

ANNUAL FINANCIAL REPORT  
AND REQUIRED SUPPLEMENTARY INFORMATION  
Town of Northlake, Texas  
*Fiscal year ended September 30, 2017*

THIS PAGE IS LEFT INTENTIONALLY BLANK

Town of Northlake, Texas

Annual Financial Report

Year ended September 30, 2017

**Table of Contents**

INTRODUCTORY SECTION (Unaudited)

Town Profile..... 1  
List of Elected and Appointed Officials..... 3  
Organizational Chart..... 5

FINANCIAL SECTION

Report of Independent Auditors ..... 7  
Management’s Discussion and Analysis (Unaudited)..... 9

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position..... 24  
Statement of Activities..... 25

Fund Financial Statements

*Governmental Fund Financial Statements*

Balance Sheet – Governmental Funds ..... 26  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Position ..... 27  
Statement of Revenues, Expenditures, and Changes in Fund Balances –  
Governmental Funds ..... 28  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances - Governmental Funds to the Statement of Activities..... 29

*Proprietary Fund Financial Statements*

Statement of Net Position..... 30  
Statement of Revenues, Expenses and Changes in Fund Net Position..... 31  
Statement of Cash Flows..... 32  
Notes to Basic Financial Statements ..... 33

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios..... 56  
Schedule of Contributions..... 57  
Budgetary Comparison Schedule – General Fund ..... 58  
Budgetary Comparison Schedule – Public Improvement Districts Fund ..... 59  
Budgetary Comparison Schedule – Economic Development Corporation 4A ..... 60  
Budgetary Comparison Schedule – Community Development Corporation 4B..... 61

Town of Northlake, Texas  
Annual Financial Report  
Year ended September 30, 2017

**Table of Contents**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Budgetary Comparison Schedule – Hotel/Motel Tax Fund.....	62
Budgetary Comparison Schedule – Capital Projects Fund.....	63
Budgetary Comparison Schedule – Debt Service Fund .....	64
Notes to Required Supplementary Information .....	65

COMBINING SCHEDULES

Combining Balance Sheet – Non Major Governmental Funds.....	68
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Non Major Governmental Funds.....	69

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 .....	71
---	----



## **Town Profile**

The Town of Northlake is located in Denton County, Texas and town limits are approximately 17 square miles with an additional 15 square miles of extraterritorial jurisdiction. The Town is bisected by the Interstate 35W highway corridor and from this corridor begins at Fort Worth, Texas extends eastward towards Argyle, Texas, westward towards Justin, Texas and ends at Denton, Texas to the north. On January 1, 2016 The North Central Texas Council of Governments estimated the Towns' population at 2,660 with an average growth rate of 23.1% from the prior year.

The Town was incorporated on December 28, 1960 and per Texas Local Government Code is deemed a "General Law Type A" municipality. The Town operates under a "Mayor-Council" structure whereby policy making authority rests with the Mayor and Council and, annually, the Mayor and Council must adopt a property tax rate and an operating budget. The five Council members and Mayor serve two-year staggered terms and are elected at large.

To better serve the residents of Northlake and to manage development, the Mayor and Council members have adopted a Comprehensive Future Land Use Plan, Parks, Recreation and Open Space Master Plan, Master Thoroughfare Plan and Unified Development Code. In addition, the Mayor and Council have appointed a City Secretary, who is the official record keeper of the Town; a Town Administrator to administer ordinances, policies, and to manage day-to-day operations; and a Municipal Judge. Furthermore, the Town Council has created a Type A Economic Development Corporation and a Type B Community Development Corporation. Each of these corporations are operated by a board of directors that are appointed by the Mayor and Council members.

The Town of Northlake has experienced an average annual property tax growth rate of over 15% and an average annual sales tax growth rate of 8%. With approximately 10,000 residential lots entitled, home construction is expected to continue over the next ten years with an estimated 500 residential building permits to be issued annually over the same time period. Commercial growth continues with the completion of 965,000 square feet of distribution warehouses which was leased within months of completion and 540,000 square feet Farmer Brothers headquarters including production and distribution. Another 2,500,000 square feet of distribution warehouse space has been entitled and will be developed over the next ten years. Rosa's Café, QuikTrip, Sonic and two 7-Eleven stores recently opened and IHOP is expected to open soon after publication of this audit. An additional 30,000 square feet of retail space will be built over the next two years.

The following pages contain a listing of elected officials and appointed officials, an organizational chart and a listing of departmental directors.

THIS PAGE IS LEFT INTENTIONALLY BLANK

# **List of Elected and Appointed Officials**

Town of Northlake, Texas

## **Town Mayor and Council Members**

Peter Dewing  
**Mayor**

Mike McBride, Place 2  
**Mayor Pro Tem**

Jean Young, Place 1  
**Council Member**

Michael Ganz, Place 3  
**Council Member**

Roger Sessions, Place 4  
**Council Member**

Danny Simpson, Place 5  
**Council Member**

## **Appointed Officials**

Shirley Rogers  
**Town Secretary**

Drew Corn  
**Town Administrator**

THIS PAGE IS LEFT INTENTIONALLY BLANK



THIS PAGE IS LEFT INTENTIONALLY BLANK



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, 2017, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

### Management’s Responsibility for the Financial Statements

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

### Auditor’s responsibility

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2017, and the respective changes in financial

1801 Gateway Blvd., Ste. 212, Richardson, TX 75080  
Main: 214-660-2000 | Office: 972-234-3333 | Fax: 972-234-3331  
[www.vailcpas.com](http://www.vailcpas.com)

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

#### **Other matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information on pages 09–21 and 56–65 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 68-69 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 5, 2018 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.



Richardson, Texas  
February 5, 2018

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

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, 2017. Please read it in conjunction with the Town's financial statements, which begin on page 24.

**Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$14,009,808 (net position). Of this amount, \$3,724,220 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$2,394,839. Governmental activities increased their net position by 27% or \$1,826,451 and business type activities increased their net position by 11.7% or \$568,388.
- As of the close of the 2017 fiscal year, the Town's governmental funds reported a combined ending fund balance of \$11,112,352 (page 26), which is an increase of 88.7% or \$5,224,021 when compared with the prior year. The increase is mainly attributable to two events; first, the receipt of bond proceeds of \$6,990,000 and secondly, a reimbursement of \$1,170,000 from Denton County for the Dale Earnhardt Way road project.
- At the end of the fiscal year, unassigned fund balance for the general fund was a surplus of \$1,925,453 and is 63.0% of total general fund expenditures.
- During the fiscal year the Town issued debt in the amount of \$8,380,000 for roadway projects, heavy equipment and in refunding bonds for the series 2005 certificates of obligation. The Town reduced their debt by \$2,164,871 during the fiscal year through the course of regularly expected payments and by paying off the 2005 Certificates of Obligation.

**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 views of the Town through the use of government-wide statements, (pages 24 and 25), and fund financial statements, (pages 26 through 29). 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.

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**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.

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 24 through 25 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.

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Fund Financial Statements (continued)**

The Town maintains seven 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, Hotel/Motel Tax funds, Capital Projects and Debt Service.

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 58 through 64 in the Required Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 26 through 29 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 three internal service funds; one to account for its equipment purchases and equipment maintenance; the second internal service fund is utilized for maintenance of Town facilities; and the third is for technology resources. 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 30 through 32 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 33 through 53 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 56 through 65 of this report.

**Government-wide Financial Analysis**

In order for the Town to provide services to its citizens, the Town operates both governmental and business -type activities. Governmental activities provide services for public works, police, municipal courts, developmental and promotional services, and general governmental activities. The Town provides water and sewer utilities to its residents and these activities are known as business-type activities.

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. As of September 30, 2017, the Town of Northlake's assets exceeded liabilities by \$14,009,808. The overall net position of the Town increased by \$2,394,839 during fiscal year with business-type and governmental activities incurring increases in their net positions. When compared to the prior year, governmental activities net position increased 26.6.0% or \$1,826,451 while business type activities increased their net position by 11.7% or \$568,388.

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Government-wide Financial Analysis (continued)**

A portion of the business-type net position, \$4,258,425 or 78.73% 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.

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.

The following chart compares the Town's current net position to the prior fiscal years nets position for both governmental and business-type activities:

<i>Town of Northlake's Net Position</i>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
<b>Assets:</b>						
Current and Other Assets	\$ 12,777,065	\$ 6,815,194	\$ 2,333,944	\$ 1,824,892	\$ 15,111,009	\$ 8,640,086
Capital Assets	8,794,695	5,990,580	4,258,425	4,173,160	13,053,120	10,163,740
<b>Total Assets</b>	<b>21,571,760</b>	<b>12,805,774</b>	<b>6,592,369</b>	<b>5,998,052</b>	<b>28,164,129</b>	<b>18,803,826</b>
Deferred outflows of resources	262,925	240,528	54,338	47,244	317,263	287,772
	262,925	240,528	54,338	47,244	317,263	287,772
<b>Liabilities:</b>						
Long-term Liabilities Outstanding	12,304,534	5,647,313	756,967	895,935	13,061,501	6,543,248
Other Liabilities	667,530	369,756	480,573	308,582	1,148,103	678,338
<b>Total Liabilities</b>	<b>12,972,064</b>	<b>6,017,069</b>	<b>1,237,540</b>	<b>1,204,517</b>	<b>14,209,604</b>	<b>7,221,586</b>
Deferred inflows of resources	261,980	255,043	-	-	261,980	255,043
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	(3,159,736)	622,501	4,258,425	3,343,561	1,098,689	3,966,062
<i>Restricted for:</i>	-	-	-	-	-	-
Debt Service	126,531	249,740	-	-	126,531	249,740
Capital Projects	5,996,260	11,071	-	-	5,996,260	11,071
Court Technology, Security & Child Safety	250,722	250,910	-	-	250,722	250,910
Economic Development	612,391	595,579	-	-	612,391	595,579
Community Development	592,138	575,332	-	-	592,138	575,332
Promotional Activities	1,484,307	1,258,552	-	-	1,484,307	1,258,552
Public improvement	119,353	1,373,509	-	-	119,353	1,373,509
Other purposes	5,197	(1,385)	-	-	5,197	(1,385)
Unrestricted	2,573,478	1,838,381	1,150,742	1,497,218	3,724,220	3,335,599
<b>Total Net Assets</b>	<b>\$ 8,600,641</b>	<b>\$ 6,774,190</b>	<b>\$ 5,409,167</b>	<b>\$ 4,840,779</b>	<b>\$ 14,009,808</b>	<b>\$ 11,614,969</b>

The Town's unrestricted total net position of \$3,724,220 or 26.58% of total net position may be used to meet the Town's ongoing obligations to citizens and creditors.

