

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Town of Northlake, Texas

Fiscal year ended September 30, 2018

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Town of Northlake, Texas
Annual Financial Report
Year ended September 30, 2018

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Town of Northlake, Texas

Annual Financial Report

Year ended September 30, 2018

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INTRODUCTORY SECTION

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February 20, 2019

To: The Honorable Mayor, Town Council Members, and the Citizens of Northlake:

The Comprehensive Annual Financial Report (CAFR) of the Town of Northlake, Texas for the fiscal year ended September 30, 2018 is submitted to you. Local Government Code Chapter 103 prescribes that a municipality shall have an annual audit by a licensed certified public accountant. The annual certified financial statements, including the auditor's opinion on the statement, must be filed with the Town's Secretary within 180 days after the Town's fiscal year end.

This report consists of management's representations concerning the finances of the Town; therefore, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the management of the Town has established an internal controls framework that is designed both to protect the Town's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with General Accepted Accounting Principals (GAAP). Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert that to the best of our knowledge and belief this financial report is complete and reliable in all material respects.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending on September 30, 2018 are free of material misstatements. The Town's financial statements have been audited by M. Vail & Associates, P.C., Independent Certified Public Accountants. Their audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statements. Upon completion of the audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended September 30, 2018 are fairly presented in conformity with GAAP. The auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Town Profile

The Town of Northlake is located in Denton County, Texas and town limits are approximately 17 square miles with an additional 15 square miles of extraterritorial jurisdiction. The Town is bisected by the Interstate 35W highway corridor and from this corridor begins at Fort Worth, Texas extends eastward towards Argyle, Texas, westward towards Justin, Texas and ends at Denton, Texas to the north.

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

The Town Administrator is responsible for implementing the policies, ordinances and resolutions enacted by the governing body, managing day-to-day operations of the Town, and appointing the department directors. The Town Secretary is the official record keeper of the Town.

The Town Council has created a Type A Economic Development Corporation and a Type B Community Development Corporation. Each of these corporations are operated by a board of directors that are appointed by the Mayor and Council members.

To better serve the residents of Northlake and to manage development, the Mayor and Council members have adopted a Comprehensive Future Land Use Plan, Parks, Recreation and Open Space Master Plan, Master Thoroughfare Plan and Unified Development Code.

Services Provided

The Town of Northlake provides police services, municipal court services, water and wastewater utility services, utility billing services, public works services, and developmental services.

Other Services Provided

Solid waste rubbish and collection services for the Town are contracted through Progressive Waste Solutions. Fire and EMS services is provided by Denton County Emergency Services Number 1 and is funded through a district-wide property tax levy. The Town contracts with the Upper Trinity Regional Water District and with City of Fort Worth for the purchase of wholesale water. Wastewater treatment and collection services are contracted with the Trinity River Authority.

Economic Conditions and Outlook

Due to the strength of the regions’ economic conditions, the proximity of the Town to major job centers within the Dallas-Fort Worth (DFW) and Denton Metroplexes, and the exemplary school districts within the Town has caused increased development within the Town.

During fiscal year 2018 welcomed the opening of several commercial businesses including an IHOP restaurant, Popeyes restaurant, BurgerIM restaurant, two 7-Eleven locations, and Milestone Dental of Northlake. During fiscal year 2018 two warehouse distribution companies relocated to Town; Allen Food Distribution and Lab Supply and reLogistics.

Residential growth continued during fiscal year 2018 with 195 new residential home permits being issued. 148 permits were issued in Canyon Falls, a master planned community east of I-35W and north of FM 1171. The remaining permits are from large lot neighborhoods with lot sizes ranging from one acre to five acres.

Fiscal Year 2018 Budget

The general themes of the 2018 fiscal year adopted budget was to maintain one of the lowest tax rates in Denton County, protect the Town's future and existing infrastructure, service enhancements, continued funding of maintenance and operational activities, and to maintain the fiscal health of the Town's net position.

In order to achieve the goals mentioned above, the Town Council maintained the same property tax rate of prior years'; \$0.295 per \$100.00 of valuation. In addition, the Town approved the following expenditures:

- Roadway projects consisting of the repaving of Florance Road from FM 407 to Strader Road, the paving of Cleveland-Gibbs Road from FM 407 to FM 1171, the paving of Sam Lee Lane from Ashmore Lane to 1,850 feet east, and the microseal of Schober Road and Bingham Road.
- The expansion of personnel by the addition of two administrative assistant positions; one for the Public Works department and the other for the Police Department, the creation of a Public Works Inspector, and the creation of a Code Compliance Officer in Development Services.
- Employment benefits were enhanced by the implementation of a tiered salary increase from 3% - 4%, reduction of service retirement from 25 years to 20 years, and the implementation of an education incentive for post-secondary degrees.
- Equipment purchases for Police Officer safety, traffic enforcement, criminal investigations, and the purchase of vehicles for the Police Department, Public Works Department, and the Code Compliance Officer.
- The finish out of the Town Hall lease space and the movement staff to the new space during the summer of 2018.
- Begin design of Phase 3 of the northern pressure plain and Phase 1 of the southern pressure plain including ground storage, pumps and elevated tanks.

The majority of the adopted budget goals were completed during fiscal year 2018 with the exception of the completion of Cleveland-Gibbs Road and Sam Lee Road which was completed during the first quarter of fiscal year 2019. Due to poor weather conditions, the Town Hall lease space was not completed until November 2018 with administrative, municipal courts, and developmental services moving into the new space during the first week of December 2018.

Accounting and Budgetary Controls

In developing and maintaining the Town's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide

reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgements by management.

All of the Town's internal control evaluations occur within the above framework. We believe the Town's internal controls both adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annually adopted budget serves as the foundation of the Town Council's financial and planning control. State law requires the budget to be adopted by the Town Council, on an annual basis, before the start of the new fiscal year. In addition, state law requires that the Town Council hold public hearings so that citizens may have the opportunity to review and provide comment on the proposed budget.

In assist the Mayor and Town Council with the annual budget, The Town Administrator and Departmental Directors prepare program expenditure and revenue estimates for the remainder of the current fiscal year as well as for the upcoming fiscal year. These estimates are submitted to the Town Council for consideration for revisions to the current year fiscal budget and for the adoption into the upcoming fiscal year budget.

A budgetary comparison to actual activities is provided later in this report for the General Fund, Hotel/Motel Fund, Capital Projects Fund, Economic Development Corporation, and the Community Development Corporation.

