

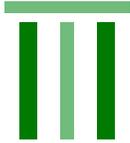
TOWN OF NORTHLAKE, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2007

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TIDWELL**

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
and Town Council
Town of Northlake, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Northlake, Texas as of and for the year ended September 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund of the Town of Northlake, Texas as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the analysis of funding progress and budgetary comparison information on pages 3 through 10 and 35 through 40, are not a required part of the basic financial statements but are supplementary

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To the Honorable Mayor,
and Town Council
Town of Northlake, Texas

Page 2

information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L. L. P.

Fort Worth, TX
August 11, 2008

TOWN OF NORTHLAKE, TEXAS

Management's Discussion and Analysis

As management of the Town of Northlake, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2007.

Financial Highlights

- The assets of the Town of Northlake exceeded its liabilities at the close of the most recent fiscal year by \$6,520,059 (Net assets). Of this amount, \$555,520 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$195,973.
- As of the close of the current fiscal year, the Town of Northlake's governmental funds reported combined ending fund balances of \$1,433,875, an increase of \$145,065 in comparison with the prior year. The increase is due primarily to the excess of revenue over expenditures of the Economic Development Corporation 4A and 4B Funds, and the Hotel/Motel Tax Fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was a deficit of \$9,143 or .50% of total general fund expenditures.
- The Town's total long-term debt decreased \$58,484.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Town of Northlake's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town of Northlake that are principally supported by taxes and inter-governmental revenues (governmental 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 11-12 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 legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

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

The Town maintains four individual 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, 4A and 4B Economic Development and Hotel/Motel Tax funds.

The Town adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement has been provided for all governmental funds to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Proprietary funds. The Town maintains one type of proprietary fund. 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.

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 17-19 of this report.

Notes to 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 20-34 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 a budgetary comparison schedule for the Governmental Funds. Required supplementary information can be found on pages 35-40 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2007, the Town of Northlake's assets exceeded liabilities by \$6,520,059.

The largest portion of the Town's net assets (79.1%) reflects its investment in capital assets (e.g., land, buildings, automobiles, equipment, construction in progress, water and sewer system and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Northlake's Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06
Current and Other Assets	\$ 1,608,870	\$ 1,674,150	\$ 563,696	\$ 447,087	\$ 2,172,566	\$ 2,121,237
Capital Assets	\$ 5,432,632	\$ 5,610,524	\$ 1,031,058	\$ 1,062,159	\$ 6,463,690	\$ 6,672,683
Total Assets	\$ 7,041,502	\$ 7,284,674	\$ 1,594,754	\$ 1,509,246	\$ 8,636,256	\$ 8,793,920
Long-Term Liabilities Outstanding	\$ 1,942,169	\$ 1,955,653	\$ -	\$ 45,000	\$ 1,942,169	\$ 2,000,653
Other Liabilities	\$ 175,299	\$ 383,074	\$ (1,271)	\$ 86,107	\$ 174,028	\$ 469,181
Total Liabilities	\$ 2,117,468	\$ 2,338,727	\$ (1,271)	\$ 131,107	\$ 2,116,197	\$ 2,469,834
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 4,128,715	\$ 4,427,739	\$ 1,031,058	\$ 1,017,159	\$ 5,159,773	\$ 5,444,898
Restricted for Court Technology and Security	\$ 70,092	\$ 61,717	\$ -	\$ -	\$ 70,092	\$ 61,717
Restricted for Economic Development	\$ 419,309	\$ 301,652	\$ -	\$ -	\$ 419,309	\$ 301,652
Restricted for Promotional Activities	\$ 315,365	\$ 226,085	\$ -	\$ -	\$ 315,365	\$ 226,085
Unrestricted	\$ (9,447)	\$ (71,246)	\$ 564,967	\$ 360,980	\$ 555,520	\$ 289,734
Total Net Assets	\$ 4,924,034	\$ 4,945,947	\$ 1,596,025	\$ 1,378,139	\$ 6,520,059	\$ 6,324,086

The unrestricted net assets of \$555,520 may be used to meet the Town's ongoing obligations to citizens and creditors.

As of September 30, 2007, the Town is able to report a positive balance in all five categories of net assets, for the government as a whole, as well as four of five categories for its separate governmental and business-type activities.

- Overall, there is an increase of \$195,973 in total net assets during the fiscal year as mentioned above. This increase is due primarily to the results of operations of the Town's Water and Sewer operations.