As of September 30, 2017, 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.

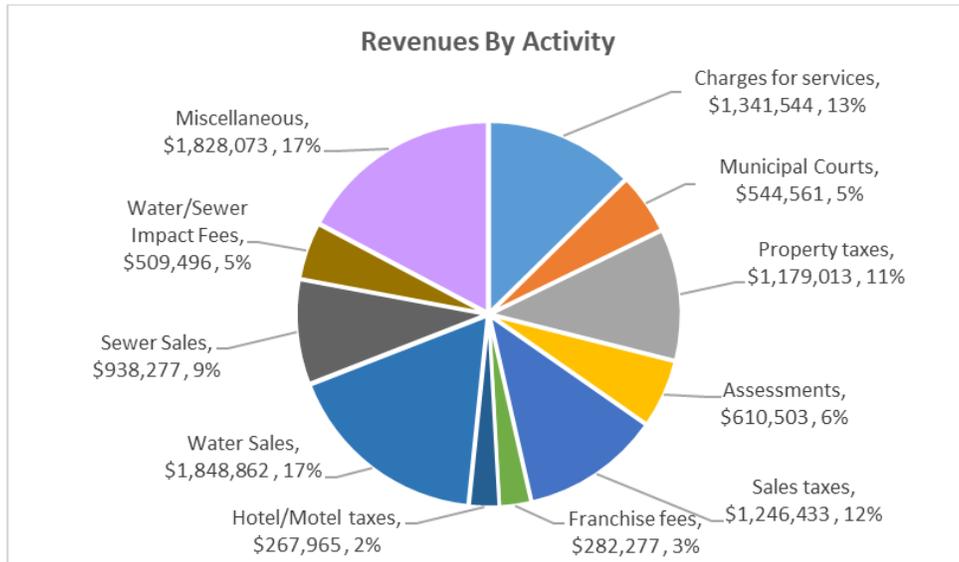
Town of Northlake, Texas  
 Management's Discussion and Analysis  
 September 30, 2017

**Government-wide Financial Analysis (continued)**

The increase in revenues of the Town is highlighted by the following activity:

- Miscellaneous revenues rose by 490.00% or \$1,297,816 due the receipt of \$1,170,000 from Denton County for their partnership in the Dale Earnhardt Way road project.
- Interest income rose by 178.91% or \$84,763 due to the receipt of \$6,990,000 in bond proceeds for roadway projects and heavy equipment.
- Business-type activities for water/sewer utilities increased by 26.47% or 692,77 due to both new residential and commercial development.
- Due to new housing starts and the improved economic conditions, building permits and other fees rose 26.36% or \$279,845 from the prior fiscal year.
- Overall, taxes increased \$178,482 or 6.38% and is mainly attributable to new homes in the Town and increases in property tax valuations.

The following chart depicts the Town's revenues by activity:

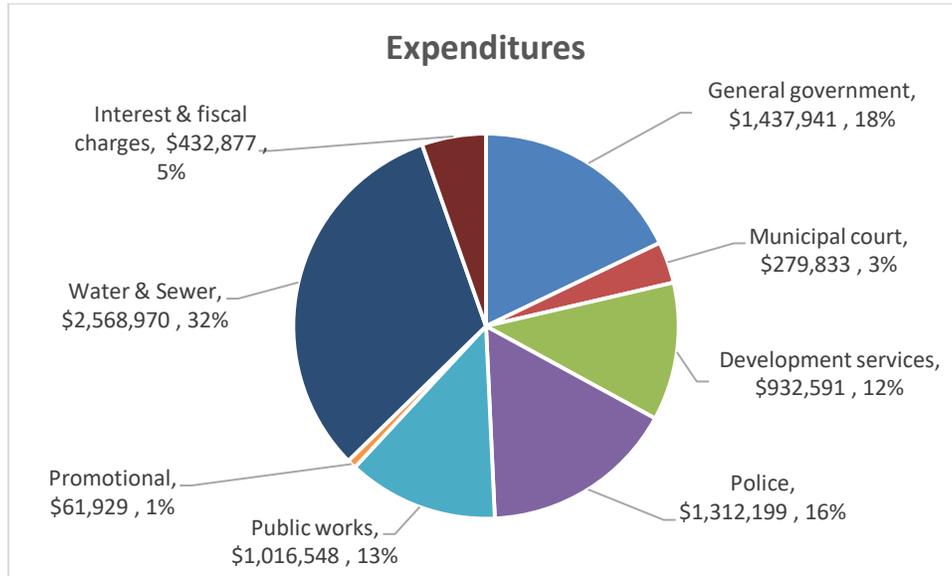


When compared with the prior fiscal year, government-wide expenditures increased 31.55% or \$1,929,075.

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Government-wide Financial Analysis (continued)**

Expenditures for governmental programs increased 21.64% or \$973,905 while business-type activities increased 59.19% or \$955,170. The following chart depicts government-wide expenditures for fiscal year 2017:



Increases in the Town's expenditures can be attributed to the following activities:

- Public Works had a 54.41% increase or \$358,196 in expense due to roadway project engineering fees.
- Developmental Services experienced a 46.59% or \$296,405 rise in expenditures due to the payment of incentives totaling \$272,500 for Farmer Bros. Co., Rosa's Café and Sonic. In addition, \$166,106 of construction sales taxes were reimbursed for the development of the Northport 35 industrial complex.
- The Town experienced a 70.46% or \$1,210,100 increase in capital expenditures for infrastructure and roadway projects during fiscal year 2017. Expenditures of \$1,300,000 occurred in The Highlands Public Improvement District for infrastructure and roadways. In addition, the Town completed the Dale Earnhardt Way road project and began work on the Florance Road and Cleveland-Gibbs roadway projects.
- The Town's Water/Sewer enterprise fund experienced expenditure increases of \$955,170 due to providing services for both new residential homes and commercial development.

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Government-wide Financial Analysis (continued)**

The following chart compares the Town's change in net position to the prior fiscal year n for both governmental and business-type activities:

<i>Town of Northlake's Changes in Net Position</i>						
	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,886,105	\$ 1,655,051	\$ 3,296,635	\$ 2,584,170	\$ 5,182,740	\$ 4,239,221
General Revenues:						
Property Taxes	1,179,013	922,534	-	-	1,179,013	922,534
PID Assessment	610,503	436,420	-	-	610,503	436,420
Sales Taxes	1,246,433	1,359,296	-	-	1,246,433	1,359,296
Franchise Taxes	282,277	257,563	-	-	282,277	257,563
Developer Contributions	-	-	-	-	-	-
Hotel/Motel Taxes	267,965	257,813	-	-	267,965	257,813
Interest on Investment	113,463	40,944	18,677	6,433	132,140	47,377
Miscellaneous	1,542,348	204,122	20,324	60,734	1,562,672	264,856
	<u>7,128,107</u>	<u>5,133,743</u>	<u>3,335,636</u>	<u>2,651,337</u>	<u>10,463,743</u>	<u>7,785,080</u>
Expenses:						
General Government	1,437,941	1,562,134	-	-	1,437,941	1,562,134
Municipal Court	279,833	238,250	-	-	279,833	238,250
Police	1,312,199	1,139,912	-	-	1,312,199	1,139,912
Public Works	1,016,548	658,352	-	-	1,016,548	658,352
Development Services	932,591	636,186	-	-	932,591	636,186
Promotional	61,929	38,233	-	-	61,929	38,233
Interest and fiscal charges	432,877	226,945	26,016	34,494	458,893	261,439
Water and Sewer	-	-	2,568,970	1,613,800	2,568,970	1,613,800
	<u>5,473,918</u>	<u>4,500,013</u>	<u>2,594,986</u>	<u>1,648,294</u>	<u>8,068,904</u>	<u>6,148,307</u>
Total Expenses						
Change in Net Assets Before Transfers	1,654,189	633,730	740,650	1,003,043	2,394,839	1,636,773
Transfers	172,262	146,629	(172,262)	(146,629)	-	-
Change in Net Assets	<u>1,826,451</u>	<u>780,359</u>	<u>568,388</u>	<u>856,414</u>	<u>2,394,839</u>	<u>1,636,773</u>
Net Assets 9/30 Prior Year	6,774,190	5,920,802	4,840,779	3,984,365	11,614,969	9,905,167
Prior Period Adjustment	-	73,029	-	-	-	73,029
Net Assets 9/30 Current Year	<u>\$ 8,600,641</u>	<u>\$ 6,774,190</u>	<u>\$ 5,409,167</u>	<u>\$ 4,840,779</u>	<u>\$ 14,009,808</u>	<u>\$ 11,614,969</u>