Acknowledgements

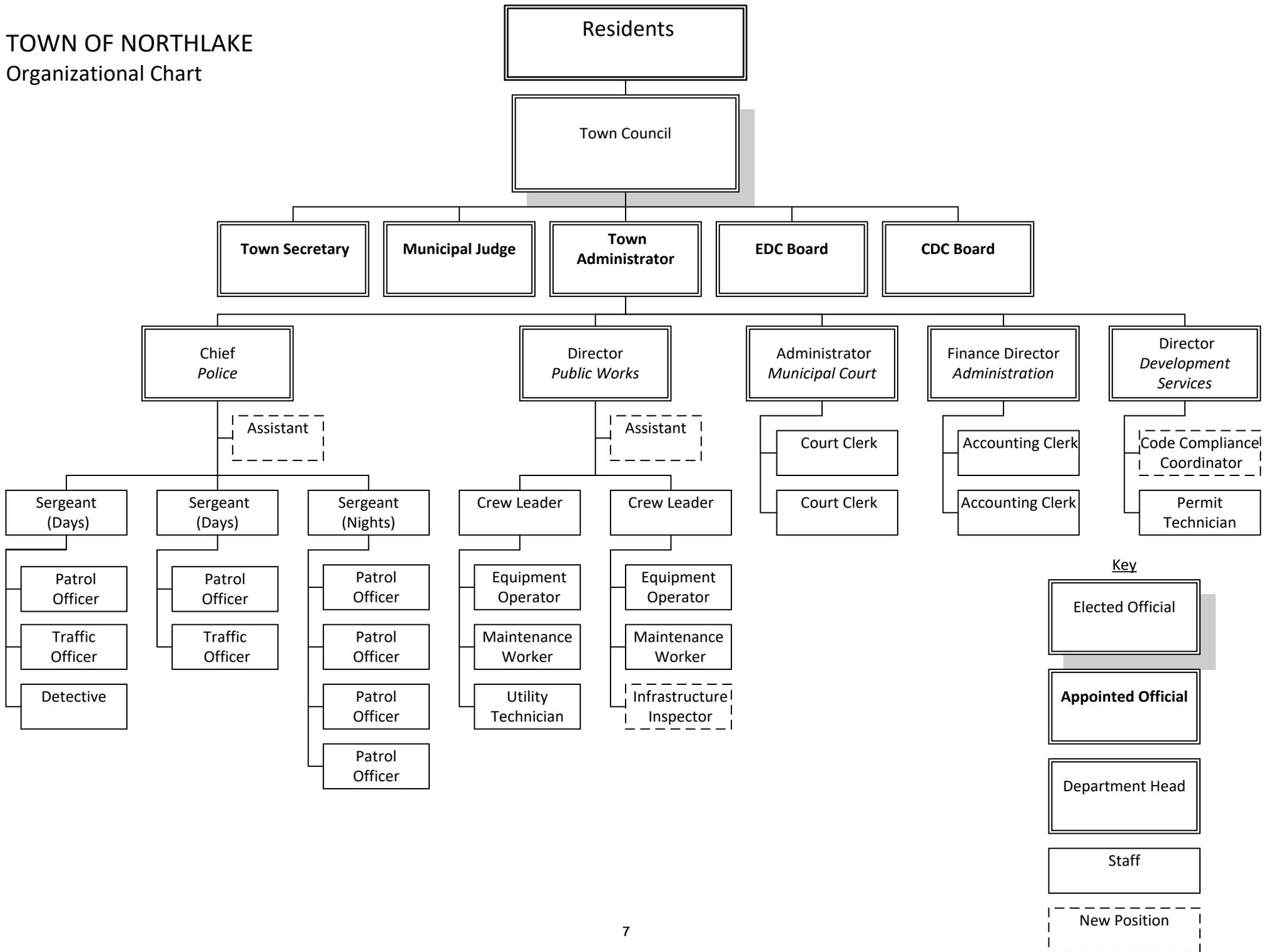
We would like to express our appreciation to the Mayor and Town Council for their leadership and support in planning and conducting the financial operations of the Town. In addition, we would like to thank the entire staff of the Town as this report could not be accomplished without their dedicated service to the Town.

Respectfully Submitted;

Drew Corn, Town Administrator

Karen Bolyard, Director of Finance

TOWN OF NORTHLAKE
Organizational Chart



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List of Elected and Appointed Officials

Town of Northlake, Texas

Town Mayor and Council Members

Peter Dewing
Mayor

Brian Montini, Place 3
Mayor Pro Tem

Rena Hardeman, Place 1
Council Member

Jimmy Lambert, Place 2
Council Member

Roger Sessions, Place 4
Council Member

Danny Simpson, Place 5
Council Member

Appointed Officials

Shirley Rogers
Town Secretary

Drew Corn
Town Administrator

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FINANCIAL SECTION

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the Town of Northlake, Texas (the “Town”) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information on pages 15-25 and 65-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund financial statements on pages 71-78 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Richardson, Texas
February 20, 2019

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

Our discussion and analysis of Town of Northlake's financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2018. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- At the close of the most recent fiscal year, the total net position of the Town was \$19,231,508. Of this amount, \$3,140,680 is unrestricted and may be used to meet any of the Town's ongoing obligations to citizens and creditors, \$7,371,608 is restricted for specific activities and \$8,719,220 is invested in the Town's capital assets, net of their related debt.
- When compared with the prior fiscal year, the Town's total net position increased by \$4,405,356 or 29.71%. Governmental activities increased their net position by 21.58% or \$2,031,898 while business-type activities increased their net position by 43.88% or \$2,373,461.
- At the end of the fiscal year, government-wide revenues exceeded expenses by \$4,405,356. Governmental revenues exceeded expenses by \$1,831,898 while business-type revenues exceeded expenses by \$2,573,458.
- The Town's proprietary funds generated \$1,236,821 in operating income for the year. When comparing the operating activities to the prior year, revenues increased 37.44% or \$1,234,357 and expenditures increased 28.23% or \$725,201.

Overview of the Financial Statements

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

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

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

The basic financial statements present two different views of the Town through the use of government-wide statements, and fund financial statements, The Government-wide financial statements provide both short and long-term information about the Town while the fund financial statements focus on the activities of the individual components.

Government-wide Financial Statements

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

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

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

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

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

Fund Financial Statements

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

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

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

The Town maintains five individual major governmental funds as well as other non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Capital Recovery Fees, Hotel/Motel Tax funds, Capital Projects, Debt Service, and Non-Major Governmental funds.

The Town adopts an annual appropriated budget for all of its governmental funds, except for some non-major funds. A budgetary comparison statement has been provided for all budgeted governmental funds to demonstrate compliance with its budget. This comparison can be found in the Required Supplementary Information section of this report.

Proprietary Funds. The Town maintains two types of proprietary funds; enterprise fund and internal service funds. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer activities. The Town uses three internal service funds; one to account for its equipment purchases and equipment maintenance; the second internal service fund is utilized for maintenance of Town facilities; and the third is for technology resources. Proprietary funds provide the same type of information as the government-wide financial statements.

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

Component Units. The component units of the Town consist of two public improvement districts; The Highlands Public Improvement District No. 1 and The Town of Northlake Public Improvement District No. 1 for which the Town's elected officials are financially accountable for. Both of these districts derive their revenues through property assessments that are utilized exclusively for each district.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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.

Government-wide Financial Analysis

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

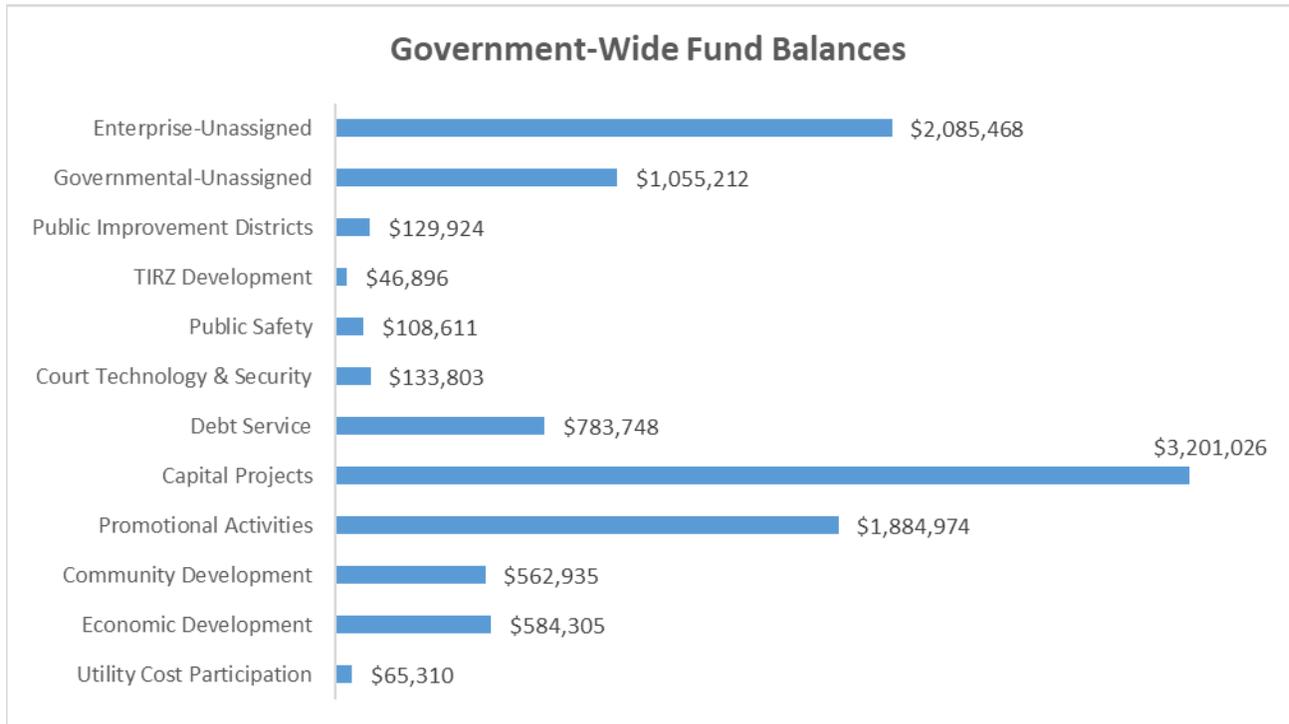
The following chart compares the Town's current net position to the prior fiscal years net position for both governmental and business-type activities:

Town of Northlake's Net Position								
	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Total		Public Improvement Districts	
	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17
Assets:								
Current and Other Assets	\$ 11,520,643	\$ 12,777,065	\$ 3,399,217	\$ 2,333,944	\$ 14,919,860	\$ 15,111,009	\$ 141,064	\$ 145,746
Net Capital Assets	10,907,711	8,794,695	6,060,818	4,258,425	16,968,529	13,053,120	3,419,973	-
Total Assets	22,428,354	21,571,760	9,460,035	6,592,369	31,888,389	28,164,129	3,561,037	145,746
Deferred outflows of resources	177,472	262,925	9,613	54,338	187,085	317,263	4,475	-
	177,472	262,925	9,613	54,338	187,085	317,263	4,475	-
Liabilities:								
Long-term Liabilities Outstanding	8,882,961	12,304,534	419,550	756,967	9,302,511	13,061,501	3,540,000	-
Other Liabilities	1,985,497	667,530	1,267,470	480,573	3,252,967	1,148,103	15,615	26,393
Total Liabilities	10,868,458	12,972,064	1,687,020	1,237,540	12,555,478	14,209,604	3,555,615	26,393
Deferred inflows of resources	288,488	261,980	-	-	288,488	261,980	-	-
Net Position:								
Net Investment In Capital Assets	3,022,060	(3,159,736)	5,697,160	4,258,425	8,719,220	1,098,689	(120,027)	-
Restricted	7,371,608	10,003,239	-	-	7,371,608	10,003,239	129,924	119,353
Unrestricted	1,055,212	2,573,478	2,085,468	1,150,742	3,140,680	3,724,220	-	-
Total Net Position	\$ 11,448,880	\$ 9,416,981	\$ 7,782,628	\$ 5,409,167	\$ 19,231,508	\$ 14,826,148	\$ 9,897	\$ 119,353

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. As of September 30, 2018, the Town of Northlake's assets exceeded liabilities by \$19,332,911. When compared to the prior year, the overall net position of the Town increased 29.71% or \$4,405,356 with governmental activities increasing \$2,031,898 or 21.58% and business-type activities increasing their net position by \$2,373,461 or 43.88%.

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

The Town's net position is comprised of three components; net investment in capital assets, restricted, and unrestricted. The following table reflects the designated purpose of the Town's total net position.



A portion of net position, \$8,719,220 or 45.34%, reflects the Town's investment in capital assets (e.g., land, buildings, automobiles, equipment, construction in progress, water and sewer system, and infrastructure), less any debt used to acquire those assets that is still outstanding.

These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$7,371,608 of the Town's net position is restricted, either by the Town Council or by statutory regulations, and can only be expended for these designated purposes.

The Town's unrestricted total net position of \$3,140,680 or 16.33% of total net assets may be used by the Town Council to meet any ongoing or future obligations to citizens and creditors.

The Town has two public improvement districts that are presented as components units in the financial statements. Each district collects annual assessments from each property owner that are utilized exclusively for benefit of their district. The assessments pay for the districts infrastructure, maintenance of parks and open spaces, and the debt related to the infrastructure of the districts.

As of September 30, 2018, the Town is able to report a positive balance in all categories of net position, for the government as a whole, as well as all categories for its separate governmental and business-type activities.

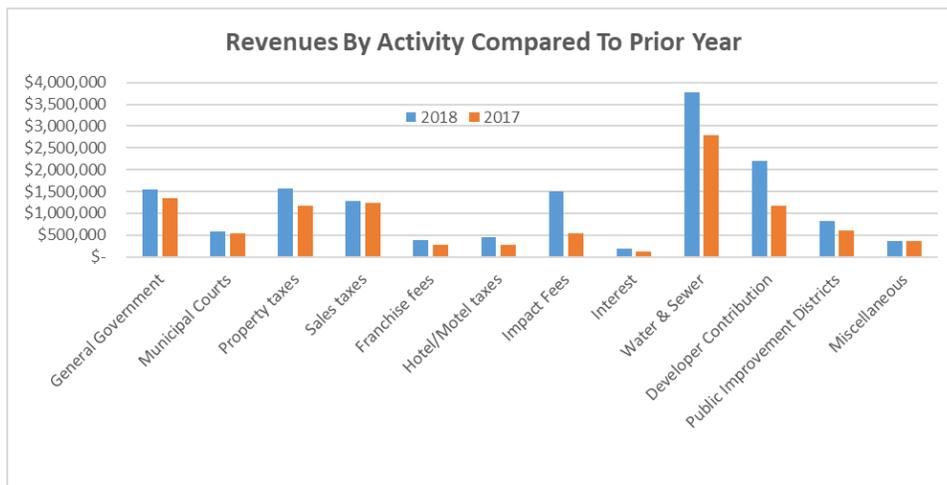
Government-wide Changes in Net Position. The Statement of Activities presents information showing how the Town's net assets changed during the fiscal year. In order for the user of these financial statements

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

to gain clarity about the changes in activities, it is useful to compare the activities with the prior year. The following table provides a comparison between fiscal year 2018 and fiscal year 2017:

<i>Town of Northlake's Changes In Net Position</i>								
	Primary Government Revenues						Component Units Revenues	
	Governmental Activities		Business-type Activities		Total		Public Improvement Districts	
	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2017-18
Total Revenues	\$ 7,043,288	\$ 6,508,746	\$ 5,887,844	\$ 3,335,636	\$ 12,931,132	\$ 9,844,382	\$ 1,713,296	\$ 619,361
Total Expenditures	5,211,390	5,359,568	3,314,386	2,594,986	8,525,776	7,954,554	1,822,752	1,873,516
Change Before Transfers	1,831,898	1,149,178	2,573,458	740,650	4,405,356	1,889,828	(109,456)	(1,254,155)
Transfers	200,000	172,262	(200,000)	(172,262)	-	-	-	-
Change In Net Position	2,031,898	1,321,440	2,373,458	568,388	4,405,356	1,889,828	(109,456)	(1,254,155)
Net Position - Beginning Balance	9,416,982	6,774,190	5,409,167	4,840,779	14,826,149	11,614,969	119,353	1,373,508
Prior Period Adjustment	-	-	-	-	-	-	-	-
Net Position - Ending Balance	<u>\$ 11,448,880</u>	<u>\$ 8,095,630</u>	<u>\$ 7,782,625</u>	<u>\$ 5,409,167</u>	<u>\$ 19,231,505</u>	<u>\$ 13,504,797</u>	<u>\$ 9,897</u>	<u>\$ 119,353</u>

The following chart depicts the current years' government wide revenues with prior years' revenues:



Below are the highlights of the changes in revenues:

- Impact Fees increased \$946,191 or 173.33% over the prior year due to both commercial and residential development.
- Contributions from developers for water infrastructure caused an increase of \$1,020,406 or 87.21% in Developer Contributions when compared to the prior year.
- Hotel/Motel occupancy taxes increased 65.86% or \$176,482 over the prior year.
- When compared to the prior year, total property tax collections increased by \$393,411 or 33.37% of which approximately \$264,445 was due to new construction.
- Due to the increase in the number of residential homes and commercial buildings, Franchise Fees rose 33.24% or \$93,816 when compared to the prior year.

