

ANNUAL FINANCIAL REPORT
AND REQUIRED SUPPLEMENTARY INFORMATION
Town of Northlake, Texas
Fiscal year ended September 30, 2016

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Town of Northlake, Texas
 Annual Financial Report
 Year ended September 30, 2016

Table of Contents

INTRODUCTORY SECTION (Unaudited)	
Organizational Chart.....	1
List of Elected and Appointed Officials.....	2
FINANCIAL SECTION	
Report of Independent Auditors	3
Management’s Discussion and Analysis (Unaudited).....	6
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position.....	15
Statement of Activities.....	16
<u>Fund Financial Statements</u>	
<i>Governmental Fund Financial Statements</i>	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Position.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances –	
Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures,	
and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	20
<i>Proprietary Fund Financial Statements</i>	
Statement of Net Position.....	21
Statement of Revenues, Expenses and Changes in Fund Net Position.....	22
Statement of Cash Flows.....	23
Notes to Basic Financial Statements.....	24
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)	
Schedule of Changes in Net Pension Liability and Related Ratios.....	45
Schedule of Contributions.....	46
Budgetary Comparison Schedule – General Fund.....	47
Budgetary Comparison Schedule – Economic Development Corporation 4A	48
Budgetary Comparison Schedule – Community Development Corporation 4B.....	49
Budgetary Comparison Schedule – Hotel/Motel Tax Fund.....	50
Notes to Required Supplementary Information	51

Town of Northlake, Texas
Annual Financial Report
Year ended September 30, 2016

Table of Contents

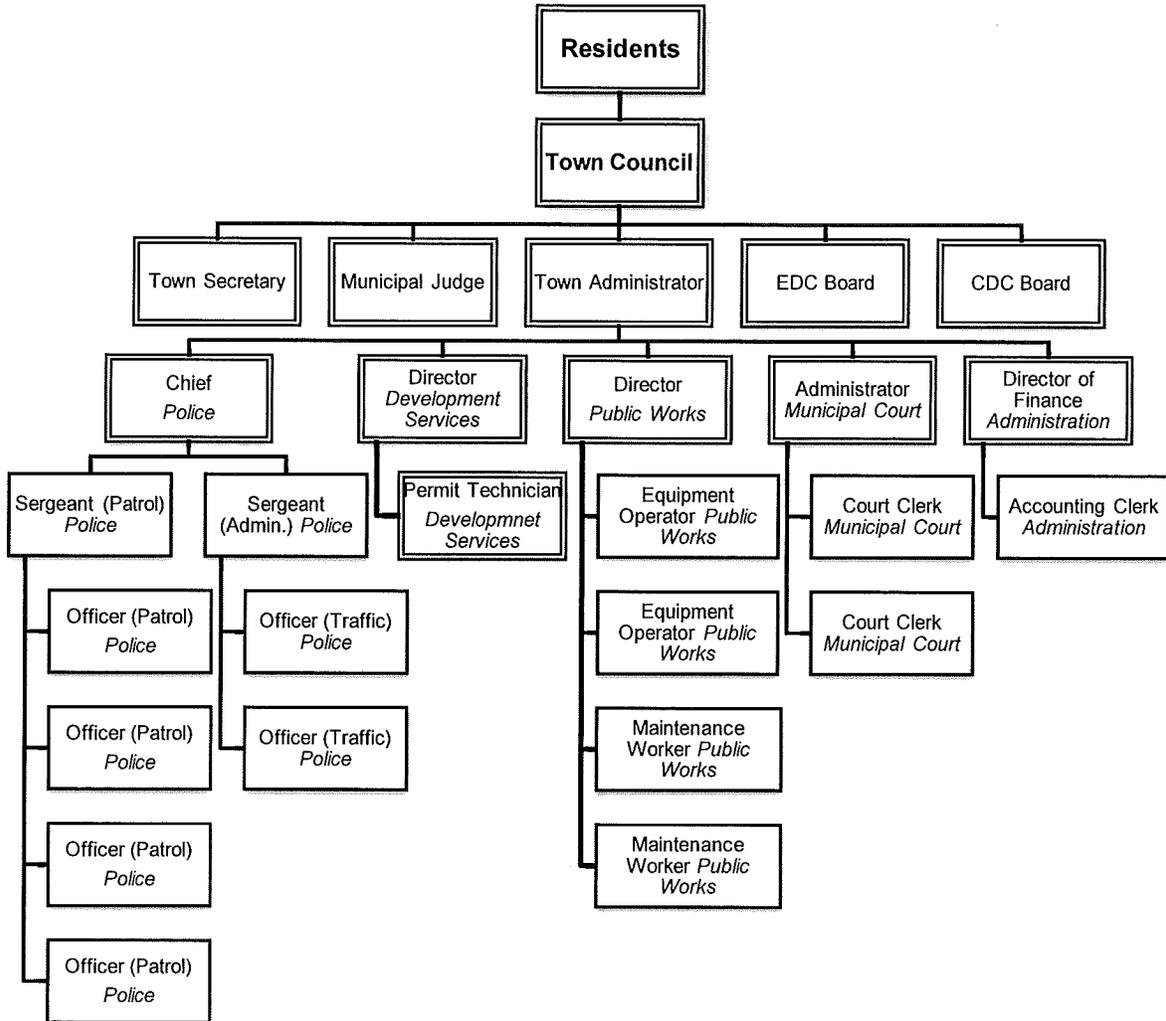
COMBINING SCHEDULES

Combining Balance Sheet – Non Major Governmental Funds.....	52
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Non Major Governmental Funds.....	53

OTHER INFORMATION SECTION

Report of Internal Control Over Financial Reporting and on Compliance based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	54
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Town of Northlake, Texas
Organizational Chart



List of Elected and Appointed Officials

Town of Northlake, Texas

Town Council
September 30, 2016

Peter Dewing
Mayor

Danny Simpson, Place 5
Mayor Pro Tem

Jean Young, Place 1
Council Member

Mike McBride, Place 2
Council Member

Michael Ganz, Place 3
Council Member

Roger Sessions, Place 4
Council Member

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M. Vail & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

Michael G. Vail, CPA
Charles T. Gregg, CPA
Don E. Graves, CPA
Dinesh J. Pai, CISA

Members:
American Institute of CPAs
Texas Society of CPAs

Report of Independent Auditors

To the Honorable Mayor and Town Council
Town of Northlake, Texas
1400 FM 407
Northlake, TX 76247

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Northlake, Texas (“The Town”) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s responsibility

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the Basic Financial Statements, certain adjustments resulting in a \$73,029 increase in governmental activities net position as of September 30, 2015 were discovered by management of the Town of Northlake during the current year. Accordingly, an adjustment has been made to beginning net position to correct the error in the government-wide financial statements.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information on pages 06–14 and 45–51 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 52-53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2017 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.

M. Mail & Associates, P.C.

Richardson, Texas
February 3, 2017

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

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, 2016. Please read it in conjunction with the Town's financial statements, which begin on page 15.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$11,614,969 (net position). Of this amount, \$3,335,599 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,636,773.
- As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$5,888,331 (page 17), which is a decrease of \$1,188,440 when compared with the prior year. The decrease was caused by payments from the public improvement districts for trails and open park spaces and for economic development roadway incentives.
- At the end of the current fiscal year, unassigned fund balance for the general fund was a surplus of \$1,575,023 or 54.1% of total general fund expenditures.
- The Town's total long-term debt decreased \$458,289 from \$6,552,888 to \$6,094,599.