**Financial Analysis of the Government's Funds**

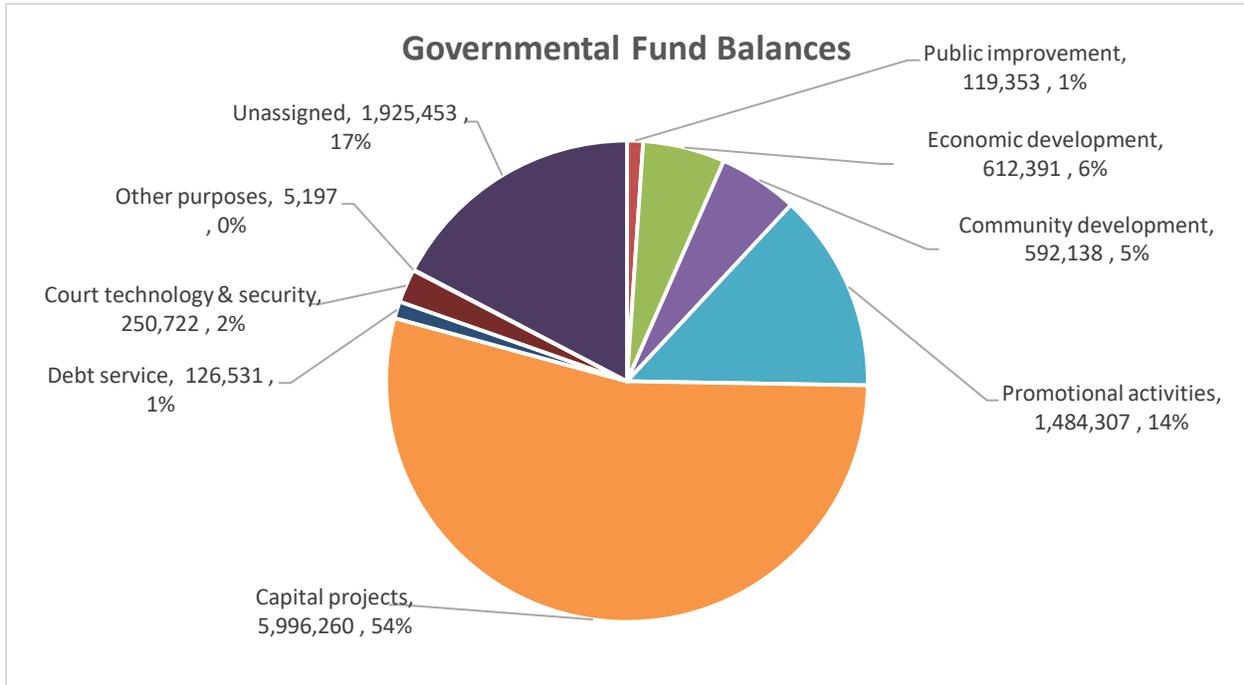
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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.

Town of Northlake, Texas  
 Management's Discussion and Analysis  
 September 30, 2017

**Financial Analysis of the Government's Funds (continued)**

At the end of the current fiscal year, the Town of Northlake's governmental funds reported combined ending fund balances of \$11,112,352. When compared to the prior fiscal year end, the combined fund balances experienced an increase of \$5,244,021 or an 88.72%. The increases to the fund balance have been discussed in the above sections. The following chart depicts the fund balances as of September 30, 2017:



Only 17% or \$1,925,453 of the Town's total governmental fund balance is unassigned and may be used, at the Mayor's and Council's discretion, for its citizens or creditors. The remaining governmental fund balances are restricted for specific purposes as follows:

**Restricted Governmental Fund Balances:**

Public improvement	\$ 119,353
Economic development	612,391
Community development	592,138
Promotional activities	1,484,307
Capital projects	5,996,260
Debt service	126,531
Court technology & security	250,722
Other purposes	5,197
Total Restricted Governmental Fund Balance	<u>\$ 9,186,899</u>

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

Town of Northlake, Texas  
 Management's Discussion and Analysis  
 September 30, 2017

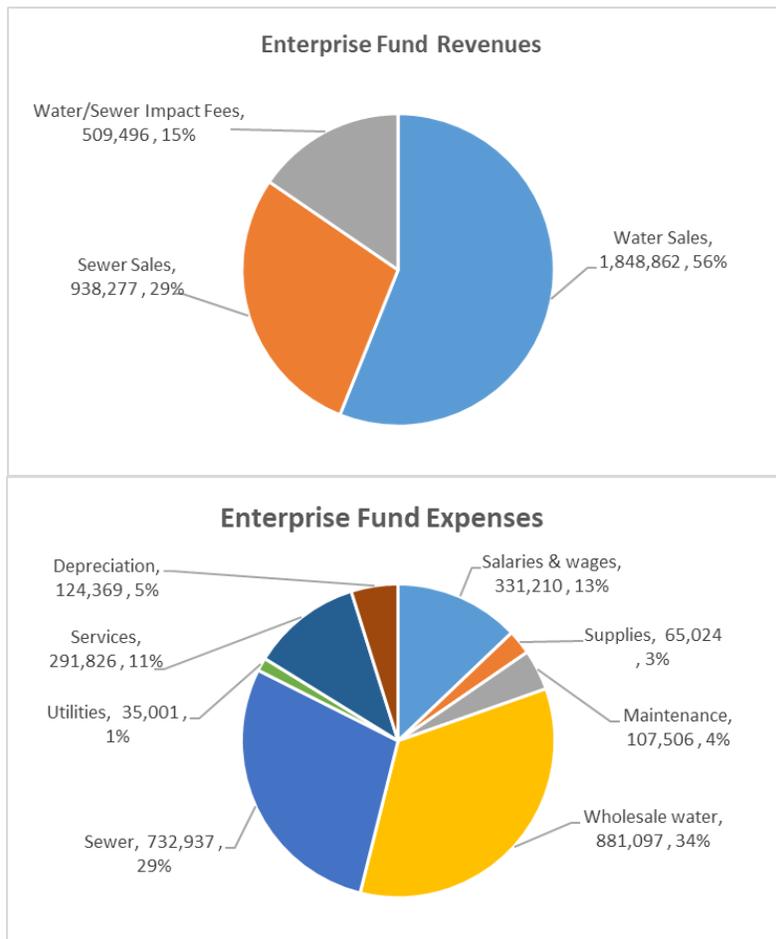
**Financial Analysis of the Government's Funds (continued)**

Total net position for business-type activities is \$5,409,167 and is comprised of \$1,150,742 or 21.27% in unrestricted net position while \$4,258,425 or 78.73% 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 decreased by \$346,476 or 23.14% 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.

The chart below depicts the revenues and expenditure of the Town's Enterprise Fund:



Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Financial Analysis of the Government's Funds (continued)**

**Internal Service Funds.** The Town has three internal service funds that are utilized to provide equipment and services to the departments of the Town. These funds are comprised of the Technology Internal Service Fund, Equipment Internal Service Fund and Building Service Fund. These internal service funds are maintained by budgeted quarterly transfers from the departments within the Town and by Town Council's approved funding for specific large purchases.

The Internal Service Funds of the Town are presented as a component of the Proprietary Funds. Similar to business-type activities, internal service funds net investment in capital assets are used to provide services to the departments of the Town and are not available for future spending. As of September 30, 2017, the internal service funds of the Town had the following net positions:

**Internal Service Funds Net Position**

<b>Fund Name</b>	<b>Fund Balance</b>
Technology Fund	\$ 89,719
Equipment Fund	788,212
Building Services Fund	<u>579,904</u>
Subtotal	\$ 1,457,835
<b>Net Position</b>	
Net investment in capital assets	691,623
Unrestricted	<u>766,212</u>
Total net position	<u>\$ 1,457,835</u>

The unrestricted net position of the internal service funds is \$766,212 which represents an increase of \$480,215 or 167.91% from the prior year. This increase is attributable to prefunding the finish out of future Town facilities and technology improvements.

**Capital Asset and Debt Administration**

**Capital Assets.** As of September 30, 2017, the Town's investment in capital assets for its governmental and business-type activities amounts to \$13,053,119 (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. When compared to the prior fiscal year end, total investment of the Town in capital assets increased 28.43% or \$2,889,379.

Major capital asset events during fiscal year 2017 included the following:

- Roadway improvements for Sam Lee Lane, Cleveland-Gibbs Road and Florance Road.
- Roadway and infrastructure improvements in The Highlands Public Improvement District.
- Purchase of Police Department ticket writers, radios, cameras and software.
- New computer server and storage network.
- Three new vehicles; one for the Public Works Department and two for the Police Department.
- Purchase of radio read meters for new homes and commercial development (ongoing project).

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Capital Asset and Debt Administration (continued)**

The chart below illustrates the Town's capital assets, net of accumulated depreciation:

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

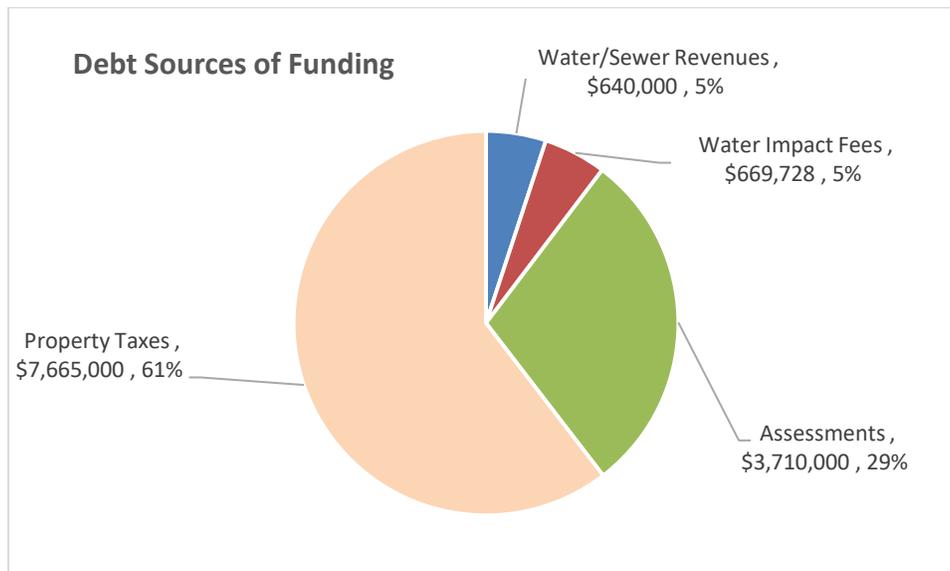
	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Land	\$ 2,770,951	\$ 2,770,951	\$ 97,567	\$ 97,567	\$ 2,868,518	\$ 2,868,518
Construction in Progress	317,927	-	-	588,040	317,927	588,040
Buildings and Improvements	158,701	180,751	26,248	27,421	184,949	208,172
Automobiles	660,543	403,437	-	844	660,543	404,280
Equipment	118,161	64,443	-	-	118,161	64,443
Infrastructure	4,768,410	2,570,998	-	-	4,768,410	2,570,998
Water and Dewer System	-	-	4,134,610	3,459,288	4,134,610	3,459,288
<b>Total</b>	<b>\$ 8,794,693</b>	<b>\$ 5,990,580</b>	<b>\$ 4,258,425</b>	<b>\$ 4,173,160</b>	<b>\$ 13,053,118</b>	<b>\$ 10,163,740</b>

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

**Long-term Debt.** At the end of the current fiscal year, the Town had total debt of \$12,309,728 of which \$12,015,175 are Certificates of Obligation. When compared to the prior fiscal year, the Town's total debt increased by \$6,215,129. The increase is due to the issuance of \$6,990,000 in certificates of obligation for roadway projects and heavy equipment and the issuance of \$1,390,000 refunding bonds.