When compared to the prior year, government-wide expenditures increased \$1,343,930 or 16.66%. The following chart depicts the government-wide expenditures of the Town:

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

Expenditures By Activity Compared To Prior Year

	2018	2017	%	Variance
			Increase/Decrease	
General government	\$ 928,400	\$ 634,694	46.28%	\$ 293,706
Municipal court	\$ 263,078	\$ 279,833	-5.99%	\$ (16,755)
Development services	\$ 1,274,815	\$ 932,591	36.70%	\$ 342,224
Police	\$ 1,574,463	\$ 1,312,199	19.99%	\$ 262,264
Public works	\$ 952,983	\$ 1,016,548	-6.25%	\$ (63,565)
Promotional	\$ 67,431	\$ 61,929	8.88%	\$ 5,502
Water & Sewer	\$ 3,294,171	\$ 2,568,970	28.23%	\$ 725,201
Public Improvement Districts	\$ 887,058	\$ 803,247	10.43%	\$ 83,811
Interest & fiscal charges	\$ 170,435	\$ 458,893	-62.86%	\$ (288,458)
	<u>\$ 9,412,834</u>	<u>\$ 8,068,904</u>	<u>16.66%</u>	<u>\$ 1,343,930</u>

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

- Development Services experienced a 25% or \$120,394 in expenditures for property tax reimbursements, pioneer grants, and jobs grants from the prior year.
- Expansion of the Town's workforce caused a 37.86% or \$176,128 over prior year expenditures. During fiscal year 2018 new personnel of a public works inspector, public works administrative coordinator, and a police department administrative assistant were added.
- The Town experienced a 70.46% or \$1,210,100 increase in capital expenditures for infrastructure and roadway projects during fiscal year 2017. Expenditures of \$1,300,000 occurred in The Highlands Public Improvement District for infrastructure and roadways. In addition, the Town completed the Dale Earnhardt Way road project and began work on the Florance Road and Cleveland-Gibbs roadway projects.

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 \$9,202,902. When compared to the prior fiscal year end, the combined fund balances experienced a decrease of (17.18%) or \$1,909,450 and is mainly due to capital project expenditures. The following is a listing of the capital projects expenditures:

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<u>Project Description</u>	<u>Amount</u>	<u>Project Status</u>
Florance Road Project	\$ 671,452	Completed during FY 2018
Dale Earnhardt Way Crossover	9,901	Completed during FY 2018
Cleveland-Gibbs Road Project	2,704,690	Estimated completion in FY 2019
Sam Lee Road Extension	124,223	Estimated completion in FY 2019
Right Of Way Acquisitions	7,899	Completed during FY 2018
Total	\$ 3,518,165	

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

Total net position for business-type activities is \$7,782,628 and is comprised of \$2,085,468 or 26.80% in unrestricted net assets while \$5,697,160 or 73.20% reflects its investment in capital assets (e.g., land, buildings, automobiles, equipment, construction in progress, water and sewer system and infrastructure), less any debt used to acquire those assets that is still outstanding.

Net position invested in capital assets is used to provide services to water and sewer customers; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net position of the proprietary funds for business-type activities increased by \$934,726 or 81.23% from the prior year. This increase is mainly attributable to increases in water and sewer service revenues and the collection of impact fees from both commercial development and new home construction. The unrestricted surplus may be used to meet future infrastructure needs.

Changes in net position of the proprietary funds is depicted in the following table:

<u>Town of Northlake's Changes In Net Position - Proprietary Funds</u>				
	<u>FY 2017-18</u>	<u>FY 2016-17</u>	<u>Variance</u>	<u>% Increase/ Decrease</u>
<i>Operating Revenues:</i>				
Water Sales	\$ 2,601,388	\$ 1,848,862	\$ 752,526	40.70%
Sewer Sales	1,182,470	938,277	244,193	26.03%
Water/Sewer Impact Fees	747,134	509,496	237,638	46.64%
Total Operating Revenues	4,530,992	3,296,635	1,234,357	37.44%
<i>Operating Expenses:</i>				
Salaries & wages	402,466	331,210	71,256	21.51%
Supplies	36,263	38,546	(2,283)	-5.92%
Maintenance	103,733	107,506	(3,773)	-3.51%
Wholesale water	1,528,569	881,097	647,472	73.48%
Sewer	595,042	732,937	(137,895)	-18.81%
Utilities	38,618	35,001	3,617	10.33%
Services	475,694	318,304	157,390	49.45%
Depreciation	113,726	124,369	(10,643)	-8.56%
Total Operating Expenses	3,294,111	2,568,970	725,141	28.23%
<i>Operating Income (Loss)</i>	<u>\$ 1,236,881</u>	<u>\$ 727,665</u>	<u>\$ 509,216</u>	<u>69.98%</u>

Town of Northlake, Texas
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Management's Discussion and Analysis

Both the revenues and expenditures of the water/sewer fund increased from the prior year and is attributable to the increase in both commercial and residential activity during the year.

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

The Internal Service Funds of the Town are presented as a component of the Proprietary Funds. Similar to business-type activities, internal service fund's net investment in capital assets are used to provide services to the departments of the Town and are not available for future spending. As of September 30, 2018, the internal service funds total unrestricted net position of the internal service funds is \$185,859.

Capital Asset and Debt Administration

Capital Assets. As of September 30, 2018, the Town has \$20,388,502 in capital assets. When compared to the prior year end, government-wide capital assets increased by \$4,561,077 or 28.82%. The following table illustrates the Town's capital assets:

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

	Governmental Activities		Business-type Activities		Total		Public Improvement Districts	
	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17
Land	\$ 2,770,951	\$ 2,770,951	\$ 97,567	\$ 97,567	\$ 2,868,518	\$ 2,868,518	\$ -	\$ -
Construction in Progress	3,686,821	317,927	-	-	3,686,821	317,927	-	-
Buildings and Improvements	202,318	158,701	25,074	26,247	227,392	184,948	-	-
Furniture and Fixtures	3,868	-	-	-	3,868	-	-	-
Automobiles	738,457	660,543	-	-	738,457	660,543	-	-
Equipment	117,394	118,161	19,834	1	137,228	118,162	-	-
Infrastructure	2,585,531	4,768,410	-	-	2,585,531	4,768,410	3,419,973	-
Leased Building (Intangible Asset)	802,371	-	-	-	802,371	-	-	-
Water and Sewer System	-	-	5,918,343	4,134,611	5,918,343	4,134,611	-	-
Total	\$ 10,907,711	\$ 8,794,693	\$ 6,060,818	\$ 4,258,426	\$ 16,968,529	\$ 13,053,119	\$ 3,419,973	\$ -

Major capital asset expenditures for fiscal year 2018 included the following:

- \$3,586,785 in roadway improvements for Sam Lee Lane, Cleveland-Gibbs Road, Florance Road and Dale Earnhardt Parkway.
- \$41,615 in technology enhancements.
- \$200,200 in vehicles; two vehicles for public works, two vehicles for the police, and one vehicle for code compliance.
- \$47,087 for a Town Hall roof replacement.
- \$1,896,021 in water infrastructure