Overview of the Financial Statements

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

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

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

The basic financial statements present two different view of the Town through the use of government-wide statements, (pages 15 and 16), and fund financial statements, (pages 17 through 23). The Government-wide financial statements provide both short and long-term information about the Town while the fund financial statements focus on the activities of the individual components.

Government-wide Financial Statements

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

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

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

Government-wide Financial Statements (continued)

The Statement of Activities presents information showing how the Town's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

The government-wide financial statements can be found on pages 15 through 16 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, Public Improvement Districts, Economic Development, Community Development, and Hotel/Motel Tax funds.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

Fund Financial Statements (continued)

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. This comparison can be found on pages 47 through 50 in the Required Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 17 through 20 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 two internal service funds; one to account for its equipment purchases and equipment maintenance while the second internal service fund is utilized for maintenance of Town facilities. 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 21 through 23 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 24 through 44 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for certain Governmental Funds. Required supplementary information can be found on pages 45 through 51 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. As of September 30, 2016, the Town of Northlake's assets exceeded liabilities by \$11,614,969. The overall net position of the Town increased by \$1,709,802 during fiscal year 2016 with business-type and governmental activities incurring increases in their net positions.

When compared to the prior year, governmental activities net position increased \$780,359; from \$5,993,831 at September 30, 2015 to \$6,774,190 at September 30, 2016. The increases are due to the following activities:

- Due to new housing, commercial development, and improved economic conditions property tax receipts increased \$198,108 or 26.19% from the previous fiscal year.
- When compared to the prior fiscal year, sales tax receipt collections increased \$476,301 or 53.94% due to improved market conditions and new construction activity.
- Due to the increase in cash collections the governmental funds interest income increased by \$11,358 or 38.87% when compared to the prior fiscal year.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

Government-wide Financial Analysis (continued)

Expenditures for governmental programs increased \$2,882,301 or 89.82% when compared with the prior year. The increase in expenditures is mainly attributable to public improvement district expenditures of \$1,715,000 for trails and open park spaces and \$500,000 in developer incentives for roadway improvements. In order to maintain service levels for the Town additional public works and police personnel were hired during fiscal year 2016.

When compared to the prior year, business-type net position increased by \$856,414; from a net position of \$3,984,365 at September 30, 2015 to a net position of \$4,840,779 at September 30, 2016. This increase is mainly attributable to increased water and sewer services for new homes and commercial development.

A portion of the net position, \$3,966,062 or 34.15% of total net position, 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 are used 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.

<i>Town of Northlake's Net Position</i>						
	Governmental Activities		Business-type Activities		Total	
	FY 2015-16	FY 2014-15 (Restated)	FY 2015-16	FY 2014-15	FY 2015-16	FY 2014-15
<i>Assets:</i>						
Current and Other Assets	\$ 6,815,194	\$ 8,357,866	\$ 1,824,892	\$ 1,271,955	\$ 8,640,086	\$ 9,629,821
Capital Assets	5,990,580	4,439,913	4,173,160	4,042,744	10,163,740	8,482,657
Total Assets	12,805,774	12,797,779	5,998,052	5,314,699	18,803,826	18,112,478
Deferred outflows of resources	240,528	90,826	47,244	9,687	287,772	100,513
Total Deferred outflows of resources	240,528	90,826	47,244	9,687	287,772	100,513
<i>Liabilities:</i>						
Long-term Liabilities Outstanding	5,647,313	5,769,306	895,935	1,008,109	6,543,248	6,777,415
Other Liabilities	369,756	927,821	308,582	331,912	678,338	1,259,733
Total Liabilities	6,017,069	6,697,127	1,204,517	1,340,021	7,221,586	8,037,148
Deferred inflows of resources	255,043	197,647	-	-	255,043	197,647
Total Deferred inflows of resources	255,043	197,647	-	-	255,043	197,647
<i>Net Position:</i>						
Invested in Capital Assets, Net of Related Debt	622,501	(1,000,286)	3,343,561	3,058,300	3,966,062	2,058,014
<i>Restricted for:</i>						
Debt Service	249,740	34,764	-	-	249,740	34,764
Capital Projects	11,071	(13,986)	-	-	11,071	(13,986)
Court Technology, Security & Child Safety	250,910	180,989	-	-	250,910	180,989
Economic Development	595,579	592,373	-	-	595,579	592,373
Community Development	575,332	571,429	-	-	575,332	571,429
Promotional Activities	1,258,552	1,029,865	-	-	1,258,552	1,029,865
Public improvement	1,373,509	-	-	-	1,373,509	-
Other purposes	(1,385)	-	-	-	(1,385)	-
Unrestricted	1,838,381	4,598,683	1,497,218	926,065	3,335,599	5,524,748
Total Net Position	\$ 6,774,190	\$ 5,993,831	\$ 4,840,779	\$ 3,984,365	\$ 11,614,969	\$ 9,978,196

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

Government-wide Financial Analysis (continued)

The Town's unrestricted total net position of \$3,335,599 or 28.92% of total net position may be used to meet the Town's ongoing obligations to citizens and creditors.

As of September 30, 2016, the Town is able to report a positive balance in all categories of net position, for the government as a whole, as well as all categories for its separate governmental and business-type activities.

<i>Town of Northlake's Changes in Net Position</i>						
	Governmental Activities		Business-type Activities		Total	
	FY 2015-16	FY 2014-15 (Restated)	FY 2015-16	FY 2014-15 (Restated)	FY 2015-16	FY 2014-15
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,655,051	\$ 1,652,816	\$ 2,584,170	\$ 2,016,122	\$ 4,239,221	\$ 3,668,938
General Revenues:						
Property Taxes	922,534	743,419	-	-	922,534	743,419
PID Assessment	436,420	366,158	-	-	436,420	366,158
Sales Taxes	1,359,296	882,995	-	-	1,359,296	882,995
Franchise Taxes	257,563	244,696	-	-	257,563	244,696
Developer Contributions	-	-	-	1,337,206	-	1,337,206
Hotel/Motel Taxes	257,813	238,013	-	-	257,813	238,013
Interest on Investment	40,944	30,730	(28,061)	(32,446)	12,883	(1,716)
Miscellaneous	204,122	176,376	60,734	29,718	264,856	206,094
	5,133,743	4,335,203	2,616,843	3,350,600	7,750,586	7,685,803
Expenses:						
General Government	1,562,134	946,647	-	-	1,562,134	946,647
Municipal Court	238,250	268,501	-	-	238,250	268,501
Police	1,139,912	1,027,335	-	-	1,139,912	1,027,335
Public Works	658,352	525,722	-	-	658,352	525,722
Economic Development	636,186	101,694	-	-	636,186	101,694
Promotional	38,233	25,219	-	-	38,233	25,219
Interest on Long-Term Debt	226,945	212,585	-	-	226,945	212,585
Water and Sewer	-	-	1,613,800	1,349,070	1,613,800	1,349,070
Total Expenses	4,500,013	3,107,703	1,613,800	1,349,070	6,113,813	4,456,773
Change in Net Position Before Transfers	633,730	1,227,500	1,003,043	2,001,530	1,636,773	3,229,030
Transfers	146,629	125,000	(146,629)	(125,000)	-	-
Change in Net Position	780,359	1,352,500	856,414	1,876,530	1,636,773	3,229,030
Net Position 9/30 Prior Year	5,993,831	4,641,331	3,984,365	2,107,835	9,978,196	6,749,166
Net Position 9/30 Current Year	\$ 6,774,190	\$ 5,993,831	\$ 4,840,779	\$ 3,984,365	\$ 11,614,969	\$ 9,978,196

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

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 \$5,888,331, a decrease of \$1,188,440 or (16.8%) in comparison with the prior year. The unassigned general fund balance at year end is a surplus of \$1,575,023. 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 public improvement districts, 1,373,509
- to pay for economic and community development, \$1,170,911
- to pay for promotional activities, \$1,258,552
- to pay for court technology, security, and child safety, \$250,910
- to pay for capital projects, \$11,071
- to pay for debt service, \$249,740
- to pay for other purposes, (\$1,385)

The general fund is the chief operating fund of the Town. The Town of Northlake budgeted and planned for a decrease in fund balance for fiscal year 2015-2016 of (\$222,335) for the general fund (page 47).

