



February 10, 2011

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Northlake, Texas (the Town) as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the Town's internal control to be significant deficiencies:

Cutoff for Cash and Accounts Payable

During our audit, we noted that the Town understated cash and accounts payable for invoices paid subsequent to year-end. This impacted the financial statements for governmental and proprietary funds, and the government-wide financial statements. Additionally, it was noted during our audit that a policy is in place for bank reconciliations to be reviewed, however, the reconciliation we selected during our testing

To the Honorable Mayor and Town Council
Town of Northlake, Texas
February 10, 2011

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procedures had not been reviewed. Had the review procedure been followed it likely would have identified the discrepancy in the year-end cash and accounts payable balances.

We suggest the Town implement procedures as part of the year end close process to reconcile the cash and accounts payable balances to include activity through the year-end cutoff date and exclude activity after this date. Any manual entries required to adjust the cash and accounts payable balances to properly reflect the balances as of year-end should then be made. Additionally, the Town should ensure that a review of all bank reconciliations and year-end journal entries is occurring.

Year-End Adjustments to Accounts Receivable and Accrual Accounts

During our audit, we noted that the Town failed to make necessary adjustments to many of the accounts receivable and accrual accounts. Before audit adjustments, most of these accounts reflected prior year balances, indicating they had not been adjusted for 2010.

We suggest the Town implement procedures to reconcile accounts receivable and accrual accounts on at least a quarterly basis for accounts utilized throughout the year and at least an annual basis for all other accounts receivable and accrual accounts.

Segregation of Duties

Although the small size of the Town's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. Access to the general ledger system to post journal entries should be limited to those individuals to whom it is absolutely necessary. Currently, the Town Administrator, Town Accountant and Staff Accountant all have access to the general ledger system and can post entries. Additionally, there is no formal review process in place for manual journal entries. This can lead to an increased risk of misstatements due to fraud or error.

We suggest removing access to the journal entry system from the Town Administrator and implementing a policy for the Town Administrator to review journal entries. The review process can occur sporadically throughout the year and does not have to be all encompassing, but should serve to evaluate the legitimacy of entries being posted manually to the system by the accounting staff and provide an opportunity for correction of errors in a timely manner.

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Capital Assets

During our audit, we noted that although a schedule was maintained to track capital asset purchases, sales and depreciation during the year, no journal entries were made for the capitalization of new proprietary capital assets or their related depreciation. This impacts both the fund financial statements for the proprietary funds and the government-wide financial statements.

We suggest that the Town book entries to the general ledger system for proprietary funds on at least a quarterly basis to record depreciation and any other changes to proprietary fixed assets.

The following remarks are not considered to be significant deficiencies or material weaknesses, but are an opportunity for strengthening the internal controls and operating efficiency of the Town.

Monitoring Activities over Financial Reporting

During our audit, we noted no specific monitoring activities over financial reporting. Monitoring should include regular review of financial reporting, identification of what constitutes a deviation from expected control, feedback on effectiveness of controls, communication of deficiencies to Council should occur on a regular basis and remediation of identified deficiencies. Monitoring should be the primary indicator of control design and operating effectiveness, and audit reports should be reviewed for internal control matters.

We suggest the Town's management implement controls for monitoring the financial reporting process to help ensure the effectiveness of controls and ensure appropriate financial reporting.

Completeness of Capital Assets

During our audit, we noted no documented review of the capital asset detail by any individual other than the preparer. This may lead to an incomplete listing of capital assets and an insufficient capital asset balance as of year-end, as well as, misallocation of expenses between fiscal periods as too much expense would be recognized in the year of purchase rather than being spread out over the life of the asset.

To the Honorable Mayor and Town Council
Town of Northlake, Texas
February 10, 2011

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We suggest the Town Administrator review and approve the capital asset detail to help ensure a complete listing of purchases and sales during the year. During this process the date the asset was placed into service should also be reviewed and depreciation expense should be evaluated for appropriateness.

System and Manual Adjusting Journal Entries

In the process of our audit, we posted in excess of 25 journal entries in order to adjust the fund level financial statements to materially reflect the activity for fiscal year 2010 and the related year-end balances as of September 30, 2010. Many of these entries could have been avoided through regular reconciliations and reviews of the financial statement information by management and accounting staff.

We suggest the Town staff gain a good understanding of the system generated entries and consider which items need to be reconciled throughout the year in order to maintain the appropriate accrual or modified accrual basis of accounting and to avoid having differences accumulate over the course of the fiscal year.

This communication is intended solely for the information and use of management, the Honorable Mayor and Town Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

JRF:plh



February 10, 2011

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Northlake, Texas (the Town) for the year ended September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated October 5, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Town's financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Honorable Mayor and Town Council
Town of Northlake, Texas
February 10, 2011

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

General Fund

Increase in receivables and revenues of \$17,523 for franchise fees not yet collected as of year-end for the year ended September 30, 2010.

Increase in cash and accounts payable of \$105,940 for disbursements made after year-end.

Hotel/Motel Fund

Increase in receivables and revenues of \$8,745 for hotel/motel taxes not yet collected as of year-end for the year ended September 30, 2010.

Water and Sewer Fund

Increase in depreciation expense and related accumulated depreciation of \$37,869 to record depreciation for the fiscal year ended September 30, 2010.

Decrease in revenues and receivables of \$59,284 for overstatement of receivable balance for the year ended September 30, 2010.

Increase in cash and accounts payable of \$31,996 for disbursements made after year-end.

Economic Development Corporation Fund (4A)

Increase in accounts receivable and deferred revenues of \$22,435 to record developer receivables.

Economic Development Corporation Fund (4B)

Increase in accounts receivable and deferred revenues of \$13,433 to record developer receivables.

