988 |
| Total expenditures | <u>42,106</u> | <u>42,106</u> | <u>39,118</u> | <u>2,988</u> |
| Other financing sources (uses) | | | | |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 59,194 | 79,194 | 105,812 | 26,618 |
| Fund balance, beginning of year (as restated) | <u>638,382</u> | <u>628,480</u> | <u>709,165</u> | <u>80,685</u> |
| Fund balance, end of year | <u>\$ 697,576</u> | <u>\$ 707,674</u> | <u>\$ 814,977</u> | <u>\$ 107,303</u> |

Town of Northlake, Texas
Notes to Required Supplementary Information
September 30, 2014

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, 2014

| | Debt Service Fund | Special Revenue Fund | Total Non Major Governmental Funds |
|--|-------------------------|----------------------------|---|
| Assets | | | |
| Cash and cash equivalents | \$ 245 | \$ 188,538 | \$ 188,783 |
| Receivables | | | |
| Property taxes, net of allowance | 1,809 | - | 1,809 |
| Other | - | 126 | 126 |
| Total assets and other debits | \$ 2,054 | \$ 188,664 | \$ 190,718 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | \$ 25,291 | 25,291 |
| Deferred revenue | 2,082 | - | 2,082 |
| Due to other governmental funds | - | - | - |
| Total liabilities | 2,082 | 25,291 | 27,373 |
| Fund balances: | | | |
| Restricted for | | | |
| Debt service | (28) | - | (28) |
| Equipment | - | - | - |
| Police and child safety activities | - | - | - |
| Court technology and security | - | 163,373 | 163,373 |
| Total fund balances | (28) | 163,373 | 163,345 |
| Total liabilities and fund balances | \$ 2,054 | \$ 188,664 | \$ 190,718 |

Town of Northlake, Texas
Combining Schedule of Revenues, Expenditures and Changes
in Fund Balances - Non Major Governmental Funds
September 30, 2014

| | Debt Service Fund | Special Revenue Fund | Total Non Major Governmental Funds |
|---|-------------------------|----------------------------|---|
| Revenues | | | |
| Taxes | | | |
| Property | \$ 208,939 | \$ - | \$ 208,939 |
| Interest income | 9 | 273 | 282 |
| Miscellaneous | - | 51,646 | 51,646 |
| Total revenues | <u>208,948</u> | <u>51,919</u> | <u>260,867</u> |
| Expenditures | | | |
| Current | | | |
| General government | 300 | - | 300 |
| Municipal court | - | 47,066 | 47,066 |
| Police | - | 1,267 | 1,267 |
| Debt service | | | |
| Principal | 125,000 | - | 125,000 |
| Interest and fiscal charges | 85,587 | - | 85,587 |
| Total expenditures | <u>210,887</u> | <u>48,333</u> | <u>259,220</u> |
| Excess of revenues over expenditures | (1,939) | 3,586 | 1,647 |
| Other financing sources | | | |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Total other financing sources | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (1,939) | 3,586 | 1,647 |
| Fund balances - beginning | \$1,911 | 159,787 | 161,698 |
| Prior period adjustment | - | - | - |
| Fund balances - ending | <u>\$ (28)</u> | <u>\$ 163,373</u> | <u>\$ 163,345</u> |