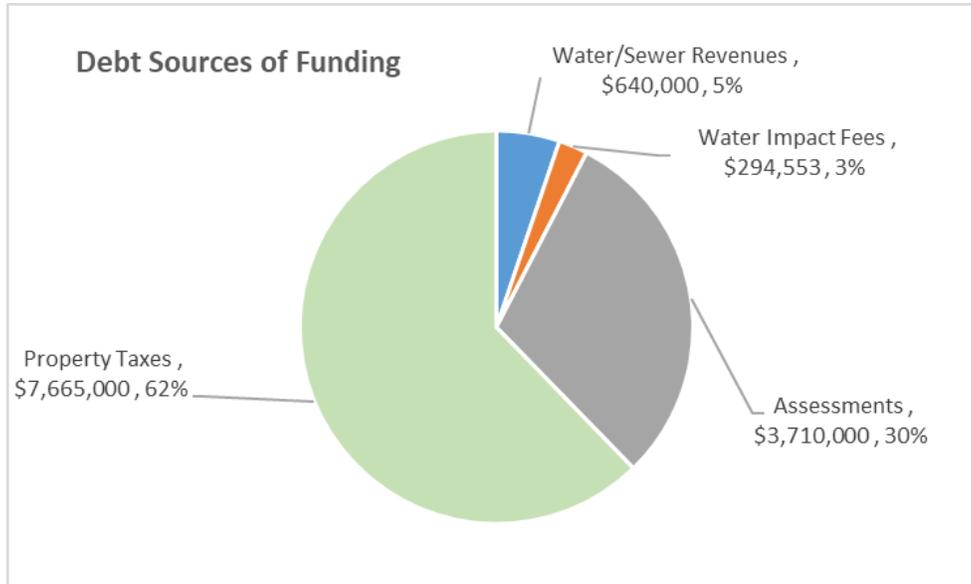
The refunding bonds were issued to retire the 2005 series bond issuance. The improved interest rate is anticipated to save the Town \$183,933 in interest expense.

The following charts illustrates the purpose of the Town's debt and the revenue sources utilized to pay for the outstanding debt:



Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Capital Asset and Debt Administration (continued)**



During the fiscal year, the Town retired \$2,164,871 in debt. Regularly scheduled annual principal and interest payments were made in a timely manner.

The following table represents the outstanding debt of the Town:

	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note Payable	-	-	294,553	439,478	294,553	439,478
Certificates of Obligation	11,640,000	5,265,000	375,175	390,121	12,015,175	5,655,121
<b>Total</b>	<b>\$ 11,640,000</b>	<b>\$ 5,265,000</b>	<b>\$ 669,728</b>	<b>\$ 829,599</b>	<b>\$ 12,309,728</b>	<b>\$ 6,094,599</b>

Additional information on the Town's long-term debt can be found in Note 5 of this report on page 43.

**Governmental Funds Budgetary Highlights**

The Town anticipated the general fund balance to increase by the end of fiscal year by \$87,432, from \$1,575,023 to \$1,662,455. The actual results of the fiscal year activity saw an increase of \$350,430 in fund balance for an ending fund balance of \$1,925,453. This variance is mainly attributable to two vacancies in the Police Department. The Town does not anticipate that this trend will continue during fiscal year 2018.

The Public Improvement Districts of the Town experienced a budget variance of (\$1,280,931) due to the payment of \$1,300,000 for infrastructure and roadway improvements in The Highlands Public Improvement District. The completion of these projects was not anticipated until fiscal year 2018.

Town of Northlake, Texas  
Management's Discussion and Analysis  
September 30, 2017

**Governmental Funds Budgetary Highlights (continued)**

The Type A Economic Development Corp. and the Type B Community Development Corporation of the Town ended the fiscal year with combined positive budget variance of \$222,167. This is due to a comprehensive market retail study being delayed until fiscal year 2018.

When compared to budget expectations, the Capital Projects Fund experienced increase in fund balance of \$785,189 that was not anticipated. This is due to Denton County paying \$1,170,000 for their partnership in the Dale Earnhardt Way road project.

By the end of fiscal year 2017, the Hotel Motel Tax Fund balance experienced a better than expected increase in fund balance by \$28,624. The increase is from less police personnel being utilized for special events.

Details regarding budgetary variances can be found beginning on page 58.

**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 2017-2018. 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 2017-2018. 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 2018.

Water and sewer fund revenues are expected to be higher than fiscal year 2017-2018 due to additional customers. In order to maintain service levels with the increase in new customers, expenditures are expected to rise in fiscal year 2018. 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 2018.

**Request for Information**

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

THIS PAGE IS LEFT INTENTIONALLY BLANK

## BASIC FINANCIAL STATEMENTS

Town of Northlake, Texas  
Statement of Net Position  
September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 12,057,881	\$ 1,719,998	\$ 13,777,879
Receivables (net of allowance for uncollectibles)	399,088	324,038	723,126
Prepaid expense	4,376	1,794	6,170
Loan receivable	294,553	-	294,553
Other assets	21,167	288,114	309,281
Capital Assets (net of accumulated depreciation):			
Land	3,088,878	97,567	3,186,445
Buildings and improvements	158,701	26,248	184,949
Automobiles	660,544	-	660,544
Equipment	118,161	-	118,161
Infrastructure	4,768,411	-	4,768,411
Water and sewer system	-	4,134,610	4,134,610
Total assets	<u>21,571,760</u>	<u>6,592,369</u>	<u>28,164,129</u>
<b>Deferred outflows of resources</b>			
Deferred outflows of resources	<u>262,925</u>	<u>54,338</u>	<u>317,263</u>
Total deferred outflows of resources	262,925	54,338	317,263
<b>Liabilities</b>			
Accounts payable	583,416	171,401	754,817
Accrued liabilities	84,114	309,172	393,286
Noncurrent liabilities:			
Net pension liabilities	350,103	77,296	427,399
Due within one year	549,288	319,180	868,468
Due in more than one year (net of unamortized bond premium)	<u>11,405,143</u>	<u>360,491</u>	<u>11,765,634</u>
Total liabilities	<u>12,972,064</u>	<u>1,237,540</u>	<u>14,209,604</u>
<b>Deferred inflows of resources</b>			
Deferred inflows of resources	<u>261,980</u>	-	<u>261,980</u>
Total deferred inflows of resources	261,980	-	261,980
<b>Net Position</b>			
Invested in capital assets, net of related debt	(3,159,736)	4,258,425	1,098,689
Restricted for:			
Public improvement	119,353	-	119,353
Economic development	612,391	-	612,391
Community development	592,138	-	592,138
Promotional activities	1,484,307	-	1,484,307
Capital projects	5,996,260	-	5,996,260
Debt service	126,531	-	126,531
Court technology, security & child safety	250,722	-	250,722
Other purposes	5,197	-	5,197
Unrestricted	<u>2,573,478</u>	<u>1,150,742</u>	<u>3,724,220</u>
Total net position	<u>\$ 8,600,641</u>	<u>\$ 5,409,167</u>	<u>\$ 14,009,808</u>

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

Town of Northlake, Texas  
Statement of Activities  
Year Ended September 30, 2017

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,437,941	\$ 1,341,544	\$ -	\$ -	\$ (96,397)	\$ -	\$ (96,397)
Municipal court	279,833	544,561	-	-	264,728	-	264,728
Development services	932,591	-	-	-	(932,591)	-	(932,591)
Police	1,312,199	-	-	-	(1,312,199)	-	(1,312,199)
Public works	1,016,548	-	-	-	(1,016,548)	-	(1,016,548)
Promotional	61,929	-	-	-	(61,929)	-	(61,929)
Interest and fiscal charges	432,877	-	-	-	(432,877)	-	(432,877)
Total governmental activities	5,473,918	1,886,105	-	-	(3,587,813)	-	(3,587,813)
Business-type activities:							
Water and sewer	2,568,970	3,296,635	-	-	-	727,665	727,665
Interest and fiscal charges	26,016	-	-	-	-	(26,016)	(26,016)
Total business-type activities	2,594,986	3,296,635	-	-	-	701,649	701,649
Total primary government	\$ 8,068,904	\$ 5,182,740	\$ -	\$ -	\$ (3,587,813)	\$ 701,649	\$ (2,886,164)
General revenues:							
Taxes							
Property taxes					1,179,013	-	1,179,013
Sales taxes					1,246,433	-	1,246,433
Franchise taxes					282,277	-	282,277
Hotel/Motel taxes					267,965	-	267,965
Interest					113,463	18,677	132,140
Assessment					610,503	-	610,503
Miscellaneous					1,542,348	20,324	1,562,672
Transfers					172,262	(172,262)	-
Total general revenues and transfers					5,414,264	(133,261)	5,281,003
Change in net position					1,826,451	568,388	2,394,839
Net position - beginning					6,774,190	4,840,779	11,614,969
Net position - ending					\$ 8,600,641	\$ 5,409,167	\$ 14,009,808