To the Honorable Mayor and Town Council
Town of Northlake, Texas
February 10, 2011

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Honorable Mayor, Town Council and management of Town of Northlake, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

JRF:plh

TOWN OF NORTHLAKE, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

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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, 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, 2010, 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, and the aggregate remaining fund information of the Town of Northlake, Texas as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows 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 and other required supplementary information on pages 2 through 9 and 38 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 43 and 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, TX
February 10, 2011

TOWN OF NORTHLAKE, TEXAS

Management's Discussion and Analysis

As management of the Town of Northlake (the Town), 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, 2010.

Financial Highlights

- The assets of the Town of Northlake exceeded its liabilities at the close of the most recent fiscal year by \$6,144,058 (Net assets). Of this amount, \$734,573 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$91,382.
- As of the close of the current fiscal year, the Town of Northlake's governmental funds reported combined ending fund balances of \$1,533,535, an increase of \$162,155 in comparison with the prior year. The increase is due primarily to the rebuilding of reserves in the General Fund offset by the spending down of the Capital Projects Fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was a surplus of \$303,439 or 18.2 % of total general fund expenditures.
- The Town's total long-term debt decreased \$11,467.

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 10-11 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities 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 five individual major governmental funds as well as other non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Capital Projects, Economic and Community Development and Hotel/Motel Tax funds.

The Town adopts an annual appropriated budget for all of its governmental funds. 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 12-15 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 16-18 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 19-37 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for certain Governmental Funds. Required supplementary information can be found on pages 38-45 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, 2010, the Town of Northlake's assets exceeded liabilities by \$6,144,058.

The largest portion of the Town's net assets (67.9%) 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 2009-10	FY 2008-09	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09
Current and Other Assets	\$ 1,868,313	\$ 1,740,347	\$ 574,915	\$ 739,961	\$ 2,443,228	\$ 2,480,308
Capital Assets	\$ 5,056,962	\$ 5,248,966	\$ 1,019,285	\$ 1,044,443	\$ 6,076,247	\$ 6,293,409
Total Assets	\$ 6,925,275	\$ 6,989,313	\$ 1,594,200	\$ 1,784,404	\$ 8,519,475	\$ 8,773,717
Long-Term Liabilities Outstanding	\$ 2,046,637	\$ 2,058,104	\$ 10,857	\$ 10,857	\$ 2,057,494	\$ 2,068,961
Other Liabilities	\$ 243,396	\$ 311,056	\$ 74,527	\$ 158,260	\$ 317,923	\$ 469,316
Total Liabilities	\$ 2,290,033	\$ 2,369,160	\$ 85,384	\$ 169,117	\$ 2,375,417	\$ 2,538,277
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 3,155,980	\$ 3,452,783	\$ 1,019,285	\$ 1,044,443	\$ 4,175,265	\$ 4,497,226
Restricted for Debt Service	\$ 30,794	\$ 27,567	\$ -	\$ -	\$ 30,794	\$ 27,567
Restricted for Capital Projects	\$ 36,283	\$ 120,633	\$ -	\$ -	\$ 36,283	\$ 120,633
Restricted for Court Technology and Security	\$ 98,156	\$ 92,978	\$ -	\$ -	\$ 98,156	\$ 92,978
Restricted for Economic Development	\$ 570,189	\$ 553,152	\$ -	\$ -	\$ 570,189	\$ 553,152
Restricted for Promotional Activities	\$ 498,798	\$ 453,784	\$ -	\$ -	\$ 498,798	\$ 453,784
Unrestricted	\$ 245,042	\$ (80,744)	\$ 489,531	\$ 570,844	\$ 734,573	\$ 490,100
Total Net Assets	\$ 4,635,242	\$ 4,620,153	\$ 1,508,816	\$ 1,615,287	\$ 6,144,058	\$ 6,235,440

The unrestricted net assets of \$734,573 may be used to meet the Town's ongoing obligations to citizens and creditors.

As of September 30, 2010, the Town is able to report a positive balance in all categories of net assets, for the government as a whole, as well as all categories for its separate governmental and business-type activities.

- Overall, there is a decrease of \$91,382 in total net assets during the fiscal year as mentioned above. This is driven by an increase in governmental activities net assets of \$15,089, offset by a decrease in business-type activities net assets of \$106,471.

Governmental Activities. Governmental activities increased the Town's net assets by \$15,089. Total revenues increased by \$96,134. The increase was due to an increase in property tax revenues due mostly to new construction and an increase in municipal court revenues. This increase was offset by continued decreases in sales tax and hotel occupancy tax collections. Decreases in expenses of \$255,171 were due to the reduction of development related consultant fees and reductions in capital outlays.

Business-type Activities. Business-type activities decreased the Town's net assets by \$106,471. Total operating revenue decreased for the year by \$96,454 due to relatively high rainfall for the fiscal year which reduced demand for water. Total operating expenses decreased by \$11,735.