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

Total net position for business-type activities is \$4,840,779 and is comprised of \$1,497,218 or 30.93% in unrestricted net position while \$3,343,561 or 69.07% 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.

Net position invested in capital assets is used to provide services to water and sewer customers; 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.

Unrestricted net position of the proprietary funds for business-type activities is \$1,497,218 which increased \$571,153 or 61.68% from the prior year. This increase is mainly attributable to increases in water and sewer service revenues from commercial development and new home construction. The unrestricted surplus may be used to meet future service and debt needs.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

Financial Analysis of the Government's Funds (continued)

The unrestricted net position of the internal service funds for governmental activities is \$285,997 which represents an increase of \$170,468 or 147.55% from the prior year. This increase is mainly due to prefunding of future facility space finishing. The internal service funds are utilized for equipment funding and maintenance of Town facilities.

Governmental Funds Budgetary Highlights

The Town anticipated the general fund balance to decrease (\$222,335) by the end of fiscal year, from \$1,578,332 to \$1,355,997. Due to development activity occurring sooner than expected, collections of construction sales tax, permits and development fees cushioned the loss to only (\$3,309) leaving an ending fund balance of \$1,575,023.

By the end of fiscal year 2016 the Economic Development Corporation 4A and the Community Development Corporation 4B anticipated an ending fund balance of \$689,722 and \$757,477, respectively. The Sam Lee Road project was projected to be completed during the first quarter of fiscal year 2017 with a development incentive being paid at that time, but the project was completed during the final quarter of fiscal year 2016.

An incentive of \$250,000 was paid by each of the development corporations upon project completion. At the end of fiscal year 2016 the Economic Development Corporation 4A had a surplus fund balance of \$595,579 and the Community Development Corporation 4B had a surplus fund balance of \$575,332.

The Hotel Motel Tax Fund anticipated an ending fund balance of \$1,139,249 by the end of fiscal year 2016, but strong activity in the collection of taxes and interest revenue increased the surplus balance to \$1,258,552 by the end of fiscal year 2016.

Details regarding budgetary variances can be found on page 47.

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, 2016, amounts to \$10,163,740 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, automobiles, equipment, infrastructure, water and sewer system and construction in progress. The total increase in the Town's investment in capital assets for the current fiscal year was \$1,681,083.

Major capital asset events during fiscal year 2016 included the following:

- Town Hall roof replacement and building enhancements
- Purchase of two police vehicles and one public works vehicle
- Purchase of police radios
- Public improvement district trail ways and open park spaces
- Purchase of radio read meters for new homes and commercial development (ongoing project)

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

Capital Asset and Debt Administration (continued)

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

	Governmental Activities		Business-type Activities		Total	
	FY 2015-16	FY 2014-15	FY 2015-16	FY 2014-15	FY 2015-16	FY 2014-15
Land	\$ 2,770,951	\$ 2,770,951	\$ 97,567	\$ 88,167	\$ 2,868,518	\$ 2,859,118
Construction in Progress	-	-	588,040	588,040	588,040	588,040
Buildings and Improvements	180,751	179,897	27,421	28,594	208,172	208,491
Automobiles	403,437	361,295	844	-	404,280	361,295
Equipment	64,443	66,309	-	1,910	64,443	68,219
Infrastructure	2,570,998	1,061,461	-	-	2,570,998	1,061,461
Water and Dewater System	-	-	3,459,288	3,336,033	3,459,288	3,336,033
Total	\$ 5,990,580	\$ 4,439,913	\$ 4,173,160	\$ 4,042,744	\$ 10,163,740	\$ 8,482,657

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 \$6,094,599 of which \$5,655,121 are Certificates of Obligation.

Town of Northlake's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	FY 2015-16	FY 2014-15	FY 2015-16	FY 2014-15	FY 2015-16	FY 2014-15
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note Payable	-	3,444	439,478	579,383	439,478	582,827
Certificates of Obligation	5,265,000	5,565,000	390,121	405,061	5,655,121	5,970,061
Total	\$ 5,265,000	\$ 5,568,444	\$ 829,599	\$ 984,444	\$ 6,094,599	\$ 6,552,888

During the fiscal year, the Town retired \$458,289 in debt. 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 34.

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 2016-2017. Overall, general fund revenues are expected to be higher during the next fiscal year. Due to the continued residential and commercial development, property tax revenue and development fees are expected to increase during fiscal year 2016-2017. Expenses for the general fund are expected to slightly increase due to the Town's staffing of new positions, maintaining of service levels and the increase development related expenditures. The Town anticipates the maintaining of a surplus fund balance at the end of fiscal year 2017.

Water and sewer fund revenues are expected to be higher than fiscal year 2015-2016 due to additional customers. In order to maintain service levels with the increase in new customers, expenditures are expected to rise in fiscal year 2017. The increase will occur from an increase in staff levels, maintenance costs and the purchase of wholesale water. The water and sewer fund projects a surplus in fund balance at the end of fiscal year 2017.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2016

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, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,902,695	\$ 1,189,413	\$ 7,092,108
Receivables (net of allowance for uncollectibles)	443,669	257,935	701,604
Prepaid expense	13,293	89,544	102,837
Loan receivable	439,479	-	439,479
Other assets	16,058	288,000	304,058
Capital Assets (net of accumulated depreciation):			
Land	2,770,951	97,567	2,868,518
Construction in progress	-	588,040	588,040
Buildings and improvements	180,751	27,421	208,172
Automobiles	403,437	-	403,437
Equipment	64,443	843	65,286
Infrastructure	2,570,998	-	2,570,998
Water and sewer system	-	3,459,289	3,459,289
Total assets	<u>12,805,774</u>	<u>5,998,052</u>	<u>18,803,826</u>
Deferred outflows of resources			
Deferred outflows of resources	<u>240,528</u>	<u>47,244</u>	<u>287,772</u>
Total deferred outflows of resources	240,528	47,244	287,772
Liabilities			
Accounts payable	262,995	94,917	357,912
Accrued liabilities	106,761	213,665	320,426
Noncurrent liabilities			
Net pension liabilities	279,234	59,159	338,393
Due within one year	339,730	163,872	503,602
Due in more than one year	<u>5,028,349</u>	<u>672,904</u>	<u>5,701,253</u>
Total liabilities	6,017,069	1,204,517	7,221,586
Deferred inflows of resources			
Deferred inflows of resources	<u>255,043</u>	-	<u>255,043</u>
Total deferred inflows of resources	255,043	-	255,043
Net Position			
Invested in capital assets, net of related debt	622,501	3,343,561	3,966,062
Restricted for:			
Public improvement	1,373,509	-	1,373,509
Economic development	595,579	-	595,579
Community development	575,332	-	575,332
Promotional activities	1,258,552	-	1,258,552
Debt service	249,740	-	249,740
Court Technology, Security & Child Safety	250,910	-	250,910
Capital projects	11,071	-	11,071
Other purposes	(1,385)	-	(1,385)
Unrestricted	<u>1,838,381</u>	<u>1,497,218</u>	<u>3,335,599</u>
Total net position	<u>\$ 6,774,190</u>	<u>\$ 4,840,779</u>	<u>\$ 11,614,969</u>