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

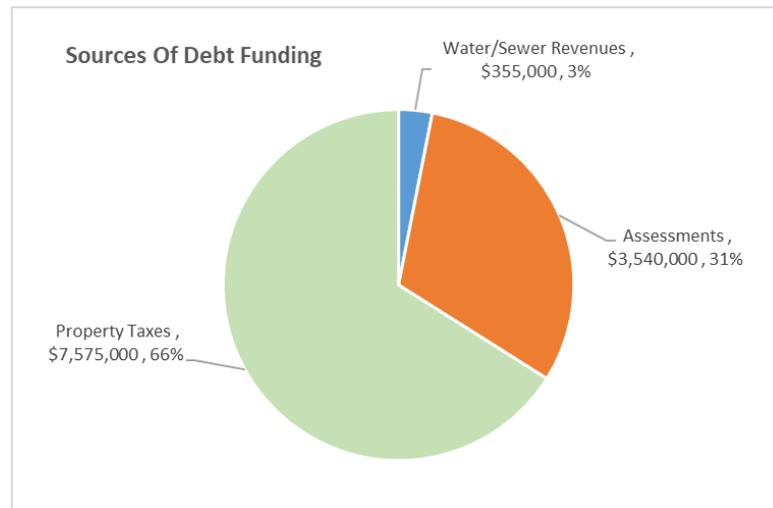
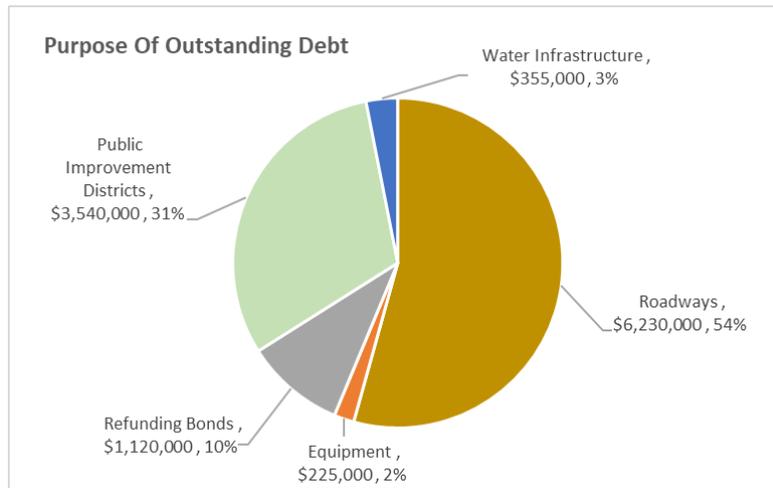
Long-term Debt. At the end of the current fiscal year, the Town had total debt of \$11,470,175. When compared to the prior fiscal year, the Town's debt principal decreased by \$839,553 of (6.82%) through semi-annual scheduled payments. All of the debt obligations of the Town were paid on time and in accordance with their agreed upon terms.

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Management's Discussion and Analysis

The following table illustrates the type of outstanding debt:

	<i>Town of Northlake's Outstanding Debt</i>							
	Governmental Activities		Business-type Activities		Total		Public Improvement Districts	
	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note Payable	-	-	-	294,553	-	294,553	-	-
Certificates of Obligation	7,575,000	7,930,000	355,175	375,175	7,930,175	8,305,175	3,540,000	3,710,000
Total	\$ 7,575,000	\$ 7,930,000	\$ 355,175	\$ 669,728	\$ 7,930,175	\$ 8,599,728	\$ 3,540,000	\$ 3,710,000

The following charts depict the purpose and the sources of funding for the Town's outstanding debt:



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

Town of Northlake, Texas
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Management's Discussion and Analysis

Governmental Funds Budgetary Highlights

The Town anticipated the general fund balance to decrease (\$340,823) by the end of fiscal year 2018; from \$1,857,987 to \$1,517,164. When comparing the actual results of the 2018 fiscal year activity to the revised budget, there was an increase of \$314,130 or 20.71% in fund balance for an ending fund balance of \$1,831,294. Actual revenues slightly exceed budget by 1.40% or \$57,809 while general fund expenditures were (\$287,202) or (6.84%) less than budget expectations. The decrease in anticipated expenditures is mainly attributable to two employee vacancies in the Public Works Department and capital expenditures for the Police Department that were not purchased until the first quarter of fiscal year 2019.

Budget expectations for the Hotel/Motel Tax Fund anticipated a net increase in fund balance of \$219,230 by the end of the fiscal year, but by the end of the fiscal year the net change in fund balance was \$400,667 representing an increase over budget expectations of \$181,437 or 82.76%. The contributing factors of this unexpected increase was due to an increase of \$144,447 or 48.15% in the collection of occupancy taxes and delaying a market retail study.

When comparing budget expectations to actual activity in the Capital Projects Fund, expenditures exceeded budget expectations by \$2,201,125 or 151.80%. This is attributable to roadway construction occurring faster than anticipated. During fiscal year 2018 two roadway projects were completed; the Dale Earnhardt Way Crossover project for a cost of \$9,901 and the Florance Road Project was completed at cost of \$886,522. In addition, two other roadway projects incurred expenditures during the fiscal year and both projects are anticipated to be completed during fiscal year 2019. Expenditures of \$2,712,590 were made for the Cleveland-Gibbs Road project and \$124,233 in expenditures were incurred for the Sam Lee Lane extension.

The Debt Service Fund's incurred an 8.84% or \$63,655 unanticipated fund balance increase due to a human keying error of the budget. The budget for \$20,000 in bond payments for the 2014-B certificates of obligation was incorrectly keyed to the Debt Service Fund. The bond was issued for the oversizing of a water line and the payment was correctly issued from the enterprise fund.

The Type A Economic Development Corp. and the Type B Community Development Corp. anticipated a decrease of (\$86,375) in each of their fund balances by the end of fiscal year 2018. Each of these entities experienced actual decreases of only (\$28,086) to each of their fund balances during the fiscal year. The savings is attributable to a market retail study being postponed and by a 7% increase in sales tax revenues.

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 2018-2019. Overall, general fund revenues are expected to be higher during the next fiscal year. Due to the continued residential and commercial development, property tax revenue and development fees are expected to increase during fiscal year 2019. Expenses for the general fund are expected to slightly increase due to the Town's staffing of new positions, maintaining of service levels and the increase development related expenditures. The Town anticipates the maintaining of a surplus fund balance at the end of fiscal year 2019.

Water and sewer fund revenues are expected to be higher than fiscal year 2018-2019 due to additional customers. In order to maintain service levels with the increase in new customers, expenditures are expected to rise during the fiscal year. The increases will occur from an increase in staff levels, maintenance costs and the purchase of wholesale water. The water and sewer fund projects a surplus in fund balance at the end of fiscal year 2019.

Town of Northlake, Texas
September 30, 2018
Management's Discussion and Analysis

Request for Information

The financial report is designed to provide out citizens, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need additional information, contact the Town Secretary: Attn: Town Secretary at 1500 Commons Circle, Ste. 300, Northlake, Texas 76226, phone: (940) 648-3290 or email townsecretary@town.northlake.tx.us.