Governmental Activities. Governmental activities decreased the Town's net assets by \$21,913. Total revenues decreased by \$1,078,516. Key highlights include the fact that even though the property tax rate remained \$0.295 per \$100 of valuation of assessed values, revenues still increased due to increased appraisals. Sales tax collections also increased during the year. Also, \$1,307,838 of the decrease related to infrastructure assets contributed to the Town in the prior year related to the annexation of North Ridge Estates Phase 2, with no contributed infrastructure asset in the current year. For the most part, increases in expenses closely paralleled inflation and growth in demand for services and increased expenditures related to road projects.

Business-type Activities. Business-type activities increased the Town's net assets by \$217,886. No new rates or changes in rates for services were made during fiscal year 2006-07. Total revenue decreased for the year by \$490,694. \$706,150 of this decrease was due to contributed assets associated with the prior year annexation of North Ridge Estates Phase 2 Subdivision. There was no annexation in the current year. Total expenses decreased by \$32,421 which was due to the decrease in charges for services revenue of \$82,594.

Town of Northlake's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 06-07	FY 05-06	FY 06-07	FY 05-06	FY 06-07	FY 05-06
Revenues						
Program Revenues						
Fees, Fines and Charges for Services	\$ 737,329	\$ 620,209	\$ 316,395	\$ 398,989	\$ 1,053,724	\$ 1,019,198
Capital Grant and Contributions	\$ -	\$ 1,307,838	\$ 290,410	\$ 706,150	\$ 290,410	\$ 2,013,988
General Revenues						
Property Taxes	\$ 394,529	\$ 365,927	\$ -	\$ -	\$ 394,529	\$ 365,927
Sales Taxes	\$ 346,323	\$ 311,533	\$ -	\$ -	\$ 346,323	\$ 311,533
Franchise Taxes	\$ 59,103	\$ 59,177	\$ -	\$ -	\$ 59,103	\$ 59,177
Hotel/Motel Taxes	\$ 87,325	\$ 76,756	\$ -	\$ -	\$ 87,325	\$ 76,756
Interest on Investments	\$ 71,603	\$ 79,096	\$ 24,705	\$ 17,065	\$ 96,308	\$ 96,161
Miscellaneous	\$ 322,561	\$ 276,753	\$ -	\$ -	\$ 322,561	\$ 276,753
Total Revenues	\$ 2,018,773	\$ 3,097,289	\$ 631,510	\$ 1,122,204	\$ 2,650,283	\$ 4,219,493
Expenses						
General Government	\$ 694,725	\$ 636,239	\$ -	\$ -	\$ 694,725	\$ 636,239
Municipal Court	\$ 129,784	\$ 134,751	\$ -	\$ -	\$ 129,784	\$ 134,751
Police	\$ 521,795	\$ 483,689	\$ -	\$ -	\$ 521,795	\$ 483,689
Public Works	\$ 515,870	\$ 245,687	\$ -	\$ -	\$ 515,870	\$ 245,687
Economic Development	\$ 74,664	\$ 71,769	\$ -	\$ -	\$ 74,664	\$ 71,769
Promotional	\$ 10,513	\$ 4,532	\$ -	\$ -	\$ 10,513	\$ 4,532
Interest on Long-Term Debt	\$ 93,335	\$ 101,262	\$ -	\$ -	\$ 93,335	\$ 101,262
Water and Sewer	\$ -	\$ -	\$ 413,624	\$ 446,045	\$ 413,624	\$ 446,045
Total Expenses	\$ 2,040,686	\$ 1,677,929	\$ 413,624	\$ 446,045	\$ 2,454,310	\$ 2,123,974
Change in Net Assets Before Transfers	\$ (21,913)	\$ 1,419,360	\$ 217,886	\$ 676,159	\$ 195,973	\$ 2,095,519
Transfers	\$ -	\$ (23,496)	\$ -	\$ 23,496	\$ -	\$ -
Change in Net Assets	\$ (21,913)	\$ 1,395,864	\$ 217,886	\$ 699,655	\$ 195,973	\$ 2,095,519
Net Assets 9/30 Prior Year	\$ 4,945,947	\$ 3,550,083	\$ 1,378,139	\$ 678,484	\$ 6,324,086	\$ 4,228,567
Net Assets 9/30 Current Year	\$ 4,924,034	\$ 4,945,947	\$ 1,596,025	\$ 1,378,139	\$ 6,520,059	\$ 6,324,086

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Town's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town of Northlake's governmental funds reported combined ending fund balances of \$1,433,875, a increase of \$145,065 in comparison with the prior year. The unreserved, undesignated fund balance at year end is a deficit of \$9,143. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for road projects (\$638,252), 2) to pay for court technology and security (\$70,092), 3) to pay for economic development (\$419,309) and 4) to pay for promotional activities (\$315,365).