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

Town of Northlake, Texas
Statement of Activities
Year Ended September 30, 2016

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	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,562,134	\$ 1,061,699	\$ -	\$ -	\$ (500,435)	\$ -	\$ (500,435)
Municipal court	238,250	593,352	-	-	355,102	-	355,102
Police	1,139,912	-	-	-	(1,139,912)	-	(1,139,912)
Public works	658,352	-	-	-	(658,352)	-	(658,352)
Economic development	636,186	-	-	-	(636,186)	-	(636,186)
Promotional	38,233	-	-	-	(38,233)	-	(38,233)
Interest on long-term debt	226,945	-	-	-	(226,945)	-	(226,945)
Total governmental activities	4,500,013	1,655,051	-	-	(2,844,962)	-	(2,844,962)
Business-type activities:							
Water and sewer	1,613,800	2,584,170	-	-	-	970,370	970,370
Total business-type activities	1,613,800	2,584,170	-	-	-	970,370	970,370
Total primary government	\$ 6,113,813	\$ 4,239,221	\$ -	\$ -	\$ (2,844,962)	\$ 970,370	\$ (1,874,592)
General revenues:							
Taxes							
Property taxes					922,534	-	922,534
Sales taxes					1,359,296	-	1,359,296
Franchise taxes					257,563	-	257,563
Hotel/Motel taxes					257,813	-	257,813
Interest					40,944	(28,061)	12,883
Assessment					436,420	-	436,420
Miscellaneous					204,122	60,734	264,856
Transfers					146,629	(146,629)	-
Total general revenues and transfers					3,625,321	(113,956)	3,511,365
Change in net position					780,359	856,414	1,636,773
Net position - beginning					5,920,802	3,984,365	9,905,167
Prior period adjustment					73,029	-	73,029
Net position - ending					\$ 6,774,190	\$ 4,840,779	\$ 11,614,969

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

Town of Northlake, Texas
Balance Sheet - Governmental Funds
September 30, 2016

	General Fund	Public Improvement Districts 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	\$ 1,821,645	\$ 1,395,849	\$ 553,694	\$ 533,447	\$ 780,868	\$ 543,717	\$ 5,629,220
Receivables:							
Property taxes, net of allowance	6,015	-	-	-	-	2,250	8,265
Sales taxes	116,497	-	58,249	58,249	-	-	232,995
Franchise taxes	67,064	-	-	-	-	-	67,064
Hotel/Motel taxes	-	-	-	-	38,622	-	38,622
Municipal court receivable, net	56,463	-	-	-	-	-	56,463
Other accounts receivable	40,260	-	-	-	-	-	40,260
Loan receivable	-	-	-	-	439,479	-	439,479
Other assets	57	-	-	-	-	16,001	16,058
Total assets	<u>2,108,001</u>	<u>1,395,849</u>	<u>611,943</u>	<u>591,696</u>	<u>1,258,969</u>	<u>561,968</u>	<u>6,528,426</u>
Liabilities and Fund Balance							
Liabilities:							
Accounts payable	225,177	45	16,365	16,365	239	4,033	262,224
Accrued liabilities	(159)	22,295	(1)	(1)	178	31,077	53,389
Deferred revenue	307,960	-	-	-	-	16,522	324,482
Total liabilities	532,978	22,340	16,364	16,364	417	51,632	640,095
Fund balance:							
Restricted for							
Public improvement	-	1,373,509	-	-	-	-	1,373,509
Economic development	-	-	595,579	-	-	-	595,579
Community development	-	-	-	575,332	-	-	575,332
Promotional activities	-	-	-	-	1,258,552	-	1,258,552
Debt service	-	-	-	-	-	249,740	249,740
Court technology and security	-	-	-	-	-	250,910	250,910
Capital projects	-	-	-	-	-	11,071	11,071
Other purposes	-	-	-	-	-	(1,385)	(1,385)
Unassigned	1,575,023	-	-	-	-	-	1,575,023
Total fund balance	<u>1,575,023</u>	<u>1,373,509</u>	<u>595,579</u>	<u>575,332</u>	<u>1,258,552</u>	<u>510,336</u>	<u>5,888,331</u>
Total liabilities and fund balance	<u>\$ 2,108,001</u>	<u>\$ 1,395,849</u>	<u>\$ 611,943</u>	<u>\$ 591,696</u>	<u>\$ 1,258,969</u>	<u>\$ 561,968</u>	<u>\$ 6,528,426</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, 2016

Total fund balances - governmental funds	\$ 5,888,331
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.	5,640,809
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	69,439
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.	240,528
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.	(53,372)
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.	(5,647,313)
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>635,768</u>
Net position of governmental activities	<u><u>\$ 6,774,190</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, 2016

	General Fund	Public Improvement Districts Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes:							
Property	\$ 693,972	\$ -	\$ -	\$ -	\$ -	\$ 260,514	\$ 954,486
Sales and beverage	679,648	-	339,824	339,824	-	-	1,359,296
Franchise	257,563	-	-	-	-	-	257,563
Hotel/Motel	-	-	-	-	257,813	-	257,813
Building permits, plant and other fees	1,061,699	-	-	-	-	-	1,061,699
Municipal court	601,110	-	-	-	-	-	601,110
Interest income	3,233	13,972	722	673	21,535	446	40,581
Assessment	-	436,420	-	-	-	-	436,420
Miscellaneous	113,564	-	15,186	15,186	-	61,217	205,153
Total revenues	<u>3,410,789</u>	<u>450,392</u>	<u>355,732</u>	<u>355,683</u>	<u>279,348</u>	<u>322,177</u>	<u>5,174,121</u>
Expenditures							
Current:							
General government	1,259,940	167,568	-	-	-	1,685	1,429,193
Municipal court	189,765	-	-	-	-	42,903	232,668
Police	1,036,188	-	-	-	25,477	8,132	1,069,797
Public works	425,044	-	-	-	-	-	425,044
Economic development	-	-	319,530	316,656	-	-	636,186
Promotional	-	-	6,306	8,433	23,494	-	38,233
Capital outlay	2,484	1,715,000	-	-	-	-	1,717,484
Debt service							
Principal	-	160,000	-	-	-	140,000	300,000
Interest and fiscal charges	-	137,320	-	-	-	105,304	242,624
Total expenditures	<u>2,913,421</u>	<u>2,179,888</u>	<u>325,836</u>	<u>325,089</u>	<u>48,971</u>	<u>298,024</u>	<u>6,091,229</u>
Excess (deficiency) of revenues over expenditures	497,368	(1,729,496)	29,896	30,594	230,377	24,153	(917,108)
Other financing sources (uses)							
Transfers in	175,000	-	-	-	-	309,416	484,416
Transfers out	(675,677)	-	(26,690)	(26,691)	(1,690)	(25,000)	(755,748)
Total other financing sources (uses)	<u>(500,677)</u>	<u>-</u>	<u>(26,690)</u>	<u>(26,691)</u>	<u>(1,690)</u>	<u>284,416</u>	<u>(271,332)</u>
Net change in fund balances	(3,309)	(1,729,496)	3,206	3,903	228,687	308,569	(1,188,440)
Fund balances - beginning	1,578,332	3,103,005	592,373	571,429	1,029,865	201,767	7,076,771
Fund balances - ending	<u>\$ 1,575,023</u>	<u>\$ 1,373,509</u>	<u>\$ 595,579</u>	<u>\$ 575,332</u>	<u>\$ 1,258,552</u>	<u>\$ 510,336</u>	<u>\$ 5,888,331</u>