Town of Northlake's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09
Revenues						
Program Revenues						
Fees, Fines and Charges for Services	\$ 675,898	\$ 759,010	\$ 573,456	\$ 669,910	\$ 1,249,354	\$ 1,428,920
General Revenues						
Property Taxes	\$ 822,195	\$ 694,223	\$ -	\$ -	\$ 822,195	\$ 694,223
Sales Taxes	\$ 215,718	\$ 247,016	\$ -	\$ -	\$ 215,718	\$ 247,016
Franchise Taxes	\$ 152,348	\$ 113,301	\$ -	\$ -	\$ 152,348	\$ 113,301
Hotel/Motel Taxes	\$ 97,539	\$ 71,908	\$ -	\$ -	\$ 97,539	\$ 71,908
Interest on Investments	\$ 2,984	\$ 12,862	\$ 1,405	\$ 6,100	\$ 4,389	\$ 18,962
Miscellaneous	\$ 81,179	\$ 53,407	\$ 20,120	\$ 108,000	\$ 101,299	\$ 161,407
Total Revenues	\$ 2,047,861	\$ 1,951,727	\$ 594,981	\$ 784,010	\$ 2,642,842	\$ 2,735,737
Expenses						
General Government	\$ 895,935	\$ 1,109,319	\$ -	\$ -	\$ 895,935	\$ 1,109,319
Municipal Court	\$ 225,192	\$ 249,971	\$ -	\$ -	\$ 225,192	\$ 249,971
Police	\$ 675,217	\$ 591,428	\$ -	\$ -	\$ 675,217	\$ 591,428
Public Works	\$ 203,285	\$ 281,734	\$ -	\$ -	\$ 203,285	\$ 281,734
Economic Development	\$ 77,024	\$ 97,797	\$ -	\$ -	\$ 77,024	\$ 97,797
Promotional	\$ 28,426	\$ 32,569	\$ -	\$ -	\$ 28,426	\$ 32,569
Interest on Long-Term Debt	\$ 96,693	\$ 94,125	\$ -	\$ -	\$ 96,693	\$ 94,125
Water and Sewer	\$ -	\$ -	\$ 532,452	\$ 544,187	\$ 532,452	\$ 544,187
Total Expenses	\$ 2,201,772	\$ 2,456,943	\$ 544,187	\$ 544,187	\$ 2,734,224	\$ 3,001,130
Change in Net Assets Before Transfers	\$ (153,911)	\$ (505,216)	\$ 62,529	\$ 239,823	\$ (91,382)	\$ (265,393)
Transfers	\$ 169,000	\$ 169,000	\$ (169,000)	\$ (169,000)	\$ -	\$ -
Change in Net Assets	\$ 15,089	\$ (336,216)	\$ (106,471)	\$ 70,823	\$ (91,382)	\$ (265,393)
Net Assets 9/30 Prior Year	\$ 4,620,153	\$ 4,956,369	\$ 1,615,287	\$ 1,544,464	\$ 6,235,440	\$ 6,500,833
Net Assets 9/30 Current Year	\$ 4,635,242	\$ 4,620,153	\$ 1,508,816	\$ 1,615,287	\$ 6,144,058	\$ 6,235,440

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 \$1,533,535, an increase of \$162,155 in comparison with the prior year. The unreserved, undesignated fund balance at year end is a surplus of \$303,439. 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 (\$36,283), 2) to pay for court technology and security (\$98,156), 3) to pay for economic development (\$570,189), 4) to pay for promotional activities (\$498,798), and 5) to service future debt obligations (\$26,670).

The general fund is the chief operating fund of the Town. The Town of Northlake budgeted and planned for an increase in fund balance for fiscal year 2009-10 of \$111,801 for the general fund.

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 \$489,531. The water and sewer fund had a net asset decrease of \$106,471.

General Fund Budgetary Highlights

The Town of Northlake ended the fiscal year 2009-10 with a positive revenue budget variance of \$15,665, which was primarily due to higher than anticipated sales tax collections, and municipal court fines. The Town had a positive expenditure budget variance of \$48,583 that was caused primarily due to lower than anticipated costs for various professional services, including engineering, planning and building inspection.

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, 2010, amount to \$6,076,247 (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 \$217,162. This was comprised of a \$192,004 decrease in governmental activities and a \$25,158 decrease for business type activities.*

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

- Construction of Public Works Equipment Storage Building
- Completion of Town Hall Expansion

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

	Governmental Activities		Business-type Activities		Total	
	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09
Land	\$ 2,754,654	\$ 2,754,654	\$ 15,986	\$ 15,986	\$ 2,770,640	\$ 2,770,640
Buildings and Improvements	\$ 218,285	\$ 126,667	\$ 34,464	\$ -	\$ 252,749	\$ 126,667
Automobiles	\$ 37,630	\$ 68,877	\$ 10,579	\$ 16,484	\$ 48,209	\$ 85,361
Equipment	\$ 19,347	\$ 40,550	\$ 3,881	\$ 6,331	\$ 23,228	\$ 46,881
Infrastructure	\$ 2,027,046	\$ 2,223,718	\$ -	\$ -	\$ 2,027,046	\$ 2,223,718
Water and Sewer System	\$ -	\$ -	\$ 954,375	\$ 983,142	\$ 954,375	\$ 983,142
Construction in Progress	\$ -	\$ 34,500	\$ -	\$ 22,500	\$ -	\$ 57,000
Total	\$ 5,056,962	\$ 5,248,966	\$ 1,019,285	\$ 1,044,443	\$ 6,076,247	\$ 6,293,409

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

Long-term Debt. At the end of the current fiscal year, the Town had total bonded debt outstanding of \$1,830,000. The debt is backed by the full faith and credit of the Town.

Town of Northlake's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09	FY 2009-10	FY 2008-09
Capital Leases	\$ 34,699	\$ 66,816	\$ -	\$ -	\$ 34,699	\$ 66,816
Certificates of Obligation	\$ 1,830,000	\$ 1,850,000	\$ -	\$ -	\$ 1,830,000	\$ 1,850,000
Total	\$ 1,864,699	\$ 1,916,816	\$ -	\$ -	\$ 1,864,699	\$ 1,916,816

During the current fiscal year, the Town's total debt decreased by \$52,117. Regularly scheduled annual principal and interest payments were made in a timely manner.

Additional information on the Town's long-term debt can be found in Note 5.