The general fund is the chief operating fund of the Town. The Town of Northlake budgeted and planned for a decrease in fund balance for fiscal year 2006-07 of \$370,852 for the general fund. During the fiscal year Town Council amended the budget to change the planned decrease in fund balance to be an increase of \$42,843.

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

Unrestricted net assets of the proprietary funds are \$564,967. The water and sewer fund had a net asset increase of \$217,886.

General Fund Budgetary Highlights

The Town of Northlake ended the fiscal year 2006-07 with a negative revenue budget variance of \$147,731 which was due primarily to lower than anticipated municipal court revenue and permit revenue. The Town had a negative expenditure budget variance of \$498 that was caused primarily by higher than anticipated general government expenditures.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business type activities as of September 30, 2007, amount to \$6,463,690 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, automobiles, equipment, infrastructure, water and sewer system and construction in progress. The total decrease in the Town's investment in capital assets for the current fiscal year was \$208,993. This was comprised of a 3.17% decrease in governmental activities and a 2.93% decrease for business type activities.

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

- One new police vehicle was bought and fully equipped.
- One new Public Works vehicle was bought
- Holder Road and Evelyn Lane Drainage Improvements (Phase 1 and Right-of-Way) completed.
- Utility Billing Software Program
- General Liability Software Program

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

	Governmental Activities		Business-type Activities		Total	
	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06
Land	\$ 2,729,654	\$ 2,729,654	\$ 15,986	\$ 15,986	\$ 2,745,640	\$ 2,745,640
Buildings and Improvements	\$ 108,479	\$ 113,506	\$ -	\$ -	\$ 108,479	\$ 113,506
Automobiles	\$ 60,355	\$ 63,806	\$ -	\$ -	\$ 60,355	\$ 63,806
Equipment	\$ 23,912	\$ 35,327	\$ 11,230	\$ 13,680	\$ 35,142	\$ 49,007
Infrastructure	\$ 2,510,232	\$ 2,225,649	\$ -	\$ -	\$ 2,510,232	\$ 2,225,649
Water and Sewer System	\$ -	\$ -	\$ 1,003,842	\$ 1,032,493	\$ 1,003,842	\$ 1,032,493
Construction in Progress	\$ -	\$ 442,582	\$ -	\$ -	\$ -	\$ 442,582
Total	\$ 5,432,632	\$ 5,610,524	\$ 1,031,058	\$ 1,062,159	\$ 6,463,690	\$ 6,672,683

Additional information on the Town's capital assets can be found in Note 3 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total bonded debt outstanding of \$1,880,000. The debt is backed by the full faith and credit of the Town.

Town of Northlake's Outstanding Debt

	Governmental Activities	Governmental Activities	Business- type Activities	Business-type Activities	Total	Total
	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06
Capital Leases	\$ 62,169	\$ 65,653	\$ -	\$ -	\$ 62,169	\$ 65,653
Certificates of Obligation	\$ 1,880,000	\$ 1,900,000	\$ -	\$ 45,000	\$ 1,880,000	\$ 1,945,000
Total	<u>\$ 1,942,169</u>	<u>\$ 1,965,653</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ 1,942,169</u>	<u>\$ 2,010,653</u>

During the current fiscal year the Town's total debt decreased by \$58,484. Regularly scheduled annual principal and interest payments were made in a timely manner.

Additional information on the Town's long-term debt can be found in Note 4.

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 2007-08. Overall general fund revenues are expected to be slightly higher in fiscal year 2007-2008. Tax revenue, permit fees and court revenues are expected to increase.

Expenses for the general fund are expected to increase. This is due to the Town increasing salaries and inflation. Water and sewer fund revenues are expected to be higher than fiscal year 2007-2008.

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 PO Box 729, Justin, Texas 76247, phone (940) 648 3290 or email townsecretary@town.northlake.tx.us.

BASIC FINANCIAL STATEMENTS

**TOWN OF NORTHLAKE, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,457,937	\$ 533,212	\$ 1,991,149
Receivables (net of allowances for uncollectibles)	119,944	30,484	150,428
Deferred charges	30,989	-	30,989
Capital assets:			
Land	2,729,654	15,986	2,745,640
Buildings and improvements	108,479	-	108,479
Automobiles	60,355	-	60,355
Equipment	23,912	11,230	35,142
Infrastructure	2,510,232	-	2,510,232
Water and sewer system	-	1,003,842	1,003,842
Total Assets	<u>7,041,502</u>	<u>1,594,754</u>	<u>8,636,256</u>
LIABILITIES			
Accounts payable	37,516	14,342	51,858
Accrued liabilities	103,670	18,500	122,170
Internal balances	34,113	(34,113)	-
Noncurrent liabilities:			
Due within one year	55,170	-	55,170
Due in more than one year	1,886,999	-	1,886,999
Total Liabilities	<u>2,117,468</u>	<u>(1,271)</u>	<u>2,116,197</u>
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	4,128,715	1,031,058	5,159,773
Restricted for court technology and security	70,092	-	70,092
Restricted for economic development	419,309	-	419,309
Restricted for promotional activities	315,365	-	315,365
Unrestricted	(9,447)	564,967	555,520
Total Net Assets	<u>\$ 4,924,034</u>	<u>\$ 1,596,025</u>	<u>\$ 6,520,059</u>