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Town of Northlake, Texas
Statement of Net Position
September 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	Public Improvement Districts
Assets and Deferred Outflows of Resources				
Assets				
Cash and cash equivalents	\$ 10,960,180	\$ 2,675,370	\$ 13,635,550	\$ 140,800
Receivables (net of allowance for uncollectibles)	514,811	432,386	947,197	264
Prepaid expense	7,124	248	7,372	-
Other receivables	198	3,213	3,411	-
Deposits and other assets	38,330	288,000	326,330	-
Capital assets (net of accumulated depreciation):				
Land	2,770,951	97,567	2,868,518	-
Construction in progress	3,686,821	-	3,686,821	-
Buildings and improvements	202,318	25,074	227,392	-
Furniture and fixtures	3,868	-	3,868	-
Automobiles	738,457	-	738,457	-
Equipment	117,394	19,834	137,228	-
Infrastructure	2,585,531	-	2,585,531	3,419,973
Leased building (intangible asset)	802,371	-	802,371	-
Water and sewer system	-	5,918,343	5,918,343	-
Total capital assets	10,907,711	6,060,818	16,968,529	3,419,973
Total assets	22,428,354	9,460,035	31,888,389	3,561,037
Deferred outflows of resources	177,472	9,613	187,085	4,475
Total Assets and Deferred Outflows of Resources	22,605,826	9,469,648	32,075,474	3,565,512
Liabilities and Deferred Inflows of Resources				
Liabilities				
Accounts payable	1,626,340	815,336	2,441,676	-
Accrued liabilities	87,475	5,458	92,933	15,615
Lease liabilities - current	121,682	-	121,682	-
Customer and developer deposits	150,000	446,676	596,676	-
Noncurrent liabilities:				
Net pension liabilities	316,621	55,892	372,513	-
Lease liabilities - noncurrent	680,689	-	680,689	-
Due within one year	396,510	24,297	420,807	175,000
Due in more than one year (net of unamortized bond premium)	7,489,141	339,361	7,828,502	3,365,000
Total liabilities	10,868,458	1,687,020	12,555,478	3,555,615
Deferred inflows of resources	288,488	-	288,488	-
Total Liabilities and Deferred Inflows of Resources	11,156,946	1,687,020	12,843,966	3,555,615
Net Position				
Net investment in capital assets	3,022,060	5,697,160	8,719,220	(120,027)
Restricted for:				
Utility cost participation	65,310	-	65,310	-
Promotional activities	1,884,974	-	1,884,974	-
Capital projects	3,201,026	-	3,201,026	-
Debt service	783,748	-	783,748	-
Court technology and security	133,803	-	133,803	-
Public safety	108,611	-	108,611	-
TIRZ development	46,896	-	46,896	-
Economic development	584,305	-	584,305	-
Community development	562,935	-	562,935	-
Public Improvement Districts	-	-	-	129,924
Unrestricted	1,055,212	2,085,468	3,140,680	-
Total Net Position	\$ 11,448,880	\$ 7,782,628	\$ 19,231,508	\$ 9,897

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

Town of Northlake, Texas
Statement of Activities
Year Ended September 30, 2018

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	Public Improvement Districts
Primary Government:								
Governmental activities:								
General government	\$ 928,400	\$ 1,546,713	\$ -	\$ -	\$ 618,313	\$ -	\$ 618,313	\$ -
Municipal court	263,078	578,133	-	-	315,055	-	315,055	-
Development services	1,274,815	-	-	-	(1,274,815)	-	(1,274,815)	-
Police	1,574,463	-	-	-	(1,574,463)	-	(1,574,463)	-
Public works	952,983	-	-	-	(952,983)	-	(952,983)	-
Promotional	67,431	-	-	-	(67,431)	-	(67,431)	-
Interest and fiscal charges	150,220	-	-	-	(150,220)	-	(150,220)	-
Total governmental activities	5,211,390	2,124,846	-	-	(3,086,544)	-	(3,086,544)	-
Business-type activities:								
Water and sewer	3,294,171	3,783,858	-	1,300,406	-	1,790,093	1,790,093	-
Interest and fiscal charges	20,215	-	-	-	-	(20,215)	(20,215)	-
Total business-type activities	3,314,386	3,783,858	-	1,300,406	-	1,769,878	1,769,878	-
Total primary government	\$ 8,525,776	\$ 5,908,704	\$ -	\$ 1,300,406	\$ (3,086,544)	\$ 1,769,878	\$ (1,316,666)	\$ -
Component Units:								
Public Improvement Districts	784,263	-	-	890,000	-	-	-	105,737
Interest and fiscal charges	102,795	-	-	-	-	-	-	(102,795)
Total component units:	\$ 887,058	\$ -	\$ -	\$ 890,000	\$ -	\$ -	\$ -	\$ 2,942
Change in Net Position								
General revenues:								
Taxes:								
Property taxes					1,572,424	-	1,572,424	-
Sales taxes					1,284,730	-	1,284,730	-
Franchise taxes					376,093	-	376,093	-
Hotel/Motel taxes					444,447	-	444,447	-
Interest					160,360	37,718	198,078	482
Assessment					-	-	-	822,814
Roadway impact fees					744,960	747,134	1,492,094	-
Miscellaneous					335,428	18,728	354,156	-
Transfers					200,000	(200,000)	-	-
Total general revenues and transfers					5,118,442	603,580	5,722,022	823,296
Net position - beginning					2,031,898	2,373,458	4,405,356	826,238
Net position - ending					9,416,982	5,409,170	14,826,152	(816,341)
					\$ 11,448,880	\$ 7,782,628	\$ 19,231,508	\$ 9,897

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

Town of Northlake, Texas
Balance Sheet - Governmental Funds
September 30, 2018

	General Fund	Capital Recovery Fees Fund	Hotel/Motel Tax Fund	Capital Projects Fund	Debt Service Fund	Non Major Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 1,868,160	\$ 974,376	\$ 1,852,187	\$ 2,878,840	\$ 772,355	\$ 2,263,958	\$ 10,609,876
Receivables:							
Property taxes, net	3,173	-	-	-	2,077	-	5,250
Sales taxes	111,794	-	-	-	-	111,794	223,588
Franchise taxes	134,246	-	-	-	-	-	134,246
Hotel/Motel taxes	-	-	33,384	-	-	-	33,384
Municipal court receivable, net	31,285	-	-	-	-	-	31,285
Other accounts receivable	51,445	35,613	-	-	-	-	87,058
Other assets	3,311	-	3	-	28,409	6,607	38,330
Total assets	<u>2,203,414</u>	<u>1,009,989</u>	<u>1,885,574</u>	<u>2,878,840</u>	<u>802,841</u>	<u>2,382,359</u>	<u>11,163,017</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	250,172	759,066	3	334,249	-	150,544	1,494,034
Accrued liabilities	25,780	-	597	-	19,093	7,297	52,767
Deferred revenue	96,168	35,613	-	124,932	-	6,601	263,314
Developer deposits	-	150,000	-	-	-	-	150,000
Total liabilities	<u>372,120</u>	<u>944,679</u>	<u>600</u>	<u>459,181</u>	<u>19,093</u>	<u>164,442</u>	<u>1,960,115</u>
Fund balances:							
Restricted for							
Utility cost participation	-	65,310	-	-	-	-	65,310
Promotional activities	-	-	1,884,974	-	-	-	1,884,974
Capital projects	-	-	-	2,419,659	-	781,367	3,201,026
Debt service	-	-	-	-	783,748	-	783,748
Court technology and security	-	-	-	-	-	133,803	133,803
Public safety	-	-	-	-	-	108,611	108,611
TIRZ development	-	-	-	-	-	46,896	46,896
Economic development	-	-	-	-	-	584,305	584,305
Community development	-	-	-	-	-	562,935	562,935
Unrestricted	1,831,294	-	-	-	-	-	1,831,294
Total fund balance	<u>1,831,294</u>	<u>65,310</u>	<u>1,884,974</u>	<u>2,419,659</u>	<u>783,748</u>	<u>2,217,917</u>	<u>9,202,902</u>
Total liabilities and fund balance	<u>\$ 2,203,414</u>	<u>\$ 1,009,989</u>	<u>\$ 1,885,574</u>	<u>\$ 2,878,840</u>	<u>\$ 802,841</u>	<u>\$ 2,382,359</u>	<u>\$ 11,163,017</u>

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

Town of Northlake, Texas
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 September 30, 2018