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

Town of Northlake, Texas  
Balance Sheet - Governmental Funds  
September 30, 2017

	General Fund	Public Improvement Districts Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Capital Projects Fund	Debt Service Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Assets</b>									
Cash and cash equivalents	\$ 2,160,606	\$ 140,767	\$ 563,700	\$ 543,498	\$ 1,161,720	\$ 6,314,199	\$ 146,943	\$ 256,188	\$ 11,287,621
Receivables:									
Property taxes, net	6,683	-	-	-	-	-	3,373	-	10,056
Sales taxes	91,921	-	45,970	45,970	-	-	-	-	183,861
Franchise taxes	82,085	-	-	-	-	-	-	-	82,085
Hotel/Motel taxes	-	-	-	-	28,322	-	-	-	28,322
Municipal court receivable, net	10,001	-	-	-	-	-	-	-	10,001
Other accounts receivable	79,784	-	-	-	-	-	-	-	79,784
Assessment	-	4,979	-	-	-	-	-	-	4,979
Loan receivable	-	-	-	-	294,553	-	-	-	294,553
Other assets	3,085	-	2,736	2,685	-	-	-	12,661	21,167
<b>Total assets</b>	<b>2,434,165</b>	<b>145,746</b>	<b>612,406</b>	<b>592,153</b>	<b>1,484,595</b>	<b>6,314,199</b>	<b>150,316</b>	<b>268,849</b>	<b>12,002,429</b>
<b>Liabilities and Fund Balance</b>									
Liabilities:									
Accounts payable	277,543	-	15	15	16	296,900	-	503	574,992
Accrued liabilities	-	21,345	-	-	272	-	19,988	1,176	42,781
Deferred revenue	231,169	5,048	-	-	-	21,039	3,797	11,251	272,304
<b>Total liabilities</b>	<b>508,712</b>	<b>26,393</b>	<b>15</b>	<b>15</b>	<b>288</b>	<b>317,939</b>	<b>23,785</b>	<b>12,930</b>	<b>890,077</b>
Fund balance:									
Restricted for									
Public improvement	-	119,353	-	-	-	-	-	-	119,353
Economic development	-	-	612,391	-	-	-	-	-	612,391
Community development	-	-	-	592,138	-	-	-	-	592,138
Promotional activities	-	-	-	-	1,484,307	-	-	-	1,484,307
Capital projects	-	-	-	-	-	5,996,260	-	-	5,996,260
Debt service	-	-	-	-	-	-	126,531	-	126,531
Court technology and security	-	-	-	-	-	-	-	250,722	250,722
Other purposes	-	-	-	-	-	-	-	5,197	5,197
Unassigned	1,925,453	-	-	-	-	-	-	-	1,925,453
<b>Total fund balance</b>	<b>1,925,453</b>	<b>119,353</b>	<b>612,391</b>	<b>592,138</b>	<b>1,484,307</b>	<b>5,996,260</b>	<b>126,531</b>	<b>255,919</b>	<b>11,112,352</b>
<b>Total liabilities and fund balance</b>	<b>\$ 2,434,165</b>	<b>\$ 145,746</b>	<b>\$ 612,406</b>	<b>\$ 592,153</b>	<b>\$ 1,484,595</b>	<b>\$ 6,314,199</b>	<b>\$ 150,316</b>	<b>\$ 268,849</b>	<b>\$ 12,002,429</b>

*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, 2017

Total fund balances - governmental funds	\$ 11,112,352
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.	8,103,072
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	10,324
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.	262,925
Interest payable on long term debt does not require current financial resources; therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(41,333)
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.	(12,304,534)
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>1,457,835</u>
Net position of governmental activities	<u><u>\$ 8,600,641</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, 2017

	General Fund	Public Improvement Districts Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Capital Projects Fund	Debt Service Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>									
Taxes:									
Property	\$ 744,911	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408,634	\$ 36,896	\$ 1,190,441
Sales and beverage	623,492	-	311,471	311,470	-	-	-	-	1,246,433
Franchise	282,277	-	-	-	-	-	-	-	282,277
Hotel/Motel	-	-	-	-	267,965	-	-	-	267,965
Building permits, plant and other fees	1,341,544	-	-	-	-	-	-	-	1,341,544
Municipal court	592,248	-	-	-	-	-	-	-	592,248
Interest income	4,487	8,857	1,058	1,031	17,407	65,504	1,216	3,675	103,235
Assessment	-	610,503	-	-	-	-	-	-	610,503
Miscellaneous	150,262	-	21,990	21,990	-	1,206,407	55	49,660	1,450,364
Total revenues	<u>3,739,221</u>	<u>619,360</u>	<u>334,519</u>	<u>334,491</u>	<u>285,372</u>	<u>1,271,911</u>	<u>409,905</u>	<u>90,231</u>	<u>7,085,010</u>
<b>Expenditures</b>									
Current:									
General government	739,626	297,641	-	-	-	138,800	-	30,314	1,206,381
Municipal court	235,974	-	-	-	-	-	-	39,554	275,528
Development services	386,394	-	273,129	273,068	-	-	-	-	932,591
Police	1,227,348	-	-	-	31,666	-	-	4,312	1,263,326
Public works	466,097	-	-	-	-	214,995	-	-	681,092
Promotional	-	-	17,839	17,878	26,212	-	-	-	61,929
Capital outlay	-	1,300,000	-	-	-	1,617,927	-	9,657	2,927,584
Debt service:									
Principal	-	165,000	-	-	-	-	1,840,000	-	2,005,000
Interest and fiscal charges	-	110,875	-	-	-	-	348,401	-	459,276
Total expenditures	<u>3,055,439</u>	<u>1,873,516</u>	<u>290,968</u>	<u>290,946</u>	<u>57,878</u>	<u>1,971,722</u>	<u>2,188,401</u>	<u>83,837</u>	<u>9,812,707</u>
Excess (deficiency) of revenues over expenditures	683,782	(1,254,156)	43,551	43,545	227,494	(699,811)	(1,778,496)	6,394	(2,727,697)
<b>Other financing sources (uses)</b>									
Proceeds of long-term debt	-	-	-	-	-	-	8,380,000	-	8,380,000
Premium on bond	-	-	-	-	-	-	215,287	-	215,287
Transfers in	200,000	-	-	-	-	6,685,000	50,000	-	6,935,000
Transfers out	(533,352)	-	(26,739)	(26,739)	(1,739)	-	(6,990,000)	-	(7,578,569)
Total other financing sources (uses)	<u>(333,352)</u>	<u>-</u>	<u>(26,739)</u>	<u>(26,739)</u>	<u>(1,739)</u>	<u>6,685,000</u>	<u>1,655,287</u>	<u>-</u>	<u>7,951,718</u>
Net change in fund balances	350,430	(1,254,156)	16,812	16,806	225,755	5,985,189	(123,209)	6,394	5,224,021
Fund balances - beginning	1,575,023	1,373,509	595,579	575,332	1,258,552	11,071	249,740	249,525	5,888,331
Fund balances - ending	<u>\$ 1,925,453</u>	<u>\$ 119,353</u>	<u>\$ 612,391</u>	<u>\$ 592,138</u>	<u>\$ 1,484,307</u>	<u>\$ 5,996,260</u>	<u>\$ 126,531</u>	<u>\$ 255,919</u>	<u>\$ 11,112,352</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, 2017

Net changes in fund balances - total governmental funds	\$ 5,224,021
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.</p>	2,927,584
<p>Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>	(465,321)
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	(6,575,927)
<p>Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>	(10,425)
<p>Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	12,039
<p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.</p>	(59,115)
<p>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.</p>	(48,472)
<p>Internal service funds are used by management to charge the costs of equipment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>	<u>822,067</u>
Change in net position of governmental activities	<u>\$ 1,826,451</u>

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

Town of Northlake, Texas  
Statement of Net Position  
Proprietary Funds  
September 30, 2017

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Water and Sewer</u>	<u>Equipment</u>
<b>Assets</b>		
Current assets:		
Deposits and investments	\$ 1,719,998	\$ 770,260
Accounts receivable, net	324,038	-
Prepaid expense	1,794	4,376
Other current assets	114	-
Total current assets	<u>2,045,944</u>	<u>774,636</u>
Non-current assets:		
Other assets	288,000	-
Property, plant and equipment:		
Land	97,567	-
Buildings and improvements	35,211	18,934
Equipment	4,925	133,458
Automobiles	42,214	938,025
Water and sewer system	4,729,892	-
	<u>4,909,809</u>	<u>1,090,417</u>
Less: accumulated depreciation	651,384	398,794
Net property, plant and equipment	<u>4,258,425</u>	<u>691,623</u>
Total Assets	6,592,369	1,466,259
<b>Deferred outflows of resources</b>		
Deferred outflow of resources	54,338	-
Total deferred outflows of resources	<u>54,338</u>	<u>-</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	171,401	8,424
Accrued liabilities	309,172	-
Note payable	294,553	-
Certificates of obligation	20,000	-
Compensated absences	4,627	-
Total current liabilities	<u>799,753</u>	<u>8,424</u>
Noncurrent liabilities:		
Net pension liabilities	77,296	-
Certificates of obligation	355,175	-
Compensated absences	5,316	-
Total Liabilities	<u>1,237,540</u>	<u>8,424</u>
<b>Net position</b>		
Net investment in capital assets	4,258,425	691,623
Unrestricted	1,150,742	766,212
Total Net Position	<u>\$ 5,409,167</u>	<u>\$ 1,457,835</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, 2017