**TOWN OF NORTHLAKE, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007**

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business - Type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 694,725	\$ -	\$ -	\$ -	\$ (694,725)	\$ -	\$ (694,725)
Municipal court	129,784	19,759	-	-	(110,025)	-	(110,025)
Police	521,795	406,953	-	-	(114,842)	-	(114,842)
Public works	515,870	310,617	-	-	(205,253)	-	(205,253)
Economic development	74,664	-	-	-	(74,664)	-	(74,664)
Promotional	10,513	-	-	-	(10,513)	-	(10,513)
Interest on Long-term Debt	93,335	-	-	-	(93,335)	-	(93,335)
Total governmental activities	<u>2,040,686</u>	<u>737,329</u>	<u>-</u>	<u>-</u>	<u>(1,303,357)</u>	<u>-</u>	<u>(1,303,357)</u>
Business-type activities:							
Water and sewer	413,624	316,395	-	290,410	-	193,181	193,181
Total business-type activities	<u>413,624</u>	<u>316,395</u>	<u>-</u>	<u>290,410</u>	<u>-</u>	<u>193,181</u>	<u>193,181</u>
Total primary government	<u>\$ 2,454,310</u>	<u>\$ 1,053,724</u>	<u>\$ -</u>	<u>\$ 290,410</u>	<u>(1,303,357)</u>	<u>193,181</u>	<u>(1,110,176)</u>
GENERAL REVENUES:							
Taxes:							
Property taxes					394,529		394,529
Sales taxes					346,323		346,323
Franchise taxes					59,103		59,103
Hotel/Motel taxes					87,325		87,325
Interest					71,603	24,705	96,308
Miscellaneous					322,561		322,561
Total general revenues and transfers					<u>1,281,444</u>	<u>24,705</u>	<u>1,306,149</u>
Change in Net Assets					(21,913)	217,886	195,973
NET ASSETS, beginning of year					<u>4,945,947</u>	<u>1,378,139</u>	<u>6,324,086</u>
NET ASSETS, end of year					<u>\$ 4,924,034</u>	<u>\$ 1,596,025</u>	<u>\$ 6,520,059</u>

TOWN OF NORTHLAKE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

<u>ASSETS</u>	General Fund	Economic Development Corporation 4A	Economic Development Corporation 4B	Hotel/Motel Tax Fund	Total Governmental Funds
Cash and cash equivalents	\$ 759,405	\$ 205,835	\$ 190,570	\$ 302,127	\$ 1,457,937
Receivables:					
Property taxes, net of allowance	11,532				11,532
Sales taxes	33,615	16,808	16,808		67,231
Franchise taxes	32,359				32,359
Hotel/Motel taxes				8,822	8,822
Due from other funds	6,096			4,416	10,512
Total assets and other debits	<u>\$ 843,007</u>	<u>\$ 222,643</u>	<u>\$ 207,378</u>	<u>\$ 315,365</u>	<u>\$ 1,588,393</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 32,900	\$ 2,308	\$ 2,308	\$ -	\$ 37,516
Accrued liabilities	60,845				60,845
Unearned revenue	11,532				11,532
Due to other funds	38,529	3,047	3,049		44,625
Total liabilities	143,806	5,355	5,357	-	154,518
Fund Balances (Deficit):					
Reserved for:					
Road projects	638,252				638,252
Court technology and security	70,092				70,092
Economic development		217,288	202,021		419,309
Promotional activities				315,365	315,365
Unreserved, undesignated	(9,143)				(9,143)
Total fund balances	<u>699,201</u>	<u>217,288</u>	<u>202,021</u>	<u>315,365</u>	<u>1,433,875</u>
Total liabilities and fund balances	<u>\$ 843,007</u>	<u>\$ 222,643</u>	<u>\$ 207,378</u>	<u>\$ 315,365</u>	<u>\$ 1,588,393</u>