Total fund balances - governmental funds	\$	9,202,902
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		8,497,677
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.		14,287
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.		177,472
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.		(34,708)
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.		(8,202,272)
Internal service funds are used by management to charge the costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		<u>1,793,522</u>
Net position of governmental activities	\$	<u><u>11,448,880</u></u>

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

Town of Northlake, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year ended September 30, 2018

	General Fund	Capital Recovery Fees Fund	Hotel/Motel Tax Fund	Capital Projects Fund	Debt Service Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes:							
Property	\$ 885,559	\$ -	\$ -	\$ -	\$ 630,735	\$ 73,451	\$ 1,589,745
Sales and beverage	642,746	-	-	-	-	641,984	1,284,730
Franchise	376,093	-	-	-	-	-	376,093
Hotel/Motel	-	-	444,447	-	-	-	444,447
Building permits, plant and other fees	1,546,713	-	-	-	-	-	1,546,713
Municipal court	510,818	-	-	-	-	28,307	539,125
Interest income	6,699	2,763	14,421	110,931	2,688	17,388	154,890
Online access fees	-	-	-	-	-	17,724	17,724
Roadway impact fees	-	-	-	-	-	744,960	744,960
Miscellaneous	213,766	-	-	-	-	53,001	266,767
Total revenues	4,182,394	2,763	458,868	110,931	633,423	1,576,815	6,965,194
Expenditures							
Current:							
General government	866,111	4,920	-	22,086	-	-	893,117
Municipal court	257,457	-	-	-	-	27,730	285,187
Development services	610,551	-	-	-	-	691,164	1,301,715
Police	1,542,814	-	26,991	-	-	4,345	1,574,150
Public works	623,885	-	-	110,874	-	-	734,759
Promotional	-	-	31,210	-	-	36,221	67,431
Capital outlay	8,269	-	-	3,518,165	-	-	3,526,434
Debt service:							
Principal	-	-	-	-	355,000	-	355,000
Interest and fiscal charges	-	-	-	-	171,205	-	171,205
Total expenditures	3,909,087	4,920	58,201	3,651,125	526,205	759,460	8,908,998
Excess (deficiency) of revenues over expenditures	273,307	(2,157)	400,667	(3,540,194)	107,218	817,355	(1,943,804)
Other financing sources (uses)							
Transfers in	200,000	-	-	-	550,000	-	750,000
Transfers out	(500,000)	-	-	-	-	(96,293)	(596,293)
Total other financing sources (uses)	(300,000)	-	-	-	550,000	(96,293)	153,707
Net change in fund balances	(26,693)	(2,157)	400,667	(3,540,194)	657,218	721,062	(1,790,097)
Fund balances - beginning	1,857,987	67,467	1,484,307	5,959,853	126,530	1,496,855	10,992,999
Fund balances - ending	\$ 1,831,294	\$ 65,310	\$ 1,884,974	\$ 2,419,659	\$ 783,748	\$ 2,217,917	\$ 9,202,902

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

Town of Northlake, Texas
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance of Governmental Funds to the Statement of Activities
 Year ended September 30, 2018

Net changes in fund balances - total governmental funds	\$ (1,790,097)
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.	3,526,434
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.	(357,522)
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.	369,360
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.	(10,579)
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.	6,625
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.	3,963
Certain expenses in the government-wide statement of activities that do not require current financial resources are not reported as expenditures in the governmental funds.	(51,971)
Internal service funds are used by management to charge the costs of equipment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>335,685</u>
Change in net position of governmental activities	<u>\$ 2,031,898</u>

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

Town of Northlake, Texas
Statement of Net Position
Proprietary Funds
September 30, 2018

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,675,370	\$ 350,304
Accounts receivable, net	432,386	-
Prepaid expenses	248	7,124
Other receivables	3,213	198
Total current assets	3,111,217	357,626
Non-current assets:		
Property, plant and equipment:		
Land	97,567	-
Buildings and improvements	35,211	87,538
Furniture and fixtures	-	8,256
Automobiles	42,214	1,138,225
Equipment	25,024	142,169
Water and sewer system	6,625,912	-
Construction in progress	-	747,152
Leased building (intangible asset)	-	802,371
	6,825,928	2,925,711
Accumulated depreciation	(765,110)	(515,677)
Net property, plant and equipment	6,060,818	2,410,034
Deposits	288,000	-
Total Assets	9,460,035	2,767,660
Deferred outflows of resources		
Deferred outflow of resources	9,613	-
Total deferred outflows of resources	9,613	-
Liabilities		
Current liabilities:		
Accounts payable	815,336	132,306
Accrued liabilities	5,458	-
Deferred revenue	-	39,461
Customer deposits	446,676	-
Certificates of obligation - current	20,000	-
Compensated absences - current	4,297	-
Lease liability - current	-	121,682
Total current liabilities	1,291,767	293,449
Non-current liabilities:		
Net pension liabilities	55,892	-
Certificates of obligation	335,235	-
Compensated absences	4,126	-
Lease liability - noncurrent	-	680,689
Total Liabilities	1,687,020	974,138
Net position		
Net investment in capital assets	5,697,160	1,607,663
Unrestricted	2,085,468	185,859
Total Net Position	\$ 7,782,628	\$ 1,793,522

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

Town of Northlake, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended September 30, 2018

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	Equipment
Operating revenues:		
Water and sewer service	\$ 3,783,858	\$ -
Impact fees	747,134	-
Equipment service	-	222,000
Administration service	-	336,500
Total operating revenues	<u>4,530,992</u>	<u>558,500</u>
Operating expenses:		
Operating expenses	3,180,445	226,356
Depreciation	113,726	116,883
Total operating expenses	<u>3,294,171</u>	<u>343,239</u>
Operating income	1,236,821	215,261
Nonoperating revenues (expenses):		
Interest income (expense)	17,503	5,470
Developer contributions	1,300,406	-
Miscellaneous revenue (expense)	18,728	68,664
Total nonoperating revenues	<u>1,336,637</u>	<u>74,134</u>
Income (loss) before transfers	2,573,458	289,395
Transfers in	-	46,293
Transfers out	(200,000)	-
Change in net position	<u>2,373,458</u>	<u>335,688</u>
Net position - beginning	5,409,170	1,457,834
Net position - ending	<u>\$ 7,782,628</u>	<u>\$ 1,793,522</u>

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

Town of Northlake, Texas
Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2018

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
Operating Activities		
Cash received from customers	\$ 4,422,644	\$ 558,500
Cash payments to suppliers for goods and services	(2,373,237)	(65,960)
Net cash provided by operating activities	2,049,407	492,540
Noncapital Financing Activities		
Transfers from other funds	-	46,293
Transfers to other funds	(200,000)	-
Net cash used in noncapital financing activities	(200,000)	46,293
Capital and Related Financing Activities		
Developer contributions	1,300,406	-
Proceed from insurance	18,728	68,664
Payments on note	(314,553)	-
Net cash used in capital and related financing activities	1,004,581	68,664
Investing Activities		
Capital expenditures	(1,916,119)	(1,032,923)
Interest received	37,719	5,470
Interest paid	(20,216)	-
Net cash provided by investing activities	(1,898,616)	(1,027,453)
Net increase in cash and cash equivalents	955,372	(419,956)
Cash and cash equivalents - beginning	1,719,998	770,260
Cash and cash equivalents - ending	2,675,370	350,304
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	1,236,821	215,261
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	113,726	116,883
Change in assets and liabilities:		
Accounts receivable	(108,348)	-
Other assets	(1,553)	(2,946)
Deferred outflow of resources	44,725	-
Accounts payable and accrued liabilities	785,440	123,881
Unearned revenue	-	39,461
Net pension liability	(21,404)	-
Net cash provided by operating activities	\$ 2,049,407	\$ 492,540

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

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Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies

The Town of Northlake, Texas (the "Town") is a municipal corporation governed by an elected mayor and a five-member council. The Town provides the following services: public safety (police), community development, public works, municipal court, general administration, and water and sewer. 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 more significant policies of the Town are described below.