	Business Type Activities - Enterprise Fund <u>Water and Sewer</u>	Governmental Activities - Internal Service Funds <u>Equipment</u>
Operating revenues:		
Water and sewer service	\$ 3,296,635	\$ -
Equipment service revenue	-	260,000
Total operating revenues	<u>3,296,635</u>	<u>260,000</u>
Operating expenses:		
Operating expenses	2,444,601	182,919
Depreciation	124,369	174,562
Total operating expenses	<u>2,568,970</u>	<u>357,481</u>
Operating income (loss)	<u>727,665</u>	<u>(97,481)</u>
Nonoperating revenues (expenses):		
Interest income (expense)	(7,339)	10,228
Miscellaneous revenue (expense)	20,324	93,489
Total nonoperating revenues	<u>12,985</u>	<u>103,717</u>
Income (loss) before transfers	740,650	6,236
Transfers in	-	815,831
Transfers out	<u>(172,262)</u>	<u>-</u>
Change in net position	568,388	822,067
Net position - beginning	<u>4,840,779</u>	<u>635,768</u>
Net position - ending	<u>\$ 5,409,167</u>	<u>\$ 1,457,835</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, 2017

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
<b>Operating Activities</b>		
Cash received from customers	\$ 3,230,532	\$ 260,000
Cash payments to suppliers for goods and services	(2,175,792)	(166,349)
Net cash provided by operating activities	1,054,740	93,651
<b>Noncapital Financing Activities</b>		
Transfers from other funds	-	815,831
Transfers to other funds	(172,262)	-
Net cash used in noncapital financing activities	(172,262)	815,831
<b>Capital and Related Financing Activities</b>		
Proceed from insurance	20,324	93,489
Payments on note	(181,261)	-
Net cash used in capital and related financing activities	(160,937)	93,489
<b>Investing Activities</b>		
Capital expenditures	(209,634)	(516,414)
Interest received	18,678	10,228
Net cash provided by investing activities	(190,956)	(506,186)
Net increase in cash and cash equivalents	530,585	496,785
Cash and cash equivalents - beginning	1,189,413	273,475
Cash and cash equivalents - ending	1,719,998	770,260
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	727,665	(97,481)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	124,369	174,562
Change in assets and liabilities:		
Accounts receivable	(66,103)	-
Deferred outflow of resources	(7,094)	-
Other assets	87,636	8,917
Net pension liability	18,137	-
Accounts payable and accrued liabilities	170,130	7,653
Net cash provided by (used in) operating activities	\$ 1,054,740	\$ 93,651

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

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**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, 2017

**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, 2017

**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.

**Capital Projects Fund**

The Capital Projects Fund is used to account and track major governmental projects of the Town. Funds are restricted for expenditures associated with specific projects.

**Debt Service Fund**

The Debt Service Fund is utilized to service interest and principal payments on the Town's debt. Property taxes are the source of funding to pay for the debt and is a component of the total property tax rate levied by the Town.

**Other Non Major Funds**

The Other Non Major Funds are used to account for special revenue 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.

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**Water and Sewer Fund (continued)**

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.

**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.

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

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

**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.

**Taxes**

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

**Cash and Cash Equivalents**

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

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

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

**Inventories and Prepaid Items**

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

**Interfund Receivables and Payables**

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

**Transactions between Funds**

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

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

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

**Pensions**

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

**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.

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

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

**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.

**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, 2017, the Town had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Logic	\$ 11,180,464	45 days
Wells Fargo	\$ 2,136,300	0 days

As of September 30, 2017, the Town did not invest in any securities that are highly sensitive to interest rate fluctuations.

**B. Disclosures Relating to Credit Risk**

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2017</u>
Logic	\$ 11,180,464	AAA	AAA
Wells Fargo	\$ 2,136,300	AAA	AAA

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

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

**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, 2017, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

**D. Custodial Credit Risk**

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

At September 30, 2017, the carrying amount of the Town's cash on hand and deposits were \$13,775,574 and the bank balance was \$14,056,642. 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, 2017, including the applicable allowances for uncollectible accounts, are presented below:

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**3. Accounts Receivable (continued)**

	General Fund		Public Improvement Districts Fund	Debt Service Fund	Enterprise Fund Water and Sewer
	Property Tax Receivable	Municipal Court Receivable	Assessment Receivable	Property Tax Receivable	Accounts Receivable
Gross receivables	\$ 13,754	\$ 33,337	\$ 4,991	\$ 4,507	\$ 333,079
Less: allowance for uncollectibles	(7,071)	(23,336)	(12)	(1,134)	(9,041)
Net receivables	<u>\$ 6,683</u>	<u>\$ 10,001</u>	<u>\$ 4,979</u>	<u>\$ 3,373</u>	<u>\$ 324,038</u>

**4. Capital Assets**

Capital asset activity for the year ended September 30, 2017, was as follows:

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,770,951	\$ 317,927	\$ -	\$ 3,088,878
Total capital assets not being depreciated	2,770,951	317,927	-	3,088,878
Capital assets being depreciated				
Buildings and improvements	332,084	-	-	332,084
Automobiles	1,034,048	432,983	-	1,467,031
Equipment	287,019	93,088	-	380,107
Infrastructure	5,020,410	2,600,000	-	7,620,410
Total capital assets being depreciated	6,673,561	3,126,071	-	9,799,632
Less: accumulated depreciation				
Buildings and improvements	151,333	22,050	-	173,383
Automobiles	630,612	175,876	-	806,488
Equipment	222,577	39,369	-	261,946
Infrastructure	2,449,412	402,587	-	2,851,999
Total accumulated depreciation	3,453,934	639,882	-	4,093,816
Total capital assets being depreciated, net	3,219,627	2,486,189	-	5,705,816
Governmental activities capital assets, net	<u>\$ 5,990,578</u>	<u>\$ 2,804,116</u>	<u>\$ -</u>	<u>\$ 8,794,694</u>

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**4. Capital Assets (continued)**

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 97,567	\$ -	\$ -	\$ 97,567
Construction in progress	588,040	-	(588,040)	-
Total capital assets not being depreciated	685,607	-	(588,040)	97,567
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	3,932,218	797,674	-	4,729,892
Total capital assets being depreciated	4,014,568	797,674	-	4,812,242
Less: accumulated depreciation				
Buildings and improvements	7,790	1,173	-	8,963
Equipment	4,081	844	-	4,925
Automobiles	42,214	-	-	42,214
Water and sewer system	472,930	122,352	-	595,282
Total accumulated depreciation	527,015	124,369	-	651,384
Total capital assets being depreciated, net	3,487,553	673,305	-	4,160,858
Business-type capital assets, net	<u>\$ 4,173,160</u>	<u>\$ 673,305</u>	<u>\$ (588,040)</u>	<u>\$ 4,258,425</u>

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

Governmental activities	
General Government	\$ 129,009
Municipal Court	4,305
Police	120,996
Public Works	385,572
Total Governmental Depreciation Expense	<u>\$ 639,882</u>
Business-type activities	
Water and sewer	\$ 77,355
Water & Sewer Capital Projects	47,014
Total Business-type depreciation expense	<u>\$ 124,369</u>

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**5. Long-term Debt**

Amounts payable at September 30, 2017 are comprised of the following individual issues:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Certificates of Obligation \$4,170,000 Series 2014A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$160,000 to \$285,000 through August 15, 2034, with interest at 2%	<u>\$ 3,710,000</u>	<u>\$ -</u>
Certificates of Obligation \$420,000 Series 2014B Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$15,000 to \$25,000 through August 15, 2034, with interest at 3%	<u>\$ -</u>	<u>\$ 375,175</u>
Certificates of Obligation \$6,990,000 Series 2016 Combination Tax and Revenue certificates of Obligation, due in annual installments of \$220,000 to \$440,000 through April 15, 2036, with interest at 2.00%	<u>\$ 6,675,000</u>	<u>\$ -</u>
Certificates of Obligation \$1,390,000 Series 2016 General Obligation Refunding Bonds, due in annual installments of \$135,000 to \$175,000 through April 15, 2025, with interest at 2.00%	<u>\$ 1,255,000</u>	<u>\$ -</u>
Note Payable \$588,050 note payable due in annual installments of \$8,657 to \$294,553 through September 1, 2018, with interest at 3.5%	<u>\$ -</u>	<u>\$ 294,553</u>

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2017:

	<u>Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of Year</u>	<u>Within One Year</u>
<b>Governmental Activities</b>					
Certificates of Obligation	\$ 5,265,000	\$ 8,380,000	\$ 2,005,000	\$ 11,640,000	\$ 525,000
Compensated Absences	103,079	89,317	78,892	113,504	24,288
Total governmental activities	<u>5,368,079</u>	<u>8,469,317</u>	<u>2,083,892</u>	<u>11,753,504</u>	<u>549,288</u>
<b>Business-type Activities</b>					
Certificates of Obligation	390,121	-	14,946	375,175	20,000
Note Payable	439,478	-	144,925	294,553	294,553
Compensated Absences	7,177	14,953	12,187	9,943	4,627
Total business-type activities	<u>\$ 836,776</u>	<u>\$ 14,953</u>	<u>\$ 172,058</u>	<u>\$ 679,671</u>	<u>\$ 319,180</u>

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

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

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2017, are as follows:

Certificates of Obligations	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 525,000	\$ 277,638	\$ 20,000	\$ 10,581	\$ 833,219
2019	540,000	267,138	20,000	10,181	837,319
2020	600,000	256,338	20,000	9,781	886,119
2021	660,000	244,338	20,000	9,381	933,719
2022	690,000	231,138	20,000	8,981	950,119
2023-2027	3,225,000	936,925	100,000	37,556	4,299,481
2028-2032	3,140,000	562,169	125,000	21,188	3,848,356
2033-2037	2,260,000	138,763	50,175	2,688	2,451,625
	<u>\$ 11,640,000</u>	<u>\$ 2,914,444</u>	<u>\$ 375,175</u>	<u>\$ 110,338</u>	<u>\$ 15,039,956</u>

Notes Payable	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ -	\$ -	\$ 294,553	\$ 10,453	\$ 305,006

**Defeasance of Debt**

In September 2016 the Town issued \$1,390,000 General Obligation Refunding Bonds, Series 2016. Total proceeds received from this bond issuance was \$1,433,942 and was used as follows: (1) \$1,381,870 paid to escrow agent to refund \$1,350,000 of Series 2005 bonds; (2) \$52,072 was paid in bond issuance costs; and (3) \$43,942 was received as a premium from the sale of the bonds.