**TOWN OF NORTHLAKE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

Total fund balances - governmental funds	\$ 1,433,875
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	5,432,632
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	11,532
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.	30,989
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.	(42,825)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(1,942,169)</u>
Net assets of governmental activities	<u><u>\$ 4,924,034</u></u>

TOWN OF NORTHLAKE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2007

	General Fund	Economic Development Corporation 4A	Economic Development Corporation 4B	Hotel/Motel Tax Fund	Total Governmental Funds
Revenues:					
Taxes:					
Property	\$ 398,302	\$ -	\$ -	\$ -	\$ 398,302
Sales and beverage	173,171	86,576	86,576		346,323
Franchise	59,103				59,103
Hotel/Motel				87,325	87,325
Building permits, plat and other fees	310,617				310,617
Municipal court	426,712				426,712
Interest income	42,763	8,647	7,725	12,468	71,603
Miscellaneous	319,764	266	2,531		322,561
Total revenues	1,730,432	95,489	96,832	99,793	2,022,546
Expenditures:					
Current:					
General government	689,698				689,698
Municipal court	121,566				121,566
Police	541,502				541,502
Public works	378,514				378,514
Economic development		37,716	36,948		74,664
Promotional				10,513	10,513
Debt service:					
Principal	10,000				10,000
Interest and fiscal charges	94,538				94,538
Total expenditures	1,835,818	37,716	36,948	10,513	1,920,995
Excess (deficiency) of revenues over expenditures	(105,386)	57,773	59,884	89,280	101,551
Other financing sources (uses)					
Capital lease obligation	43,514				43,514
Total other financing sources (uses)	43,514	-	-	-	43,514
Net change in fund balances	(61,872)	57,773	59,884	89,280	145,065
Fund balances, beginning of year	761,073	159,515	142,137	226,085	1,288,810
Fund balances, end of year	\$ 699,201	\$ 217,288	\$ 202,021	\$ 315,365	\$ 1,433,875

**TOWN OF NORTHLAKE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007**

Net change in fund balances - total governmental funds	\$ 145,065
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	107,673
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.	(285,565)
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.	11,709
Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	2,978
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.	<u>(3,773)</u>
Change in Net Assets of Governmental activities	<u><u>(\$ 21,913)</u></u>

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007**

ASSETS	Business Type Activities - Enterprise Fund Water and Sewer
Current assets:	
Deposits and investments	\$ 533,212
Accounts receivable	30,484
Due from other funds	38,529
Total current assets	602,225
Property, plant and equipment	
Land	15,986
Water and sewer system	1,113,779
Equipment	24,500
	1,154,265
Less accumulated depreciation	123,207
Net property, plant and equipment	1,031,058
TOTAL ASSETS	1,633,283
LIABILITIES AND NET ASSETS	
Current liabilities:	
Payable from current assets:	
Accounts payable	14,342
Accrued liabilities	18,500
Due to other funds	4,416
Total current liabilities	37,258
NET ASSETS	
Invested in capital assets, net of related debt	1,031,058
Unrestricted	564,967
TOTAL NET ASSETS	\$ 1,596,025

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2007**

	Business Type Activities - Enterprise Fund Water and Sewer
Operating revenues:	
Water and sewer service	\$ 316,395
Total operating revenues	316,395
Operating expenses:	
Operating expenses	380,093
Depreciation	31,101
Total operating expenses	411,194
Operating loss	(94,799)
Nonoperating revenues (expenses)	
Interest income	24,705
Cost Recovery Fees	290,410
Interest and fiscal agent fees	(2,430)
Total nonoperating revenues (expenses), net	312,685
Change in net assets	217,886
Net assets, beginning of year	1,378,139
Net assets, end of year	\$ 1,596,025

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2007**

	Business Type Activities - Enterprise Fund Water and Sewer
OPERATING ACTIVITIES	
Cash received from customers	\$ 607,633
Cash payments to suppliers for goods and services	<u>(431,530)</u>
Net cash provided by operating activities	176,103
NONCAPITAL FINANCING ACTIVITIES	
Due from other funds	<u>(35,941)</u>
Net cash used in noncapital financing activities	(35,941)
CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayment of debt	(45,000)
Interest paid on debt	<u>(2,430)</u>
Net cash used in capital and related financing activities	<u>(47,430)</u>
INVESTING ACTIVITIES	
Interest received	<u>24,705</u>
Net cash provided by investing activities	24,705
Net increase in cash and cash equivalents	117,437
Cash and cash equivalents, beginning of year	<u>415,775</u>
Cash and cash equivalents, end of year	<u><u>\$ 533,212</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (94,799)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	31,101
Cost recovery fees	290,410
Change in assets and liabilities:	
Accounts receivable	828
Accounts payable and accrued liabilities	<u>(51,437)</u>
Net cash provided by operating activities	<u><u>\$ 176,103</u></u>

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 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.