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 2010-2011. Overall, general fund revenues are expected to be higher in fiscal year 2010-2011. Sales tax revenue and permit fees are expected to increase slightly over fiscal year 2009-2010.

Expenses for the general fund are expected to increase. This is due to the Town increasing number of positions and converting part-time positions to full-time. Water and sewer fund revenues are expected to be higher than fiscal year 2010-2011 due to additional customers.

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 P.O. Box 729, Northlake, Texas 76247, phone (940) 648-3290 or email townsecretary@town.northlake.tx.us.

BASIC FINANCIAL STATEMENTS

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,420,315	\$ 602,821	\$ 2,023,136
Receivables (net of allowances for uncollectibles)	249,725	84,934	334,659
Prepaid expense	-	59,769	59,769
Internal balances	172,609	(172,609)	-
Deferred charges	25,664	-	25,664
Capital assets (net of accumulated depreciation)			
Land	2,754,654	15,986	2,770,640
Buildings and improvements	218,285	34,464	252,749
Automobiles	37,630	10,579	48,209
Equipment	19,347	3,881	23,228
Infrastructure	2,027,046	-	2,027,046
Water and sewer system	-	954,375	954,375
Total assets	6,925,275	1,594,200	8,519,475
LIABILITIES			
Accounts payable	149,445	32,034	181,479
Accrued liabilities	93,951	42,493	136,444
Noncurrent liabilities			
Due within one year	101,438	7,067	108,505
Due in more than one year	1,945,199	3,790	1,948,989
Total liabilities	2,290,033	85,384	2,375,417
NET ASSETS			
Invested in capital assets, net of related debt	3,155,980	1,019,285	4,175,265
Restricted for debt service	30,794	-	30,794
Restricted for capital projects	36,283	-	36,283
Restricted for court technology and security	98,156	-	98,156
Restricted for economic development	570,189	-	570,189
Restricted for promotional activities	498,798	-	498,798
Unrestricted	245,042	489,531	734,573
Total net assets	\$ 4,635,242	\$ 1,508,816	\$ 6,144,058

The Notes to Basic Financial Statements are an integral part of this statement.

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010**

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	\$ 895,935	\$ -	\$ -	\$ -	\$ (895,935)	\$ -	\$ (895,935)
Municipal court	225,192	46,305	-	-	(178,887)	-	(178,887)
Police	675,217	552,622	-	-	(122,595)	-	(122,595)
Public works	203,285	76,971	-	-	(126,314)	-	(126,314)
Economic development	77,024	-	-	-	(77,024)	-	(77,024)
Promotional	28,426	-	-	-	(28,426)	-	(28,426)
Interest on long-term debt	96,693	-	-	-	(96,693)	-	(96,693)
Total governmental activities	2,201,772	675,898	-	-	(1,525,874)	-	(1,525,874)
Business-type activities							
Water and sewer	532,452	573,456	-	-	-	41,004	41,004
Total business-type activities	532,452	573,456	-	-	-	41,004	41,004
Total primary government	\$ 2,734,224	\$ 1,249,354	\$ -	\$ -	(1,525,874)	41,004	(1,484,870)
General revenues							
Taxes							
Property taxes					822,195	-	822,195
Sales taxes					215,718	-	215,718
Franchise taxes					152,348	-	152,348
Hotel/Motel taxes					97,539	-	97,539
Interest					2,984	1,405	4,389
Miscellaneous					81,179	20,120	101,299
Transfers					169,000	(169,000)	-
Total general revenues and transfers					1,540,963	(147,475)	1,393,488
Change in net assets					15,089	(106,471)	(91,382)
NET ASSETS, beginning of year					4,620,153	1,615,287	6,235,440
NET ASSETS, end of year					\$ 4,635,242	\$ 1,508,816	\$ 6,144,058

The Notes to Basic Financial Statements are an integral part of this statement.

**TOWN OF NORTHLAKE, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

ASSETS	General Fund	Capital Projects Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 131,480	\$ 153,784	\$ 284,298	\$ 270,232	\$ 431,353	\$ 149,168	\$ 1,420,315
Receivables							
Property taxes, net of allowance	20,991	-	-	-	-	3,382	24,373
Sales taxes	17,313	-	8,657	8,657	-	-	34,627
Franchise taxes	88,732	-	-	-	-	-	88,732
Hotel/Motel taxes	-	-	-	-	14,979	-	14,979
Municipal court receivable, net	47,163	-	-	-	-	-	47,163
Other accounts receivable	39,844	-	-	-	-	7	39,851
Due from other funds	260,506	-	-	-	53,373	-	313,879
Total assets	\$ 606,029	\$ 153,784	\$ 292,955	\$ 278,889	\$ 499,705	\$ 152,557	\$ 1,983,919
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 148,865	\$ -	\$ -	\$ -	\$ -	\$ 580	\$ 149,445
Accrued liabilities	49,703	-	828	827	907	-	52,265
Deferred revenue	104,022	-	-	-	-	3,382	107,404
Due to other funds	-	117,501	-	-	-	23,769	141,270
Total liabilities	302,590	117,501	828	827	907	27,731	450,384
Fund balances							
Reserved for							
Debt service	-	-	-	-	-	26,670	26,670
Capital projects	-	36,283	-	-	-	-	36,283
Court technology and security	-	-	-	-	-	98,156	98,156
Economic development	-	-	292,127	278,062	-	-	570,189
Promotional activities	-	-	-	-	498,798	-	498,798
Unreserved, undesignated	303,439	-	-	-	-	-	303,439
Total fund balances	303,439	36,283	292,127	278,062	498,798	124,826	1,533,535
Total liabilities and fund balances	\$ 606,029	\$ 153,784	\$ 292,955	\$ 278,889	\$ 499,705	\$ 152,557	\$ 1,983,919

The Notes to Basic Financial Statements are an integral part of this statement.