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

Town of Northlake, Texas
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds to the Statement of Activities
 Year ended September 30, 2016

Net changes in fund balances - total governmental funds	\$ (1,188,440)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	1,717,484
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.	(297,028)
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.	303,444
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.	(11,764)
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.	15,679
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.	(39,710)
Certain expenses in the government-wide statement of activities that do not require current financial resources are not reported as expenditures in the governmental funds.	(19,985)
Internal service funds are used by management to charge the costs of equipment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>300,679</u>
Change in net position of governmental activities	<u><u>\$ 780,359</u></u>

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

Town of Northlake, Texas
Statement of Net Position
Proprietary Funds
September 30, 2016

	Business Type Activities - Enterprise Fund <u>Water and Sewer</u>	Governmental Activities - Internal Service Funds <u>Equipment</u>
Assets		
Current assets:		
Deposits and investments	\$ 1,189,413	\$ 273,475
Accounts receivable, net	257,935	-
Prepaid expense	89,544	13,293
Total current assets	<u>1,536,892</u>	<u>286,768</u>
Non-current assets:		
Other assets	288,000	-
Property, plant and equipment:		
Land	97,567	-
Buildings and improvements	35,211	18,934
Automobiles	42,214	505,042
Water and sewer system	3,932,218	-
Construction in progress	588,040	-
Equipment	4,925	50,027
	<u>4,700,175</u>	<u>574,003</u>
Less accumulated depreciation	527,015	224,232
Net property, plant and equipment	<u>4,173,160</u>	<u>349,771</u>
Total Assets	<u>5,998,052</u>	<u>636,539</u>
Deferred outflows of resources		
Deferred outflow of resources	47,244	-
Total deferred outflows of resources	<u>47,244</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	94,917	771
Accrued liabilities	213,665	-
Total current liabilities	<u>308,582</u>	<u>771</u>
Noncurrent liabilities:		
Net pension liabilities	59,159	-
Note payable	829,599	-
Compensated absences	7,177	-
Total Liabilities	<u>1,204,517</u>	<u>771</u>
Net position		
Net investment in capital assets	3,343,561	349,771
Unrestricted	1,497,218	285,997
Total Net Position	<u>\$ 4,840,779</u>	<u>\$ 635,768</u>

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

Town of Northlake, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended September 30, 2016

	Business Type Activities - Enterprise Fund <u>Water and Sewer</u>	Governmental Activities - Internal Service Funds <u>Equipment</u>
Operating revenues:		
Water and sewer service	\$ 2,584,170	\$ -
Equipment service revenue	-	119,750
Total operating revenues	<u>2,584,170</u>	<u>119,750</u>
Operating expenses:		
Operating expenses	1,511,773	144,009
Depreciation	102,027	93,386
Total operating expenses	<u>1,613,800</u>	<u>237,395</u>
Operating income (loss)	970,370	(117,645)
Nonoperating revenues (expenses):		
Interest income (expense)	(28,061)	363
Miscellaneous revenue (expense)	60,734	-
Total nonoperating revenues	<u>32,673</u>	<u>363</u>
Income (loss) before transfers	1,003,043	(117,282)
Transfers in	-	417,961
Transfers out	(146,629)	-
Change in net position	856,414	300,679
Net position - beginning	3,984,365	335,089
Net position - ending	<u>\$ 4,840,779</u>	<u>\$ 635,768</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, 2016

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
Operating Activities		
Cash received from customers	\$ 2,537,298	\$ 119,750
Cash payments to suppliers for goods and services	(1,725,620)	(146,790)
Net cash provided by operating activities	811,678	(27,040)
Noncapital Financing Activities		
Transfers from other funds	-	417,961
Transfers to other funds	(146,629)	-
Net cash used in noncapital financing activities	(146,629)	417,961
Capital and Related Financing Activities		
Proceed from gift and contributions	60,734	-
Payments on note	(185,818)	-
Net cash used in capital and related financing activities	(125,084)	-
Investing Activities		
Capital expenditures	(232,442)	(223,596)
Interest received	6,433	363
Net cash provided by investing activities	(226,009)	(223,233)
Net increase in cash and cash equivalents	313,956	167,688
Cash and cash equivalents - beginning	875,457	105,787
Cash and cash equivalents - ending	1,189,413	273,475
	-	-
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	970,370	(117,645)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	102,026	93,385
Change in assets and liabilities:		
Accounts receivable	(46,872)	-
Overdraft	(144,340)	-
Other assets	(85,326)	(3,551)
Net pension liability	39,150	-
Accounts payable and accrued liabilities	(23,330)	771
Net cash provided by (used in) operating activities	\$ 811,678	\$ (27,040)

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

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
September 30, 2016

A. Financial Reporting Entity (continued)

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

B. Basis of Presentation

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

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

Fund Financial Statements

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

General Fund

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

Public Improvement Districts Fund

The Public Improvement Districts Fund is used to account for special assessments collected for an area specific purpose. Funds are expended on costs associated with the specified improvements.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

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, special revenue, capital project, and tax increment reinvestment zone funds created by the Town, which do not meet the requirements to be presented as a major fund of the Town.

Proprietary Funds

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

Water and Sewer Fund

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

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

B. Basis of Presentation (continued)

Internal Service Fund

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

C. Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

Use of Restricted/Unrestricted Net Position

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

C. Measurement Focus/Basis of Accounting (continued)

Taxes

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

Cash and Cash Equivalents

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

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

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

Inventories and Prepaid Items

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

Interfund Receivables and Payables

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

Transactions between Funds

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

Pensions

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

Pensions (continued)

contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Capital Assets

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

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

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

Compensated Absences

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

Net Position

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

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, 2016, the Town had the following investments:

Investment Type	Weighted Average Amount	Maturity
Logic	\$ 4,543,366	45 days
Wells Fargo	\$ 2,132,495	0 days

As of September 30, 2016, 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.

Investment Type	Amount	Minimum Legal Rating	Rating as of September 30, 2016
Logic	\$ 4,543,366	AAA	AAA
Wells Fargo	\$ 2,132,495	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, 2016, 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
September 30, 2016

2. Deposits and Investments (continued)

D. Custodial Credit Risk

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

At September 30, 2016, the carrying amount of the Town's cash on hand and deposits were \$7,092,108 and the bank balance was \$7,326,132. 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.