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 to 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 Economic Development Corporation 4B (the 4B Corporation) were found to be 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 Corporation receives funding from a one-half cent sales tax.

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

The 4B Corporation was formed to promote economic development within 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, implementing, 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.

Basis of Presentation

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

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

Fund Financial Statements:

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

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Town has presented the following major governmental funds:

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.

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Economic Development Corporation 4A Fund

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

Economic Development Corporation 4B Fund

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

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

Water and Sewer Fund

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

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

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.

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus/Basis of Accounting – Continued

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the 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 City 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.

Taxes

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach 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 cities, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The Town's current tax rate is \$0.295 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

Interfund Receivables and Payables

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

Transactions Between Funds

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

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

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

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 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 and sick pay in varying amounts. In the event of termination, an employee is reimbursed for accumulated unused vacation and sick days. Employees are reimbursed for one-third of accumulated unused sick leave if the employee has at least five years of service and began employment prior to June 1, 2004. Compensated absences are paid out of the General Fund.

Net Assets

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

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS

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 which purchase a combination of shorter term investments with an average maturity of less than 17 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, 2007, the Town had the following investments:

<u>Investment Type</u>	<u>Weighted Average Amount</u>	<u>Maturity</u>
Logic	\$ 1,838,779	28 days
Texpool	2,544	34 days

As of September 30, 2007 the Town did not invest in any securities which are highly sensitive to interest rate fluctuations.

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, 2007</u>
Logic	\$ 1,838,779	AAA	AAA
Texpool	2,544	AAA	AAAm

Concentration of Credit Risk

The investment policy of the Town contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2007, other than external investment pools, the Town did not have 5% or more of its investment with one issuer.

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

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 its deposits or will not be able to recover collateral securities that are in the possession 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, 2007, the carrying amount of the Town's cash on hand and deposits were \$149,826 and the bank balance was \$198,043. Of the bank balance, \$100,000 was covered by federal depository insurance while the remaining \$98,043 was secured with securities held by the pledging financial institution's trust department or agent in the Town's name.

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.

Investment in State Investment Pools

The Town is a voluntary participant in various investment pools. These pools included the following: TexPool and LOGIC.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a 6-member board and is an AAA rated investment program tailored to the investment needs of local governments within the state of Texas. LOGIC assists governments across Texas make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act.

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance September 30, 2006	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,729,654	\$ -	\$ -	\$ 2,729,654
Construction in progress	<u>442,582</u>	<u>64,159</u>	<u>506,741</u>	<u>-</u>
Total capital assets not being depreciated	<u>3,172,236</u>	<u>64,159</u>	<u>506,741</u>	<u>2,729,654</u>
Capital assets being depreciated				
Buildings and improvements	150,782	-	-	150,782
Automobiles	121,475	43,514	-	164,989
Equipment	50,680	-	-	50,680
Infrastructure	<u>2,315,402</u>	<u>506,741</u>	<u>-</u>	<u>2,822,143</u>
Total capital assets being depreciated	<u>2,638,339</u>	<u>550,255</u>	<u>-</u>	<u>3,188,594</u>
Less accumulated depreciation:				
Buildings and improvements	37,276	5,027	-	42,303
Automobiles	57,669	46,965	-	104,634
Equipment	15,353	11,415	-	26,768
Infrastructure	<u>89,753</u>	<u>222,158</u>	<u>-</u>	<u>311,911</u>
Total accumulated depreciation	<u>200,051</u>	<u>285,565</u>	<u>-</u>	<u>485,616</u>
Total capital assets being depreciated, net	<u>2,438,288</u>	<u>264,690</u>	<u>-</u>	<u>2,702,978</u>
Governmental activities capital assets, net	<u>\$ 5,610,524</u>	<u>\$ 328,849</u>	<u>\$ 506,741</u>	<u>\$ 5,432,632</u>

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. CAPITAL ASSETS – CONTINUED