**TOWN OF NORTHLAKE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Total fund balances - governmental funds	\$ 1,533,535
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.	5,056,962
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	107,404
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.	25,664
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.	(41,686)
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.	<u>(2,046,637)</u>
Net assets of governmental activities	<u><u>\$ 4,635,242</u></u>

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Capital Projects Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes							
Property	\$ 705,509	\$ -	\$ -	\$ -	\$ -	\$ 115,266	\$ 820,775
Sales and beverage	107,858	-	53,930	53,930	-	-	215,718
Franchise	152,348	-	-	-	-	-	152,348
Hotel/Motel	-	-	-	-	97,539	-	97,539
Building permits, plat and other fees	76,971	-	-	-	-	-	76,971
Municipal court	583,536	-	-	-	-	-	583,536
Interest income	386	373	623	578	901	123	2,984
Miscellaneous	6,348	16,008	-	-	-	41,361	63,717
Total revenues	1,632,956	16,381	54,553	54,508	98,440	156,750	2,013,588
Expenditures							
Current							
General government	585,433	-	-	-	-	-	585,433
Municipal court	204,236	-	-	-	-	29,837	234,073
Police	637,516	-	-	-	-	6,454	643,970
Public works	203,285	-	-	-	-	-	203,285
Economic development	-	-	37,799	39,225	-	-	77,024
Promotional	-	-	-	-	28,426	-	28,426
Capital outlay	-	100,731	-	-	-	-	100,731
Debt service							
Principal	32,117	-	-	-	-	20,000	52,117
Interest and fiscal charges	3,320	-	-	-	-	92,054	95,374
Total expenditures	1,665,907	100,731	37,799	39,225	28,426	148,345	2,020,433
Excess (deficiency) of revenues over expenditures	(32,951)	(84,350)	16,754	15,283	70,014	8,405	(6,845)
Other financing sources (uses)							
Transfers in	209,000	-	12,500	12,500	-	-	234,000
Transfers out	-	-	(20,000)	(20,000)	(25,000)	-	(65,000)
Total other financing sources (uses)	209,000	-	(7,500)	(7,500)	(25,000)	-	169,000
Net change in fund balances	176,049	(84,350)	9,254	7,783	45,014	8,405	162,155
Fund balances, beginning of year	127,390	120,633	282,873	270,279	453,784	116,421	1,371,380
Fund balances, end of year	\$ 303,439	\$ 36,283	\$ 292,127	\$ 278,062	\$ 498,798	\$ 124,826	\$ 1,533,535

The Notes to Basic Financial Statements are an integral part of this statement.

**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, 2010**

Net change in fund balances - total governmental funds	\$ 162,155
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.	158,472
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.	(350,476)
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.	50,342
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.	(40,650)
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.	456
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>34,790</u>
Change in net assets of governmental activities	<u><u>\$ 15,089</u></u>

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010**

<u>ASSETS</u>	<u>Business Type Activities - Enterprise Fund Water and Sewer</u>
Current assets	
Deposits and investments	\$ 602,821
Accounts receivable, net	84,934
Prepaid expense	<u>59,769</u>
Total current assets	747,524
Property, plant and equipment	
Land	15,986
Buildings and improvements	35,211
Automobiles	17,714
Water and sewer system	1,150,697
Equipment	<u>24,500</u>
	1,244,108
Less accumulated depreciation	<u>224,823</u>
Net property, plant and equipment	<u>1,019,285</u>
TOTAL ASSETS	1,766,809
<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities	
Payable from current assets	
Accounts payable	32,034
Accrued liabilities	42,493
Compensated absences - current portion	7,067
Due to other funds	<u>172,609</u>
Total current liabilities	254,203
Compensated absences	3,790
Net assets	
Invested in capital assets, net of related debt	1,019,285
Unrestricted	<u>489,531</u>
TOTAL NET ASSETS	\$ 1,508,816

The Notes to Basic Financial Statements are an integral part of this statement.

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Business Type Activities - Enterprise Fund Water and Sewer
Operating revenues	
Water and sewer service	<u>\$ 573,456</u>
Total operating revenues	573,456
Operating expenses	
Operating expenses	494,583
Depreciation	<u>37,869</u>
Total operating expenses	<u>532,452</u>
Operating income	41,004
Nonoperating revenues	
Interest income	1,405
Miscellaneous revenue	<u>20,120</u>
Total nonoperating revenues	<u>21,525</u>
Income before transfers	62,529
Transfers out	<u>(169,000)</u>
Change in net assets	(106,471)
Net assets, beginning of year	<u>1,615,287</u>
Net assets, end of year	<u><u>\$ 1,508,816</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

**TOWN OF NORTHLAKE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Business-Type Activities - Enterprise Fund Water and Sewer
OPERATING ACTIVITIES	
Cash received from customers	\$ 611,759
Cash payments to suppliers for goods and services	(638,085)
Payments received from other funds	172,609
	<hr/>
Net cash provided by operating activities	146,283
NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(169,000)
Cost recovery fees	20,120
	<hr/>
Net cash used in noncapital financing activities	(148,880)
CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital expenditures	(12,711)
	<hr/>
Net cash used in capital and related financing activities	(12,711)
INVESTING ACTIVITIES	
Interest received	1,405
	<hr/>
Net cash provided by investing activities	1,405
	<hr/>
Net decrease in cash and cash equivalents	(13,903)
Cash and cash equivalents, beginning of year	616,724
	<hr/>
Cash and cash equivalents, end of year	\$ 602,821
	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 41,004
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	37,869
Change in assets and liabilities:	
Accounts receivable	38,303
Prepaid expenses	(59,769)
Accounts payable and accrued liabilities	88,876
	<hr/>
Net cash provided by operating activities	\$ 146,283
	<hr/> <hr/>

The Notes to Basic Financial Statements are an integral part of this statement.