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, 2016, 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	\$ 12,506	\$ 191,067	\$ 3,352	\$ 265,255
Less allowance for uncollectibles	(6,491)	(134,604)	(1,102)	(7,320)
Net receivables	<u>\$ 6,015</u>	<u>\$ 56,463</u>	<u>\$ 2,250</u>	<u>\$ 257,935</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

4. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance September 30, 2015	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,770,951	\$ -	\$ -	\$ 2,770,951
Total capital assets not being depreciated	2,770,951	-	-	2,770,951
Capital assets being depreciated				
Buildings and improvements	313,150	18,934	-	332,084
Automobiles	875,845	158,203	-	1,034,048
Equipment	238,077	48,942	-	287,019
Infrastructure	3,305,410	1,715,000	-	5,020,410
Total capital assets being depreciated	4,732,482	1,941,079	-	6,673,561
Less accumulated depreciation				
Buildings and improvements	129,686	21,647	-	151,333
Automobiles	518,117	112,495	-	630,612
Equipment	171,768	50,809	-	222,577
Infrastructure	2,243,949	205,463	-	2,449,412
Total accumulated depreciation	3,063,520	390,414	-	3,453,934
Total capital assets being depreciated, net	1,668,962	1,550,665	-	3,219,627
Governmental activities capital assets, net	\$ 4,439,913	\$ 1,550,665	\$ -	\$ 5,990,578

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

4. Capital Assets (continued)

	Balance September 30, 2015	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2016
Business-type activities				
Capital assets not being depreciated				
Land	\$ 88,167	\$ 9,400	\$ -	\$ 97,567
Construction in progress	588,040	-	-	588,040
Total capital assets not being depreciated	676,207	9,400	-	685,607
Capital assets being depreciated				
Buildings and improvements	35,211	-	-	35,211
Equipment	4,925	-	-	4,925
Automobiles	42,214	-	-	42,214
Water and sewer system	3,709,176	223,042	-	3,932,218
Total capital assets being depreciated	3,791,526	223,042	-	4,014,568
Less accumulated depreciation				
Buildings and improvements	6,617	1,173	-	7,790
Equipment	3,014	1,067	-	4,081
Automobiles	42,214	-	-	42,214
Water and sewer system	373,144	99,786	-	472,930
Total accumulated depreciation	424,989	102,026	-	527,015
Total capital assets being depreciated, net	3,366,537	121,016	-	3,487,553
Business-type capital assets, net	<u>\$ 4,042,744</u>	<u>\$ 130,416</u>	<u>\$ -</u>	<u>\$ 4,173,160</u>

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

Governmental activities	
General Government	\$ 34,439
Municipal Court	5,582
Police	101,478
Public Works	248,915
Total Governmental Depreciation Expense	<u>\$ 390,414</u>
Business-type activities	
Water and sewer	\$ 26,246
Water & Sewer Capital Projects	75,780
Total Business-type depreciation expense	<u>\$ 102,026</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

5. Long-term Debt

Amounts payable at September 30, 2016 are comprised of the following individual issues:

	Governmental Activities	Business-type Activities
Certificates of Obligation		
\$4,170,000 Series 2014A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$160,000 to \$285,000 through August 15, 2034, with interest at 2%	\$ 3,875,000	\$ -
Certificates of Obligation		
\$420,000 Series 2014B Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$100,000 to \$190,000 through August 15, 2034, with interest at 3%	\$ -	\$ 390,000
Certificates of Obligation		
\$1,900,000 Series 2005 Combination Tax and Revenue certificates of Obligation, due in annual installments of \$105,000 to \$190,000 through April 15, 2025, with interest at 4.97%	\$ 1,350,000	\$ -
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%	\$ 40,000	\$ -
Note Payable		
\$60,000 note payable due in 60 monthly installments of \$1160 through January 2016 with interest at 5.985%	\$ -	\$ -
Note Payable		
\$588,050 note payable due in annual installments of \$8,657 to \$294,553 through September 1, 2018, with interest at 3.5%	\$ -	\$ 439,479

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

5. Long-term Debt (continued)

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2016:

	Beginning of Year	Increase	Decrease	End of Year	Within One Year
Governmental Activities					
Certificates of Obligation	\$ 5,565,000	\$ -	\$ 300,000	\$ 5,265,000	\$ 315,000
Note Payable	3,444	-	3,444	-	-
Compensated Absences	91,315	73,233	61,469	103,079	24,730
Total governmental activities	<u>5,659,759</u>	<u>73,233</u>	<u>364,913</u>	<u>5,368,079</u>	<u>339,730</u>
Business-type Activities					
Certificates of Obligation	405,061	-	14,940	390,121	15,000
Note Payable	579,383	-	139,905	439,478	144,926
Compensated Absences	3,656	7,844	4,323	7,177	3,946
Total business-type activities	<u>\$ 988,100</u>	<u>\$ 7,844</u>	<u>\$ 159,168</u>	<u>\$ 836,776</u>	<u>\$ 163,872</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2016, are as follows:

Certificates of Obligations	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 315,000	\$ 179,610	\$ 15,000	\$ 10,881	\$ 520,491
2018	290,000	170,153	20,000	10,581	490,734
2019	305,000	160,789	20,000	10,181	495,970
2020	320,000	150,828	20,000	9,781	500,609
2021	335,000	140,270	20,000	9,381	504,651
2022-2026	1,695,000	515,122	100,000	40,157	2,350,279
2027-2031	1,180,000	263,963	120,000	24,944	1,588,907
2032-2036	825,000	58,119	75,121	5,313	963,553
	<u>\$ 5,265,000</u>	<u>\$ 1,638,854</u>	<u>\$ 390,121</u>	<u>\$ 121,219</u>	<u>\$ 7,415,194</u>

Notes Payable	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ -	\$ -	\$ 144,926	\$ 15,595	\$ 160,521
2018	-	-	294,553	10,453	305,006
2019	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 439,479</u>	<u>\$ 26,048</u>	<u>\$ 465,527</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

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

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

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

The agreement requires the use of a water year of June 1 of each calendar year through May 31 of the next following calendar year and requires that approximately sixty days after the end of each annual payment period, the Town shall furnish in writing to the District service information for the water year. The Town paid a \$288,000 security deposit to the Upper Trinity Regional Water District upon execution of the agreement. The payment represents an estimate of two years of the Town's portion of the annual debt service requirements. The security deposit can be returned to the Town as early as three years from the start of the agreement if certain conditions are met. There are several fees and charges associated with the water contract such as equity fee, subscription fee, and volume charges. In addition, the Town financed the payment of a \$60,000 equity fee over 60 months (see Footnote 5 – Note Payable). As of September 30, 2016 this note payable was paid off.

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.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

7. Fund Balances (continued)

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

8. Interfund Transfers and Balances

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

Transfer to	Transfer from	Amount
General Fund	Water and Sewer Fund	\$ 125,000
General Fund	4A Fund	25,000
General Fund	4B Fund	25,000
		<u>175,000</u>
Debt Service Fund	General Fund	200,000
Capital Projects Fund	General Fund	50,000
Special Revenue Fund	General Fund	59,416
Building Service Fund	General Fund	353,761
Building Service Fund	4A Fund	1,690
Building Service Fund	4B Fund	1,691
Building Service Fund	Hotel Motel Fund	1,690
Building Service Fund	Capital Projects Fund	25,000
Building Service Fund	Water and Sewer Fund	21,629
Equipment Service Fund	General Fund	12,500
		<u>\$ 727,377</u>

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2016.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

9. Employee Retirement System

Plan Description

The Town participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

Plan provisions for the Town were as follows:

	<u>Plan Year 2016</u>	<u>Plan Year 2015</u>
Deposit rate:	7%	7%
Matching ratio (Town to Employee):	2 to 1	2 to 1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity to increase (to retirees)	0% of CPI	0% of CPI

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

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

Benefits Provided (continued)

	2015
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	17
Active employees	24

Contributions

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

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 9.03% and 9.11% in calendar years 2015 and 2016, respectively. The town's contributions to TMRS for the year ended September, 30 2016, were \$155,245, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year	
Overall payroll growth	3.0% per year	
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation	