	Balance September 30, 2006	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2007
Business Type activities:				
Capital assets not being depreciated				
Land	\$ 15,986	\$ -	\$ -	\$ 15,986
Total capital assets not being depreciated	<u>15,986</u>	<u>-</u>	<u>-</u>	<u>15,986</u>
Capital assets being depreciated				
Equipment	24,500	-	-	24,500
Water and sewer system	<u>1,113,779</u>	<u>-</u>	<u>-</u>	<u>1,113,779</u>
Total capital assets being depreciated	<u>1,138,279</u>	<u>-</u>	<u>-</u>	<u>1,138,279</u>
Less accumulated depreciation:				
Equipment	10,820	2,450	-	13,270
Water and sewer system	<u>81,286</u>	<u>28,651</u>	<u>-</u>	<u>109,937</u>
Total accumulated depreciation	<u>92,106</u>	<u>31,101</u>	<u>-</u>	<u>123,207</u>
Total capital assets being depreciated, net	<u>1,046,173</u>	<u>(31,101)</u>	<u>-</u>	<u>1,015,072</u>
Business-type activities capital assets, net	<u>\$ 1,062,159</u>	<u>\$ (31,101)</u>	<u>\$ -</u>	<u>\$ 1,031,058</u>

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

Governmental activities:	
General government	\$ 5,027
Municipal court	8,218
Police	43,722
Public works	<u>228,598</u>
Total depreciation expense – Governmental Type Activities	<u>\$ 285,565</u>
Business-type activities:	
Water and sewer	<u>31,101</u>
Total depreciation expense-Business-type Activities	<u>\$ 31,101</u>

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. LONG-TERM DEBT

Amounts payable at September 30, 2007 are comprised of the following individual issues:

Capital Leases

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Lease/Purchase agreements for automobiles due in monthly installments of \$4,513, including interest at 4.75% to 7.10% through February 2010.	<u>\$ 62,169</u>	<u>\$ -</u>

Certificates of Obligation

\$1,900,000 Series 2005 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$10,000 to \$190,000 through April 15, 2025, with interest at 4.97%.	<u>\$ 1,880,000</u>	<u>\$ -</u>
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The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2007:

	<u>Balance Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Capital Leases	\$ 65,653	\$ 43,514	\$ 46,998	\$ 62,169	\$ 40,170
Certificates of Obligation	1,890,000	-	10,000	1,880,000	15,000
Total governmental Activities	1,955,653	43,514	56,998	1,942,169	55,170

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. LONG-TERM DEBT – CONTINUED

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
<u>Business Type Activities</u>					
Water and Sewer Certificates of Obligation	45,000	-	45,000	-	-
Total Business Type Activities	45,000	-	45,000	-	-
Total government-wide Activities	<u>\$ 2,000,653</u>	<u>\$ 43,514</u>	<u>\$ 101,998</u>	<u>\$ 1,942,169</u>	<u>\$ 55,170</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2007, are as follows:

Certificates of Obligation:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		Total
	Principal	Interest	Principal	Interest	
2008	\$ 15,000	\$ 93,436	\$ -	\$ -	\$ 108,436
2009	15,000	92,690			107,690
2010	20,000	91,945			111,945
2011	25,000	90,951			115,951
2012	75,000	89,708			164,708
2013-2017	490,000	384,430			874,430
2018-2022	700,000	243,530			943,530
2023-2025	540,000	54,670			594,670
	<u>\$ 1,880,000</u>	<u>\$1,141,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,021,360</u>

Capital Leases:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		Total
	Principal	Interest	Principal	Interest	
2008	\$ 40,170	\$ 3,255	\$ -	\$ -	\$ 43,425
2009	18,549	1,040	-	-	19,589
2010	3,450	61	-	-	3,511
	<u>\$ 62,169</u>	<u>\$ 4,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,525</u>

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. INTERFUND TRANSFERS

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	4A Fund	\$ 3,047
General Fund	4B Fund	3,049
Hotel/Motel Tax Fund	Water and Sewer Fund	4,416
Water and Sewer Fund	General Fund	<u>38,529</u>
		<u>\$ 49,041</u>

Due to/from's are primarily related to cash receipts of the receivable fund that deposited into the bank account of the payable fund.

The balances at September 30, 2007 will be paid during the next fiscal year end.

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 821 Municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the Town can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the Town matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the Town were as follows:

Deposit Rate:	5%
Matching Ratio (Town to Employee):	2-1
A member is vested after	5 yrs

Members can retire at certain ages, based on the years of service with the Town. The Service Retirement Eligibilities for the Town are: 5 yrs/age 60, 25 yrs/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the Town contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the Town matching percent, which are the obligation of the Town as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the Town to the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the Town contribution rate. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

**TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2006
Actuarial Value of Assets	\$ 207,316
Actuarial Accrued Liability	\$ 244,331
Percentage Funded	84.8%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 37,015
Annual Covered Payroll	\$ 476,484
UAAL as a Percentage of Covered Payroll	7.8%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -
Annual Pension Cost:	
Annual Required Contribution (ARC)	\$ 37,934
Contributions Made	<u>\$ (37,934)</u>
NPO at the end of the period	<u>\$ -</u>