**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 Community 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

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.

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:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

General Fund

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

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of governmental capital assets including but not limited to right-of-way, roads, road drainage, and traffic lights.

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.

Other Non Major Funds

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

Proprietary Funds 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:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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.

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.

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus/Basis of Accounting – Continued

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

Use of Restricted/Unrestricted Net Assets

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

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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

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

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 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.

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

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Disclosures Relating to Interest Rate Risk – Continued

As of September 30, 2010, the Town had the following investments:

<u>Investment Type</u>	<u>Weighted Average Amount</u>	<u>Maturity</u>
Logic	\$ 1,617,613	40 days

As of September 30, 2010, the Town did not invest in any securities that 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, 2010</u>
Logic	\$ 1,617,613	AAA	AAA

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, 2010, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2010, the carrying amount of the Town's cash on hand and deposits were \$405,523 and the bank balance was \$432,708. The bank balance was fully covered by federal depository insurance.

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 an investment pool, specifically LOGIC.

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

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

NOTE 3. ACCOUNTS RECEIVABLE

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible accounts as of September 30, 2010, including the applicable allowances for uncollectible accounts, are presented below.

	General Fund		Debt Service Fund	Enterprise Fund Water and Sewer
	Property Tax Receivable	Municipal Court Receivable	Property Tax Receivable	Accounts Receivable
Gross receivables	\$ 23,011	\$ 157,211	\$ 3,707	\$ 86,691
Less allowance for uncollectibles	<u>2,020</u>	<u>110,048</u>	<u>325</u>	<u>1,757</u>
Net receivables	<u><u>\$ 20,991</u></u>	<u><u>\$ 47,163</u></u>	<u><u>\$ 3,382</u></u>	<u><u>\$ 84,934</u></u>

TOWN OF NORTHLAKE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance September 30, 2009	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2010
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,754,654	\$ -	\$ -	\$ 2,754,654
Construction in progress	34,500	-	(34,500)	-
	<u>2,789,154</u>	<u>-</u>	<u>(34,500)</u>	<u>2,754,654</u>
Total capital assets not being depreciated	2,789,154	-	(34,500)	2,754,654
Capital assets being depreciated				
Buildings and improvements	187,132	69,094	34,500	290,726
Automobiles	247,624	-	-	247,624
Equipment	111,905	-	-	111,905
Infrastructure	3,091,618	89,378	-	3,180,996
	<u>3,638,279</u>	<u>158,472</u>	<u>34,500</u>	<u>3,831,251</u>
Total capital assets being depreciated	3,638,279	158,472	34,500	3,831,251
Less accumulated depreciation				
Buildings and improvements	60,465	11,976	-	72,441
Automobiles	178,747	31,247	-	209,994
Equipment	71,355	21,203	-	92,558
Infrastructure	867,900	286,050	-	1,153,950
	<u>1,178,467</u>	<u>350,476</u>	<u>-</u>	<u>1,528,943</u>
Total accumulated depreciation	1,178,467	350,476	-	1,528,943
Total capital assets being depreciated, net	<u>2,459,812</u>	<u>(192,004)</u>	<u>34,500</u>	<u>2,302,308</u>
Governmental activities capital assets, net	<u>\$ 5,248,966</u>	<u>\$ (192,004)</u>	<u>\$ -</u>	<u>\$ 5,056,962</u>

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

NOTE 4. CAPITAL ASSETS – CONTINUED

	Balance September 30, 2009	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2010
Business-type activities				
Capital assets not being depreciated				
Land	\$ 15,986	\$ -	\$ -	\$ 15,986
Construction in progress	22,500	-	(22,500)	-
	<u>38,486</u>	<u>-</u>	<u>(22,500)</u>	<u>15,986</u>
Total capital assets not being depreciated	38,486	-	(22,500)	15,986
Capital assets being depreciated				
Buildings and improvements	-	12,711	22,500	35,211
Equipment	24,500	-	-	24,500
Automobiles	17,714	-	-	17,714
Water and sewer system	1,150,697	-	-	1,150,697
	<u>1,192,911</u>	<u>12,711</u>	<u>22,500</u>	<u>1,228,122</u>
Total capital assets being depreciated	1,192,911	12,711	22,500	1,228,122
Less accumulated depreciation				
Buildings and improvements	-	747	-	747
Equipment	18,169	2,450	-	20,619
Automobiles	1,230	5,905	-	7,135
Water and sewer system	167,555	28,767	-	196,322
	<u>186,954</u>	<u>37,869</u>	<u>-</u>	<u>224,823</u>
Total accumulated depreciation	186,954	37,869	-	224,823
Total capital assets being depreciated, net	<u>1,005,957</u>	<u>(25,158)</u>	<u>22,500</u>	<u>1,003,299</u>
Business-type capital assets, net	<u>\$ 1,044,443</u>	<u>\$ (25,158)</u>	<u>\$ -</u>	<u>\$ 1,019,285</u>

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

NOTE 4. CAPITAL ASSETS – CONTINUED

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

Governmental activities	
General government	\$ 32,712
Municipal court	467
Police	31,247
Public works	<u>286,050</u>
Total depreciation expense - Governmental activities	<u><u>\$ 350,476</u></u>
Business-type activities	
Water and sewer	<u>\$ 37,869</u>
Total depreciation expense - Business-type activities	<u><u>\$ 37,869</u></u>

NOTE 5. LONG-TERM DEBT

Amounts payable at September 30, 2010 are comprised of the following individual issues:

	Governmental Activities	Business-type Activities
Capital Leases		
Various lease agreements for various types of equipment, with terms of 36 months with effective interest rates ranging from 6.5 to 12.0%.		
	<u>\$ 34,699</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>\$ 1,830,000</u>	<u>\$ -</u>

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

NOTE 5. LONG-TERM DEBT – CONTINUED

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2010:

	Beginning of Year	Increase	Decrease	End of Year	Within One Year
Governmental Activities					
Capital Leases	\$ 66,816	\$ -	\$ 32,117	\$ 34,699	\$ 29,853
Certificates of Obligation	1,850,000	-	20,000	1,830,000	25,000
Compensated Absences	141,288	40,650	-	181,938	46,585
Total governmental activities	<u>\$ 2,058,104</u>	<u>\$ 40,650</u>	<u>\$ 52,117</u>	<u>\$ 2,046,637</u>	<u>\$ 101,438</u>
Business-type Activities					
Compensated Absences	\$ 10,857	\$ -	\$ -	\$ 10,857	\$ 7,067
Total business-type activities	<u>\$ 10,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,857</u>	<u>\$ 7,067</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2010, are as follows:

Certificates of Obligation:

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2011	\$ 25,000	\$ 90,951	\$ -	\$ -	\$ 115,951
2012	75,000	89,708	-	-	164,708
2013	85,000	85,981	-	-	170,981
2014	90,000	81,756	-	-	171,756
2015	100,000	77,284	-	-	177,284
2016-2020	605,000	305,904	-	-	910,904
2021-2025	850,000	131,705	-	-	981,705
	<u>\$ 1,830,000</u>	<u>\$ 863,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,693,289</u>

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

NOTE 5. LONG-TERM DEBT – CONTINUED

Annual Requirements to Retire Debt Obligations – Continued

Capital Leases

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2011	\$ 29,853	\$ 1,406	\$ -	\$ -	\$ 31,259
2012	4,846	60	-	-	4,906
	<u>\$ 34,699</u>	<u>\$ 1,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,165</u>

Operating Leases

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

2011	\$ 7,902
2012	3,983
2013	<u>2,208</u>
	<u>\$ 14,093</u>

Rent expenditures were \$54,069 for the year ended September 30, 2010.

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

NOTE 6. 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	\$ 169,000
General Fund	4A Fund	20,000
General Fund	4B Fund	20,000
4A Fund	Hotel/Motel Fund	12,500
4B Fund	Hotel/Motel Fund	12,500
		<u>\$ 234,000</u>

Due to/from are primarily related to short term loans to cover temporary cash shortages.

At September 30, 2010, there was a due to the General Fund from the Special Revenue Fund in the amount of \$23,769, from the Capital Projects Fund in the amount of \$64,128, and from the Water/Sewer Fund in the amount of \$172,609. There was also a due to the Hotel/Motel Fund from the Capital Projects Fund in the amount of \$53,373.

NOTE 7. EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

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

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

NOTE 7. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Plan Description – Continued

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

	<u>Plan Year 2010</u>	<u>Plan Year 2009</u>
Deposit rate:	6%	6%
Matching ratio (Town to Employee):	2-1	2-1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

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

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

	<u>Plan Year</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 36,982	\$ 58,990	\$ 52,796
Interest on net pension obligation	-	-	-
Adjustment to the ARC	-	-	-
Annual pension cost (APC)	36,982	58,990	52,796
Contributions made (100% contributed)	(36,982)	(58,990)	(52,796)
Increase (decrease) in net pension obligation	-	-	-
Net pension obligation (asset), beginning of year	-	-	-
Net pension obligation (asset), end of year	\$ -	\$ -	\$ -

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

NOTE 7. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Contributions – Continued

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25 years; closed period	24 years; closed period	24 years; closed period
Amortization Period for New Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	\$ 448,449	\$ 572,296	78.4%	\$ 123,847	\$ 873,371	14.2%

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

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

NOTE 7. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Supplemental Death Benefits

Plan Description

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

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

Contributions

The Town contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The Town’s contribution rates for the last three calendar/plan years are as follows:

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

Plan Year	Annual Required Contribution (Rate)	Annual Contribution Made (Rate)	% of ARC Contributed
2007	0.00%	0.00%	100.0%
2008	0.00%	0.00%	100.0%
2009	0.00%	0.00%	100.0%

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

NOTE 8. 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, 2009. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2010 or any of the three preceding years.

NOTE 9. SUBSEQUENT EVENTS

On October 14, 2010, the Town entered into a tax note, for the purpose of purchasing a road grader. The note carries a total principal balance of \$245,000, with interest rates ranging from 1.85% to 3.45% and a maturity date of February 15, 2017. Payments of principal and interest are due annually, beginning February 15, 2011.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**TOWN OF NORTHLAKE, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2010**

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

<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>
12/31/07	\$ 229,692	\$ 282,329	81.4%	\$ 52,637	\$ 541,493	9.7%
12/31/08	323,426	400,527	80.8%	77,101	694,984	11.1%
12/31/09	448,449	572,296	78.4%	123,847	873,371	14.2%