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

Net Pension Liability (continued)

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

Net Pension Liability (continued)

Changes in the Net Pension Liability

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

	Changes in the Net Pension Liability		
	Total Pension Liability	Plan Fiduciary Net Position (b)	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 1,537,279	\$ 1,407,723	\$ 129,556
Changes for the year:			
Service cost	218,403	-	218,403
Interest	114,859	-	114,859
Change of benefit terms	-	-	-
Difference between expected and actual experience	33,719	-	33,719
changes of assumptions	71,966	-	71,966
Contributions-employer	-	128,506	(128,506)
Contributions-employee	-	100,846	(100,846)
Net investment income	-	2,078	(2,078)
Benefit payments, including refunds of employee contributions	(11,286)	(11,286)	-
Administrative expense	-	(1,265)	1,265
Other changes	-	(62)	62
Net changes	427,661	218,817	208,844
Balance at 12/31/2015	\$ 1,964,940	\$ 1,626,540	\$ 338,400

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

	1% Decrease	Current Single	1% Increase
	5.75%	Rate Assumption	7.75%
	6.75%	6.75%	7.75%
Town's net pension liability	\$ 713,445	\$ 338,401	\$ 37,957

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2016, the Town recognized pension expense of \$180,811 and the calculation of the expense is summarized in the following table:

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Schedule of Pension Expense	
Total service cost	\$ 218,403
Interest on the total pension liability	114,859
Current period benefit changes	-
Employee contributions (reduction of expense)	(100,846)
Projected earnings on plan investments (reduction of expense)	(98,541)
Administrative expense	1,265
Other changes in fiduciary net position	62
Recognition of current year outflow (inflow) of resources - liabilities	20,363
Recognition of current year outflow (inflow) of resources - assets	19,292
Amortization of prior year outflows (inflows) of resources - liabilities	2,885
Amortization of prior year outflows (inflows) of resources - assets	3,069
Total pension expense	\$ 180,811

At September 30, 2016 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Schedule of Deferred Outflows and Inflows of Resources				
	Deferred Outflows of Resources	Deferred Inflows of Resources	2015 Recognized in Current Pension Expense	Deferred (Inflow)/Outflow in future expense
Differences between expected and actual economic experience	\$ 33,719	\$ -	\$ 6,497	\$ 27,222
Changes in actuarial assumptions	71,966	-	13,866	58,100
Difference between projected and actual investment earnings	96,462	-	19,292	77,170
Contributions subsequent to the measurement date	155,245	-	-	155,245
Total	\$ 357,392	\$ -	\$ 39,655	\$ 317,737

\$155,245 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Amount
2016	\$ 45,609
2017	45,609
2018	45,608
2019	40,005
2020	3,870
Thereafter	-
Total	\$ 180,701

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

11. Tax Abatements

Tax Increment Reinvestment Zone Number Two

On April 23, 2015, the Town designated a certain area as a reinvestment zone for commercial/industrial tax abatement in the Town, to be known as Reinvestment Zone No. 2, Town of Northlake Texas.

Reinvestment zone with Farmer Bros. Co.

Abatement is equal to the taxes assess on 85% of the value of Farmer Bros. Co's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2016 was \$0.

Reinvestment zone with SH114/IH35W Ventures, Ltd.

Abatement is equal to the taxes assess on 75% of increased value of the property and improvements. The improvements are estimated to be \$25,000,000. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2016 was \$0.

Tax Increment Reinvestment Zone Number Three

On January 14, 2016, the Town designated a certain area as a reinvestment zone for commercial/industrial tax abatement in the Town, to be known as Reinvestment Zone No. 3, Town of Northlake Texas

Reinvestment zone with Westco Aircraft Hardware Corp.

Abatement is equal to the taxes assess on 75% of the value of Westco Aircraft Hardware Corp's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2016 was \$0.

Reinvestment zone with Hempel USA, Inc.

Abatement is equal to the taxes assess on 75% of the value of Hempel's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2016 was \$0.

12. Risk Management

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

The Town had no significant changes in insurance coverage from the year ended September 30, 2016. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2016 or any of the three preceding years.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2016

13. 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.

14. Prior Period Adjustments

The accompanying financial statements reflect beginning balance adjustment on government-wide financial statements. The effect of the adjustment is to increase the net position of the governmental activities as of September 30, 2015 by \$73,029 due to an over accrual of interest payable as of September 30, 2015.

15. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 3, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Northlake, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
September 30, 2016

	2014	2015
Total pension liability		
Service cost	\$ 169,257	\$ 218,403
Interest	94,776	114,859
Change of benefit terms	-	-
Difference between expected and actual experience	14,773	33,719
Changes of assumptions	-	71,966
Benefit payments, including refunds of employee contributions	(21,688)	(11,286)
Net Change in Total Pension Liability	257,118	427,661
Total Pension Liability - Beginning	1,280,161	1,537,279
Total Pension Liability - Ending (a)	1,537,279	1,964,940
Plan Fiduciary Net Position		
Contributions-employer	75,574	128,506
Contributions-employee	83,179	100,846
Net investment income	68,838	2,078
Benefit payments, including refunds of employee contributions	(21,688)	(11,286)
Administrative expense	(718)	(1,265)
Other changes	(59)	(62)
Net Change in Plan Fiduciary Net Position	205,126	218,817
Plan Fiduciary Net Position - Beginning	1,202,597	1,407,723
Plan Fiduciary Net Position - Ending (b)	\$ 1,407,723	\$ 1,626,540
Net Pension Liability - Ending (a) - (b)	129,556	338,400
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.57%	82.78%
Covered Employee Payroll	1,188,275	1,440,652
Net Pension Liability as a Percentage of Covered Employee Payroll	10.90%	23.49%

Town of Northlake, Texas
 Required Supplementary Information
 Schedule of Contributions
 September 30, 2016

	2014	2015
Actuarially Determined Contribution	\$ 112,401	\$ 140,000
Contributions in relation to the actuarially determined contribution	100,291	141,715
Contribution deficiency (excess)	12,111	(1,715)
Covered employee payroll	1,341,854	1,558,966
Contributions as a percentage of covered employee payroll	7.00%	9.09%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10/5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year