Trend information for the past three years for TMRS is as follows:

<u>Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 20,440	100%	-
2006	26,633	100	-
2007	37,934	100	-

The following actuarial assumptions were used:

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	25 years – Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation at	3.5%
Cost of Living Adjustments	None

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. RISK MANAGEMENT

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

The Town had no significant changes in insurance coverage from the year ended September 30, 2006. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2007, nor any of the three preceding years.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**TOWN OF NORTHLAKE, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
 IN TEXAS MUNICIPAL RETIREMENT SYSTEM
 SEPTEMBER 30, 2007**

<u>Actuarial Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/04	\$ 114,263	\$ 125,823	90.8%	\$ 11,560	\$ 398,638	2.9%
12/31/05	162,457	190,648	85.2%	28,191	418,217	6.7%
12/31/06	207,316	244,331	84.8%	37,015	476,484	7.8%

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 390,000	\$ 396,000	\$ 398,302	\$ 2,302
Sales and beverage	160,000	160,000	173,171	13,171
Franchise	56,600	55,052	59,103	4,051
Building permits, plat and other fees	243,080	344,280	310,617	(33,663)
Municipal court	613,795	649,016	426,712	(222,304)
Interest income	-	-	42,763	42,763
Miscellaneous	163,400	273,815	319,764	45,949
Total revenues	1,626,875	1,878,163	1,730,432	(147,731)
Expenditures:				
Current:				
General government	556,248	533,261	689,698	(156,437)
Municipal court	238,849	183,978	121,566	62,412
Police	552,506	557,284	541,502	15,782
Public works	546,191	456,259	378,514	77,745
Debt service:				
Principal	10,000	10,000	10,000	-
Interest and fiscal charges	93,933	94,538	94,538	-
Total expenditures	1,997,727	1,835,320	1,835,818	(498)
Excess (deficiency) of revenues over expenditures	(370,852)	42,843	(105,386)	(148,229)
Other financing sources (uses):				
Capital lease obligation			43,514	43,514
Total other financing sources (uses)	-	-	43,514	43,514
Net change in fund balances	(370,852)	42,843	(61,872)	(104,715)
Fund balance, beginning of year	761,073	761,073	761,073	-
Fund balance, end of year	\$ 390,221	\$ 803,916	\$ 699,201	(\$ 104,715)

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 ECONOMIC DEVELOPMENT CORPORATION 4A
 YEAR ENDED SEPTEMBER 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 80,000	\$ 80,000	\$ 86,576	\$ 6,576
Interest income	4,806	4,806	8,647	3,841
Miscellaneous	50	50	266	216
Total revenues	84,856	84,856	95,489	10,633
Expenditures:				
Economic development	50,477	50,477	37,716	12,761
Total expenditures	50,477	50,477	37,716	12,761
Net change in fund balances	34,379	34,379	57,773	23,394
Fund balance, beginning of year	159,515	159,515	159,515	-
Fund balance, end of year	\$ 193,894	\$ 193,894	\$ 217,288	\$ 23,394

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 ECONOMIC DEVELOPMENT CORPORATION 4B
 YEAR ENDED SEPTEMBER 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 80,000	\$ 80,000	\$ 86,576	\$ 6,576
Interest income	4,805	4,805	7,725	2,920
Miscellaneous	75	75	2,531	2,456
Total revenues	84,880	84,880	96,832	11,952
Expenditures:				
Economic development	84,880	81,880	36,948	44,932
Total expenditures	84,880	81,880	36,948	44,932
Net change in fund balances	-	3,000	59,884	56,884
Fund balance, beginning of year	142,137	142,137	142,137	-
Fund balance, end of year	\$ 142,137	\$ 145,137	\$ 202,021	\$ 56,884

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 HOTEL/MOTEL TAX FUND
 YEAR ENDED SEPTEMBER 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Hotel/Motel tax	\$ 70,000	\$ 82,000	\$ 87,325	\$ 5,325
Interest income	1,025	12,501	12,468	(33)
Total revenues	71,025	94,501	99,793	5,292
Expenditures:				
Promotional	15,000	15,100	10,513	4,587
Total expenditures	15,000	15,100	10,513	4,587
Net change in fund balances	56,025	79,401	89,280	9,879
Fund balance, beginning of year	226,085	226,085	226,085	-
Fund balance, end of year	<u>\$ 282,110</u>	<u>\$ 305,486</u>	<u>\$ 315,365</u>	<u>\$ 9,879</u>

TOWN OF NORTHLAKE, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

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.