The advanced refunding was undertaken to reduce total debt service payments by \$183,933 and resulted in an economic gain (difference between present value of debt service payments of old debt and new debt) of approximately \$177,938. The refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from long-term debt.

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**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, 2017, this note payable was paid off.

**7. Fund Balances**

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

- Non-spendable 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, 2017

**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	\$ 150,000
General Fund	4A Fund	25,000
General Fund	4B Fund	25,000
		<u>200,000</u>
Debt Service Fund	General Fund	50,000
Building Fund	General Fund	383,352
Building Fund	Hotel Motel Fund	1,739
Building Fund	4A Fund	1,739
Building Fund	4B Fund	1,739
Building Fund	Water and Sewer Fund	22,262
Capital Projects Fund	Debt Service Fund	6,685,000
Equipment Service Fund	Debt Service Fund	305,000
Technology Services Fund	General Fund	100,000
Equipment Service Fund	General Fund	135,000
Equipment Service Fund	Water and Sewer Fund	125,000
		<u>\$ 7,810,831</u>

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2017.

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**9. Defined Benefit Pension Plan**

**Plan Description**

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

All eligible employees of the town 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 Town, within the options available in the state statutes governing TMRS.

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

Plan provisions for the Town were as follows:

	<u>Plan Year 2017</u>
Employee deposit rate	7%
Matching ratio (Town to Employee)	2 to 1
Years required for vesting	5 yrs
Retirement Eligibility (Age/Service)	60/5, 0/25
Updated Service Credit	100% Repeating Transfers
Annuity to Increase (to retirees)	0% of CPI
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**Benefits Provided (continued)**

*Employees covered by benefit terms*

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	2016
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	19
Active employees	27
Total	50

**Contributions**

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

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 9.09% and 9.58% in calendar years 2016 and 2017, respectively. The town's contributions to TMRS for the year ended September, 30 2017, were \$173,585, and were equal to the required contributions.

**Net Pension Liability**

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

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

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**Net Pension Liability (continued)**

***Actuarial assumptions***

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.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, 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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**Net Pension Liability (continued)**

***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.

***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 (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 1,964,940	\$ 1,626,539	\$ 338,401
Changes for the year:			
Service cost	256,814	-	256,814
Interest	140,867	-	140,867
Changes in current period benefits	-	-	-
Difference between expected and actual experience	62,182	-	62,182
Changes in assumptions	-	-	-
Contributions - employer	-	147,406	(147,406)
Contributions - employee	-	114,649	(114,649)
Net investment income	-	110,118	(110,118)
Benefit payments, including refunds of employee contributions	(12,871)	(12,871)	-
Administrative expense	-	(1,241)	1,241
Other changes	-	(67)	67
Net changes	446,992	357,994	88,998
Balance at 12/31/2016	<u>\$ 2,411,932</u>	<u>\$ 1,984,533</u>	<u>\$ 427,399</u>

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

	Sensitivity of the Net Pension Liability to Changes in the Discount Rate		
	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
	\$	\$	\$
Town's net pension liability	884,541	427,399	60,303

***Pension Plan Fiduciary Net Position***

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

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

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

For the fiscal year ended September 30, 2017, the Town recognized pension expense of \$231,157 and the calculation of the expense is summarized in the following table:

Schedule of Pension Expense	
Total service cost	\$ 256,814
Interest on the total pension liability	140,867
Changes in current period benefits	-
Employee contributions (reduction of expense)	(114,649)
Projected earnings on plan investments (reduction of expense)	(109,791)
Administrative expense	1,241
Other changes in fiduciary net position	67
Recognition of current year outflow (inflow) of resources - liabilities	11,064
Recognition of current year outflow (inflow) of resources - assets	(65)
Amortization of prior year outflows (inflows) of resources - liabilities	23,248
Amortization of prior year outflows (inflows) of resources - assets	22,361
Total pension expense	\$ 231,157

At September 30, 2017 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	2016 Recognized in Current Pension Expense	Deferred (Inflow)/Outflow infuture expense
Differences between expected and actual economic experience	\$ 62,182	\$ -	\$ 11,064	\$ 51,118
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual investment earnings	(327)	-	(65)	(262)
Contributions subsequent to the measurement date	-	-	-	-
Total	\$ 61,855	\$ -	\$ 10,999	\$ 50,856

\$50,856 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Amount
2017	\$ 56,608
2018	56,607
2019	51,004
2020	14,867
2021	6,862
Thereafter	-
Total	\$ 185,948

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**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, 2017 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. On September 14, 2016 the Real Property Tax Abatement Agreement was assigned to Farmer Bros. Co., a Delaware corporation qualified to do business in Texas. Farmer Bros. Co. is the sole party to the assigned contract. The total amount of taxes abated during the year ended September 30, 2017 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, 2017 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, 2017 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, 2017. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2017 or any of the three preceding years.

Town of Northlake, Texas  
Notes to Basic Financial Statements  
September 30, 2017

**13. Contingent Liabilities**

The Town is involved in lawsuits with other parties from time to time. While the ultimate result of these matters cannot be predicted with certainty, the Town does not expect them to have a materially adverse effect on its Basic Financial Statements.

**14. Subsequent Events**

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 5, 2018, the date the financial statements were available to be issued.

THIS PAGE IS LEFT INTENTIONALLY BLANK

## REQUIRED SUPPLEMENTARY INFORMATION

Town of Northlake, Texas  
Required Supplementary Information  
Schedule of Changes in Net Pension Liability and Related Ratios  
September 30, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 169,257	\$ 218,403	\$ 256,814
Interest	94,776	114,859	140,867
Change of benefit terms	-	-	-
Difference between expected and actual experience	14,773	33,719	62,182
Changes of assumptions	-	71,966	-
Benefit payments, including refunds of employee contributions	<u>(21,688)</u>	<u>(11,286)</u>	<u>(12,871)</u>
Net Change in Total Pension Liability	257,118	427,661	446,992
Total Pension Liability - Beginning	<u>1,280,161</u>	<u>1,537,279</u>	<u>1,964,940</u>
Total Pension Liability - Ending (a)	<u><u>1,537,279</u></u>	<u><u>1,964,940</u></u>	<u><u>2,411,932</u></u>
Plan Fiduciary Net Position			
Contributions-employer	75,574	128,506	147,406
Contributions-employee	83,179	100,846	114,649
Net investment income	68,838	2,078	110,118
Benefit payments, including refunds of employee contributions	(21,688)	(11,286)	(12,871)
Administrative expense	(718)	(1,265)	(1,241)
Other changes	<u>(59)</u>	<u>(62)</u>	<u>(67)</u>
Net Change in Plan Fiduciary Net Position	205,126	218,817	357,994
Plan Fiduciary Net Position - Beginning	<u>1,202,597</u>	<u>1,407,723</u>	<u>1,626,539</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,407,723</u></u>	<u><u>\$ 1,626,540</u></u>	<u><u>\$ 1,984,533</u></u>
Net Pension Liability - Ending (a) - (b)	129,556	338,400	427,399
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.57%	82.78%	82.28%
Covered Employee Payroll	1,188,275	1,440,652	1,637,847
Net Pension Liability as a Percentage of Covered Employee Payroll	10.90%	23.49%	26.10%

Town of Northlake, Texas  
 Required Supplementary Information  
 Schedule of Contributions  
 September 30, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 112,401	\$ 140,000	\$ 171,635
Contributions in relation to the actuarially determined contribution	100,291	141,715	173,585
Contribution deficiency (excess)	12,111	(1,715)	(1,950)
Covered employee payroll	1,341,854	1,558,966	1,773,085
Contributions as a percentage of covered employee payroll	7.00%	9.09%	9.79%

**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 Determin Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of reates that are specific to the Town'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, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Taxes				
Property	\$ 725,000	\$ 725,000	\$ 744,911	\$ 19,911
Sales and beverage	400,000	600,000	623,492	23,492
Franchise	285,000	285,000	282,277	(2,723)
Building permits, plat and other fees	1,164,700	1,358,378	1,341,544	(16,834)
Municipal court	625,000	600,000	592,248	(7,752)
Interest income	2,500	2,500	4,487	1,987
Miscellaneous	105,760	141,905	150,262	8,357
Total revenues	<u>3,307,960</u>	<u>3,712,783</u>	<u>3,739,221</u>	<u>26,438</u>
<b>Expenditures</b>				
Current				
General government	844,937	789,472	739,626	49,846
Municipal court	268,337	243,337	235,974	7,363
Development services	421,996	407,596	386,394	21,202
Police	1,406,837	1,414,607	1,227,348	187,259
Public works	469,518	474,598	466,097	8,501
Total expenditures	<u>3,411,625</u>	<u>3,329,610</u>	<u>3,055,439</u>	<u>274,171</u>
Excess (deficiency) of revenues over expenditures	<u>(103,665)</u>	<u>383,173</u>	<u>683,782</u>	<u>300,609</u>
<b>Other financing sources (uses):</b>				
Transfers in	200,000	200,000	200,000	-
Transfers out	(95,741)	(495,741)	(533,352)	37,611
Total other financing sources (uses)	<u>104,259</u>	<u>(295,741)</u>	<u>(333,352)</u>	<u>37,611</u>
Net change in fund balances	594	87,432	350,430	262,998
Fund balance, beginning of year	1,575,023	1,575,023	1,575,023	-
Fund balance, end of year	<u>\$ 1,575,617</u>	<u>\$ 1,662,455</u>	<u>\$ 1,925,453</u>	<u>\$ 262,998</u>