Town of Northlake, Texas
 Budgetary Comparison Schedule - General Fund
 September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property	\$ 607,422	\$ 655,000	\$ 693,972	\$ 38,972
Sales and beverage	360,000	550,000	679,648	129,648
Franchise	225,000	261,000	257,563	(3,437)
Building permits, plat and other fees	729,550	812,150	1,061,699	249,549
Municipal court	625,300	625,300	601,110	(24,190)
Interest income	1,000	2,100	3,233	1,133
Miscellaneous	72,960	81,460	113,564	32,104
Total revenues	<u>2,621,232</u>	<u>2,987,010</u>	<u>3,410,789</u>	<u>423,779</u>
Expenditures				
Current				
General government	864,459	1,049,209	1,259,940	(210,731)
Municipal court	267,344	221,344	189,765	31,579
Police	1,106,784	1,110,184	1,036,188	73,996
Public works	417,847	397,847	425,044	(27,197)
Capital outlay	-	-	2,484	(2,484)
Total expenditures	<u>2,656,434</u>	<u>2,778,584</u>	<u>2,913,421</u>	<u>(134,837)</u>
Excess (deficiency) of revenues over expenditures	(35,202)	208,426	497,368	288,942
Other financing sources (uses):				
Transfers in	175,000	175,000	175,000	-
Transfers out	(128,761)	(605,761)	(675,677)	69,916
Total other financing sources (uses)	<u>46,239</u>	<u>(430,761)</u>	<u>(500,677)</u>	<u>69,916</u>
Net change in fund balances	11,037	(222,335)	(3,309)	219,026
Fund balance, beginning of year	<u>1,578,332</u>	<u>1,578,332</u>	<u>1,578,332</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,589,369</u>	<u>\$ 1,355,997</u>	<u>\$ 1,575,023</u>	<u>\$ 219,026</u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Economic Development Corporation 4A
 Year ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 180,000	\$ 180,000	\$ 339,824	\$ 159,824
Interest income	650	650	722	72
Miscellaneous	600	15,500	15,186	(314)
Total revenues	181,250	196,150	355,732	159,582
Expenditures				
Economic development	379,611	57,111	319,530	(262,419)
Promotional	15,000	15,000	6,306	8,694
Total expenditures	394,611	72,111	325,836	(253,725)
Other financing sources (uses)				
Transfers out	(26,690)	(26,690)	(26,690)	-
Total other financing sources (uses)	(26,690)	(26,690)	(26,690)	-
Net change in fund balances	(240,051)	97,349	3,206	(94,143)
Fund balance, beginning of year	592,373	592,373	592,373	-
Fund balance, end of year	\$ 352,322	\$ 689,722	\$ 595,579	\$ (94,143)

Town of Northlake, Texas
 Budgetary Comparison Schedule - Community Development Corporation 4B
 Year ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 180,000	\$ 275,000	\$ 339,824	\$ 64,824
Interest income	650	650	673	23
Miscellaneous	600	15,500	15,186	(314)
Total revenues	<u>181,250</u>	<u>291,150</u>	<u>355,683</u>	<u>64,533</u>
Expenditures				
Economic development	379,611	63,411	316,656	(253,245)
Promotional	15,000	15,000	8,433	6,567
Total expenditures	<u>394,611</u>	<u>78,411</u>	<u>325,089</u>	<u>(246,678)</u>
Other financing sources (uses)				
Transfers out	(26,691)	(26,691)	(26,691)	-
Total other financing sources (uses)	<u>(26,691)</u>	<u>(26,691)</u>	<u>(26,691)</u>	<u>-</u>
Net change in fund balances	(240,052)	186,048	3,903	(182,145)
Fund balance, beginning of year	<u>571,429</u>	<u>571,429</u>	<u>571,429</u>	<u>-</u>
Fund balance, end of year	<u>\$ 331,377</u>	<u>\$ 757,477</u>	<u>\$ 575,332</u>	<u>\$ (182,145)</u>

Town of Northlake, Texas
 Budgetary Comparison Schedule – Hotel/Motel Tax Fund
 Year ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues				
Hotel/Motel tax	\$ 200,000	\$ 200,000	\$ 257,813	\$ 57,813
Interest income	1,300	1,300	21,535	20,235
Miscellaneous	140,543	-	-	-
Total revenues	341,843	201,300	279,348	78,048
Expenditures				
Police	20,000	23,550	25,477	(1,927)
Promotional	66,576	66,676	23,494	43,182
Total expenditures	86,576	90,226	48,971	41,255
Other financing sources (uses)				
Transfers out	(1,690)	(1,690)	(1,690)	-
Total other financing sources (uses)	(1,690)	(1,690)	(1,690)	-
Net change in fund balances	253,577	109,384	228,687	119,303
Fund balance, beginning of year	1,029,865	1,029,865	1,029,865	-
Fund balance, end of year	<u>\$ 1,283,442</u>	<u>\$ 1,139,249</u>	<u>\$ 1,258,552</u>	<u>\$ 119,303</u>

Town of Northlake, Texas
Notes to Required Supplementary Information
September 30, 2016

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, 2016

	Debt Service Fund	Special Revenue Fund	Capital Project Fund	Tax Increment Reinvestment Zone Fund	Total Non Major Governmental Funds
Assets					
Cash and cash equivalents	\$ 281,338	\$ 251,308	\$ 11,071	\$ -	\$ 543,717
Receivables					
Property taxes, net of allowance	2,250	-	-	-	2,250
Other	-	16,001	-	-	16,001
Total assets and other debits	<u>283,588</u>	<u>267,309</u>	<u>11,071</u>	<u>-</u>	<u>561,968</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	-	2,648	-	1,385	4,033
Accrued liabilities	31,077	-	-	-	31,077
Deferred revenue	2,771	13,751	-	-	16,522
Due to other governmental funds	-	-	-	-	-
Total liabilities	<u>33,848</u>	<u>16,399</u>	<u>-</u>	<u>1,385</u>	<u>51,632</u>
Fund balances:					
Restricted for					
Debt service	249,740	-	-	-	249,740
Court technology and security	-	250,910	-	-	250,910
Capital projects	-	-	11,071	-	11,071
Other purposes	-	-	-	(1,385)	(1,385)
Total fund balances	<u>249,740</u>	<u>250,910</u>	<u>11,071</u>	<u>(1,385)</u>	<u>510,336</u>
Total liabilities and fund balances	<u>\$ 283,588</u>	<u>\$ 267,309</u>	<u>\$ 11,071</u>	<u>\$ -</u>	<u>\$ 561,968</u>

Town of Northlake, Texas
Combining Schedule of Revenues, Expenditures and Changes
in Fund Balances - Non Major Governmental Funds
September 30, 2016

	Debt Service Fund	Special Revenue Fund	Capital Project Fund	Tax Increment Reinvestment Zone	Total Non Major Governmental Funds
Revenues					
Taxes					
Property	\$ 260,514	\$ -	\$ -	\$ -	\$ 260,514
Interest income	66	323	57	-	446
Miscellaneous	-	61,217	-	-	61,217
Total revenues	<u>260,580</u>	<u>61,540</u>	<u>57</u>	<u>-</u>	<u>322,177</u>
Expenditures					
Current					
General government	300	-	-	1,385	1,685
Municipal court	-	42,903	-	-	42,903
Police	-	8,132	-	-	8,132
Debt service					
Principal	140,000	-	-	-	140,000
Interest and fiscal charges	105,304	-	-	-	105,304
Total expenditures	<u>245,604</u>	<u>51,035</u>	<u>-</u>	<u>1,385</u>	<u>298,024</u>
Excess of revenues over expenditures	14,976	10,505	57	(1,385)	24,153
Other financing sources					
Transfers in	200,000	59,416	50,000	-	309,416
Transfers out	-	-	(25,000)	-	(25,000)
Total other financing sources	<u>200,000</u>	<u>59,416</u>	<u>25,000</u>	<u>-</u>	<u>284,416</u>
Net change in fund balances	214,976	69,921	25,057	(1,385)	308,569
Fund balances - beginning	34,764	180,989	(13,986)	-	201,767
Fund balances - ending	<u>\$ 249,740</u>	<u>\$ 250,910</u>	<u>\$ 11,071</u>	<u>\$ (1,385)</u>	<u>\$ 510,336</u>



M. Vail & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

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American Institute of CPAs
Texas Society of CPAs

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards

To the Honorable Mayor and Town Council
Town of Northlake, Texas
1400 FM 407
Northlake, TX 76247

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Northlake, Texas (The "Town"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 3, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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Purpose of this Report

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

M. C. Hill & Associates, P.C.

Richardson, Texas

February 3, 2017