**TOWN OF NORTHLAKE, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues				
Taxes				
Property	\$ 691,966	\$ 701,966	\$ 705,509	\$ 3,543
Sales and beverage	150,000	100,000	107,858	7,858
Franchise	146,500	167,000	152,348	(14,652)
Building permits, plat and other fees	163,500	85,750	76,971	(8,779)
Municipal court	580,075	556,075	583,536	27,461
Interest income	-	500	386	(114)
Miscellaneous	-	6,000	6,348	348
Total revenues	1,732,041	1,617,291	1,632,956	15,665
Expenditures				
Current				
General government	568,980	569,465	585,433	(15,968)
Municipal court	220,762	210,112	204,236	5,876
Police	703,118	660,983	637,516	23,467
Public works	287,838	235,930	203,285	32,645
Capital outlay	-	-	-	-
Debt Service				
Principal	-	38,000	32,117	5,883
Interest and fiscal charges	-	-	3,320	(3,320)
Total expenditures	1,780,698	1,714,490	1,665,907	48,583
Excess (deficiency) of revenues over expenditures	(48,657)	(97,199)	(32,951)	64,248
Other financing sources (uses):				
Transfers in	209,000	209,000	209,000	-
Total other financing sources (uses)	209,000	209,000	209,000	-
Net change in fund balances	160,343	111,801	176,049	64,248
Fund balance, beginning of year	127,390	127,390	127,390	-
Fund balance, end of year	\$ 287,733	\$ 239,191	\$ 303,439	\$ 64,248

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 ECONOMIC DEVELOPMENT CORPORATION 4A
 YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
Revenues				
Sales taxes	\$ 75,000	\$ 50,000	\$ 53,930	\$ 3,930
Interest income	2,500	2,500	623	(1,877)
Total revenues	77,500	52,500	54,553	2,053
Expenditures				
Economic development	66,248	41,248	37,799	3,449
Total expenditures	66,248	41,248	37,799	3,449
Other financing sources (uses)				
Transfers in	-	-	12,500	12,500
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	(20,000)	(20,000)	(7,500)	12,500
Net change in fund balances	(8,748)	(8,748)	9,254	18,002
Fund balance, beginning of year	282,873	282,873	282,873	-
Fund balance, end of year	\$ 274,125	\$ 274,125	\$ 292,127	\$ 18,002

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 COMMUNITY DEVELOPMENT CORPORATION 4B
 YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 75,000	\$ 50,000	\$ 53,930	\$ 3,930
Interest income	2,500	2,500	578	(1,922)
Total revenues	77,500	52,500	54,508	2,008
Expenditures				
Economic development	66,248	41,248	39,225	2,023
Total expenditures	66,248	41,248	39,225	2,023
Other financing sources (uses)				
Transfers in	-	-	12,500	12,500
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	(20,000)	(20,000)	(7,500)	12,500
Net change in fund balances	(8,748)	(8,748)	7,783	16,531
Fund balance, beginning of year	270,279	270,279	270,279	-
Fund balance, end of year	\$ 261,531	\$ 261,531	\$ 278,062	\$ 16,531

**TOWN OF NORTHLAKE, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 HOTEL/MOTEL TAX FUND
 YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Hotel/Motel tax	\$ 150,000	\$ 100,000	\$ 97,539	\$ (2,461)
Interest income	-	-	901	901
Total revenues	150,000	100,000	98,440	(1,560)
Expenditures				
Promotional	22,306	22,306	28,426	(6,120)
Total expenditures	22,306	22,306	28,426	(6,120)
Other financing sources (uses)				
Transfers out	-	-	(25,000)	(25,000)
Total other financing sources (uses)	-	-	(25,000)	(25,000)
Net change in fund balances	127,694	77,694	45,014	(32,680)
Fund balance, beginning of year	315,365	315,365	453,784	138,419
Fund balance, end of year	\$ 443,059	\$ 393,059	\$ 498,798	\$ 105,739

**TOWN OF NORTHLAKE, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 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.

Excess of Expenditures over Appropriations

For the year ended September 30, 2010, expenditures exceed appropriations in the Hotel/Motel fund by \$6,120. The excess expenditures were covered by available fund balance in the fund.

COMBINING SCHEDULES

**TOWN OF NORTHLAKE, TEXAS
 COMBINING BALANCE SHEET -
 NON MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010**

<u>ASSETS</u>	Debt Service Fund	Special Revenue Fund	Total Non Major Governmental Funds
Cash and cash equivalents	\$ 26,670	\$ 122,498	\$ 149,168
Receivables			
Property taxes, net of allowance	3,382	-	3,382
Other	-	7	7
	<u> </u>	<u> </u>	<u> </u>
Total assets and other debits	<u>\$ 30,052</u>	<u>\$ 122,505</u>	<u>\$ 152,557</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 580	\$ 580
Deferred revenue	3,382	-	3,382
Due to other governmental funds	-	23,769	23,769
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	3,382	24,349	27,731
<u>Fund Balances</u>			
Reserved for			
Debt service	26,670	-	26,670
Court technology and security	-	98,156	98,156
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	26,670	98,156	124,826
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 30,052</u>	<u>\$ 122,505</u>	<u>\$ 152,557</u>

**TOWN OF NORTHLAKE, TEXAS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
NON MAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	Debt Service Fund	Special Revenue Fund	Total Non Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Taxes			
Property	\$ 115,266	\$ -	\$ 115,266
Interest income	15	108	123
Miscellaneous	<u>-</u>	<u>41,361</u>	<u>41,361</u>
Total revenues	115,281	41,469	156,750
Expenditures			
Current			
General government	-	-	-
Municipal court	-	29,837	29,837
Police	-	6,454	6,454
Debt service			
Principal	20,000	-	20,000
Interest and fiscal charges	<u>92,054</u>	<u>-</u>	<u>92,054</u>
Total expenditures	<u>112,054</u>	<u>36,291</u>	<u>148,345</u>
Excess of revenues over expenditures	3,227	5,178	8,405
Other financing sources			
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	3,227	5,178	8,405
Fund balances, beginning of year	<u>23,443</u>	<u>92,978</u>	<u>116,421</u>
Fund balances, end of year	<u>\$ 26,670</u>	<u>\$ 98,156</u>	<u>\$ 124,826</u>