Town of Northlake, Texas  
 Budgetary Comparison Schedule – Public Improvement Fund  
 September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Assessment taxes	\$ 632,612	\$ 632,612	\$ 610,503	\$ (22,109)
Interest income	1,500	1,500	8,857	7,357
Total revenues	<u>634,112</u>	<u>634,112</u>	<u>619,360</u>	<u>(14,752)</u>
Expenditures				
General government	330,512	330,512	297,641	32,871
Capital outlay	-	-	1,300,000	(1,300,000)
Debt service				
Principal	165,000	165,000	165,000	-
Interest and fiscal charges	<u>111,825</u>	<u>111,825</u>	<u>110,875</u>	<u>950</u>
Total expenditures	<u>607,337</u>	<u>607,337</u>	<u>1,873,516</u>	<u>(1,266,179)</u>
Net change in fund balances	<u>26,775</u>	<u>26,775</u>	<u>(1,254,156)</u>	<u>(1,280,931)</u>
Fund balance, beginning of year	<u>1,373,509</u>	<u>1,373,509</u>	<u>1,373,509</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,400,284</u></u>	<u><u>\$ 1,400,284</u></u>	<u><u>\$ 119,353</u></u>	<u><u>\$ (1,280,931)</u></u>

Town of Northlake, Texas  
 Budgetary Comparison Schedule - Economic Development Corporation 4A  
 Year ended September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 200,000	\$ 300,000	\$ 311,471	\$ 11,471
Interest income	650	650	1,058	408
Miscellaneous	16,000	16,000	21,990	5,990
Total revenues	<u>216,650</u>	<u>316,650</u>	<u>334,519</u>	<u>17,869</u>
Expenditures				
Development services	306,185	356,185	273,129	83,056
Promotional	18,000	28,000	17,839	10,161
Total expenditures	<u>324,185</u>	<u>384,185</u>	<u>290,968</u>	<u>93,217</u>
Other financing sources (uses)				
Transfers out	<u>(26,739)</u>	<u>(26,739)</u>	<u>(26,739)</u>	-
Total other financing sources (uses)	<u>(26,739)</u>	<u>(26,739)</u>	<u>(26,739)</u>	-
Net change in fund balances	(134,274)	(94,274)	16,812	111,086
Fund balance, beginning of year	<u>595,579</u>	<u>595,579</u>	<u>595,579</u>	-
Fund balance, end of year	<u>\$ 461,305</u>	<u>\$ 501,305</u>	<u>\$ 612,391</u>	<u>\$ 111,086</u>

Town of Northlake, Texas  
 Budgetary Comparison Schedule - Community Development Corporation 4B  
 Year ended September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 200,000	\$ 300,000	\$ 311,470	\$ 11,470
Interest income	650	650	1,031	381
Miscellaneous	16,000	16,000	21,990	5,990
Total revenues	<u>216,650</u>	<u>316,650</u>	<u>334,491</u>	<u>17,841</u>
Expenditures				
Development services	306,186	356,186	273,068	83,118
Promotional	18,000	28,000	17,878	10,122
Total expenditures	<u>324,186</u>	<u>384,186</u>	<u>290,946</u>	<u>93,240</u>
Other financing sources (uses)				
Transfers out	<u>(26,739)</u>	<u>(26,739)</u>	<u>(26,739)</u>	-
Total other financing sources (uses)	<u>(26,739)</u>	<u>(26,739)</u>	<u>(26,739)</u>	-
Net change in fund balances	(134,275)	(94,275)	16,806	111,081
Fund balance, beginning of year	<u>575,332</u>	<u>575,332</u>	<u>575,332</u>	-
Fund balance, end of year	<u>\$ 441,057</u>	<u>\$ 481,057</u>	<u>\$ 592,138</u>	<u>\$ 111,081</u>

Town of Northlake, Texas  
 Budgetary Comparison Schedule – Hotel/Motel Tax Fund  
 Year ended September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Hotel/Motel tax	\$ 270,000	\$ 270,000	\$ 267,965	\$ (2,035)
Interest income	16,096	16,096	17,407	1,311
Total revenues	<u>286,096</u>	<u>286,096</u>	<u>285,372</u>	<u>(724)</u>
Expenditures				
Police	23,550	23,550	31,666	(8,116)
Promotional	63,676	63,676	26,212	37,464
Total expenditures	<u>87,226</u>	<u>87,226</u>	<u>57,878</u>	<u>29,348</u>
Other financing sources (uses)				
Transfers out	<u>(1,739)</u>	<u>(1,739)</u>	<u>(1,739)</u>	-
Total other financing sources (uses)	<u>(1,739)</u>	<u>(1,739)</u>	<u>(1,739)</u>	-
Net change in fund balances	197,131	197,131	225,755	28,624
Fund balance, beginning of year	<u>1,258,552</u>	<u>1,258,552</u>	<u>1,258,552</u>	-
Fund balance, end of year	<u>\$ 1,455,683</u>	<u>\$ 1,455,683</u>	<u>\$ 1,484,307</u>	<u>\$ 28,624</u>

Town of Northlake, Texas  
 Budgetary Comparison Schedule – Capital Projects Fund  
 Year ended September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$ -	\$ -	\$ 65,504	\$ 65,504
Miscellaneous	-	1,300,000	1,206,407	(93,593)
Total revenues	-	1,300,000	1,271,911	(28,089)
Expenditures				
General government	-	-	138,800	(138,800)
Public works	-	500,000	214,995	285,005
Capital outlay	6,700,000	2,300,000	1,617,927	682,073
Total expenditures	6,700,000	2,800,000	1,971,722	828,278
Other financing sources (uses)				
Transfers in	-	6,700,000	6,685,000	15,000
Total other financing sources (uses)	-	6,700,000	6,685,000	15,000
Net change in fund balances	(6,700,000)	5,200,000	5,985,189	785,189
Fund balance, beginning of year	11,071	11,071	11,071	-
Fund balance, end of year	<u>\$ (6,688,929)</u>	<u>\$ 5,211,071</u>	<u>\$ 5,996,260</u>	<u>\$ 785,189</u>

Town of Northlake, Texas  
 Budgetary Comparison Schedule – Debt Service Funds  
 Year ended September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Assessment taxes	\$ 400,000	\$ 400,000	\$ 408,634	\$ 8,634
Interest income	50	50	1,216	1,166
Miscellaneous	-	-	55	55
Total revenues	<u>400,050</u>	<u>400,050</u>	<u>409,905</u>	<u>9,855</u>
<b>Expenditures</b>				
Debt service				
Principal	446,950	501,950	1,840,000	(1,338,050)
Interest and fiscal charges	153,325	160,110	348,401	(188,291)
Total expenditures	<u>600,275</u>	<u>662,060</u>	<u>2,188,401</u>	<u>(1,526,341)</u>
<b>Other financing sources (uses)</b>				
Proceeds of long-term debt	-	-	8,380,000	(8,380,000)
Premium on bond	-	-	215,287	(215,287)
Transfers in	-	50,000	50,000	-
Transfers out	-	-	(6,990,000)	6,990,000
Total other financing sources (uses)	<u>-</u>	<u>50,000</u>	<u>1,655,287</u>	<u>(1,605,287)</u>
Net change in fund balances	(200,225)	(212,010)	(123,209)	88,801
Fund balance, beginning of year	<u>249,740</u>	<u>249,740</u>	<u>249,740</u>	<u>-</u>
Fund balance, end of year	<u>\$ 49,515</u>	<u>\$ 37,730</u>	<u>\$ 126,531</u>	<u>\$ 88,801</u>

Town of Northlake, Texas  
Notes to Required Supplementary Information  
September 30, 2017

**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.

THIS PAGE IS LEFT INTENTIONALLY BLANK

## COMBINING SCHEDULES

Town of Northlake, Texas  
Combining Balance Sheet – Non-Major Governmental Funds  
September 30, 2017

	<u>Special Revenue Fund</u>	<u>Tax Increment Reinvestment Zone Fund</u>	<u>Total Non Major Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 250,991	\$ 5,197	\$ 256,188
Receivables			
Other	<u>12,661</u>	<u>-</u>	<u>12,661</u>
Total assets and other debits	<u><u>263,652</u></u>	<u><u>5,197</u></u>	<u><u>268,849</u></u>
 <b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	503	-	503
Accrued liabilities	1,176	-	1,176
Deferred revenue	<u>11,251</u>	<u>-</u>	<u>11,251</u>
Total liabilities	12,930	-	12,930
 Fund balances:			
Restricted for			
Court technology and security	250,722	-	250,722
Other purposes	<u>-</u>	<u>5,197</u>	<u>5,197</u>
Total fund balances	<u>250,722</u>	<u>5,197</u>	<u>255,919</u>
Total liabilities and fund balances	<u><u>\$ 263,652</u></u>	<u><u>\$ 5,197</u></u>	<u><u>\$ 268,849</u></u>

Town of Northlake, Texas  
Combining Schedule of Revenues, Expenditures and Changes  
in Fund Balances - Non Major Governmental Funds  
September 30, 2017

	Special Revenue Fund	Tax Increment Reinvestment Zone	Total Non Major Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues			
Taxes			
Property	\$      -	\$   36,896	\$   36,896
Interest income	3,675	-	3,675
Miscellaneous	49,660	-	49,660
Total revenues	<u>53,335</u>	<u>36,896</u>	<u>90,231</u>
Expenditures			
Current			
General government	-	30,314	30,314
Municipal court	39,554	-	39,554
Police	4,312	-	4,312
Capital outlay	9,657	-	9,657
Total expenditures	<u>53,523</u>	<u>30,314</u>	<u>83,837</u>
Net change in fund balances	(188)	6,582	6,394
Fund balances - beginning	250,910	(1,385)	249,525
Fund balances - ending	<u>\$  250,722</u>	<u>\$      5,197</u>	<u>\$  255,919</u>

THIS PAGE IS LEFT INTENTIONALLY BLANK



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

## **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, 2017, 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 5, 2018.

### **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*.

1801 Gateway Blvd., Ste. 212, Richardson, TX 75080  
Main: 214-660-2000 | Office: 972-234-3333 | Fax: 972-234-3331  
[www.vailcpas.com](http://www.vailcpas.com)

**Purpose of this Report**

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

A handwritten signature in black ink that reads "M. C. Aul & Associates, P.C." The signature is written in a cursive, professional style.

Richardson, Texas

February 5, 2018