A. Financial Reporting Entity

The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the government.

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financial 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 financials statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government.

Discretely Presented Component Units

The component units of the Town consist of two public improvement districts; The Highlands Public Improvement District No. 1 and The Town of Northlake Public Improvement District No. 1 for which the Town's elected officials are financially accountable for. Both of these districts derive their revenues through property assessments that are utilized exclusively for each district. These PID's will be treated as discretely presented component units.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies (continued)

Blended Component Units

The Northlake Economic Development Corporation 4A (the 4A Corporation) and the Northlake Community Development Corporation 4B (the 4B Corporation) are component units of the Town and are included in the basic financial statements as major special revenue funds using a blended presentation.

The 4A Corporation was formed to promote the public welfare and economic development for the areas within the Town of Northlake as authorized by the State under the Texas Development Corporation Act of 1979 and is governed by Section 4A of the act. The 4A Corporation receives funding from a one-half cent sales tax.

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

B. Basis of Presentation

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

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

Fund Financial Statements

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

General Fund

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies (continued)

Hotel/Motel Tax Fund

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

Capital Projects Fund

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

Debt Service Fund

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

Other Nonmajor Funds

The Other Nonmajor Funds are used to account for special revenue and tax increment reinvestment zone funds created by the Town, which do not meet the requirements to be presented as a major fund of the Town.

Proprietary Funds

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

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the Town and others. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Fund

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting

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

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

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

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

Use of Restricted/Unrestricted Net Position

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

Taxes

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

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

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

Inventories and Prepaid Items

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

Interfund Receivables and Payables

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

Transactions between Funds

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

Pensions

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

Capital Assets

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies (continued)

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

Buildings and improvements	30 Years
Furniture and fixtures	10 Years
Automobiles	3 Years
Equipment	3 - 10 Years
Infrastructure	5 - 40 Years
Leased building (intangible asset)	5 Years
Water and sewer system	30 - 50 years

Compensated Absences

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

Net Position

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

D. Upcoming and Newly Implemented Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), addresses accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

1. Summary of Significant Accounting Policies (continued)

GASB Statement No. 87, Leases, will increase the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Town adopted this Statement in fiscal year 2018.

2. Deposits and Investments

A. Disclosures Relating to Interest Rate Risk

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

As of September 30, 2018, the Town had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Logic	\$ 9,337,374	45 days
Wells Fargo	\$ 2,137,499	0 days

As of September 30, 2018, the Town did not invest in any securities that are highly sensitive to interest rate fluctuations.

B. Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2018</u>
Logic	\$ 9,337,374	AAA	AAA
Wells Fargo	\$ 2,137,499	AAA	AAA

C. Concentration of Credit Risk

The investment policy of the Town contains no limitation on the amount that can be invested in any one issuer. As of September 30, 2018, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

2. Deposits and Investments (continued)

D. Custodial Credit Risk

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

At September 30, 2018, the carrying amount of the Town's cash on hand and deposits were \$2,301,478 and the bank balance was \$2,544,264. The bank balance was fully covered by federal depository insurance and collateral pledged. For purposes of the statement of cash flows, the Town considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

E. Investment in State Investment Pools

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

3. Accounts Receivable

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible amounts as of September 30, 2018, including the applicable allowances for uncollectible accounts, are presented below:

	General Fund		Debt Service Fund	Enterprise Fund Water and Sewer	Public Improvement Districts
	Property Tax Receivable	Municipal Court Receivable	Property Tax Receivable	Accounts Receivable	Assessment Receivable
Gross receivables	\$ 8,513	\$ 72,692	\$ 2,946	\$ 440,120	\$ 265
Less: allowance for uncollectibles	(5,340)	(41,407)	(869)	(7,734)	(1)
Net receivables	<u>\$ 3,173</u>	<u>\$ 31,285</u>	<u>\$ 2,077</u>	<u>\$ 432,386</u>	<u>\$ 264</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

4. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Balance September 30, 2017	Additions	Retirements	Balance September 30, 2018
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,770,951	\$ -	\$ -	\$ 2,770,951
Construction in progress	317,927	3,583,964	(215,070)	3,686,821
Total capital assets not being depreciated	3,088,878	3,583,964	(215,070)	6,457,772
Capital assets being depreciated				
Buildings and improvements	332,084	68,604	-	400,688
Furniture and fixtures	8,256	1,116	-	9,372
Automobiles	1,467,031	203,768	-	1,670,799
Equipment	371,851	20,552	-	392,403
Infrastructure	4,605,410	896,423	-	5,501,833
Leased building (intangible asset)	-	802,371	-	802,371
Total capital assets being depreciated	6,784,632	1,992,834	-	8,777,466
Less: accumulated depreciation				
Buildings and improvements	173,383	24,987	-	198,370
Furniture and fixtures	3,244	2,260	-	5,504
Automobiles	806,488	125,854	-	932,342
Equipment	258,702	16,307	-	275,009
Infrastructure	2,611,305	304,997	-	2,916,302
Total accumulated depreciation	3,853,122	474,405	-	4,327,527
Total capital assets being depreciated, net	2,931,510	1,518,429	-	4,449,939
Governmental activities capital assets, net	<u>\$ 6,020,388</u>	<u>\$ 5,102,393</u>	<u>\$ (215,070)</u>	<u>\$ 10,907,711</u>
	Balance September 30, 2017	Additions	Retirements	Balance September 30, 2018
Business-type activities				
Capital assets not being depreciated				
Land	\$ 97,567	\$ -	\$ -	\$ 97,567
Total capital assets not being depreciated	97,567	-	-	97,567
Capital assets being depreciated				
Buildings and improvements	35,211	-	-	35,211
Equipment	4,925	20,098	-	25,023
Automobiles	42,214	-	-	42,214
Water and sewer system	4,729,892	1,896,021	-	6,625,913
Total capital assets being depreciated	4,812,242	1,916,119	-	6,728,361
Less: accumulated depreciation				
Buildings and improvements	8,963	1,174	-	10,137
Equipment	4,925	264	-	5,189
Automobiles	42,214	-	-	42,214
Water and sewer system	595,282	112,288	-	707,570
Total accumulated depreciation	651,384	113,726	-	765,110
Total capital assets being depreciated, net	4,160,858	1,802,393	-	5,963,251
Business-type capital assets, net	<u>\$ 4,258,425</u>	<u>\$ 1,802,393</u>	<u>\$ -</u>	<u>\$ 6,060,818</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

4. Capital Assets (continued)

	Balance September 30, 2017	Additions	Retirements	Balance September 30, 2018
Public Improvement Districts				
Capital assets being depreciated				
Infrastructure	3,015,000	890,000	-	3,905,000
Total capital assets being depreciated	<u>3,015,000</u>	<u>890,000</u>	-	<u>3,905,000</u>
Less: accumulated depreciation				
Infrastructure	240,694	244,333	-	485,027
Total accumulated depreciation	<u>240,694</u>	<u>244,333</u>	-	<u>485,027</u>
Total capital assets being depreciated, net	<u>2,774,306</u>	<u>645,667</u>	-	<u>3,419,973</u>
PIDs capital assets, net	<u>\$ 2,774,306</u>	<u>\$ 645,667</u>	-	<u>\$ 3,419,973</u>

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

Governmental activities:

General government	\$ 132,607
Municipal court	3,091
Police	74,883
Public works	263,824
Total governmental depreciation expense	<u>\$ 474,405</u>

Business-type activities:

Water and sewer	\$ 81,373
Water and sewer capital projects	32,353
Total business-type depreciation expense	<u>\$ 113,726</u>

Public Improvement Districts:

Infrastructure	\$ 244,333
	<u>\$ 244,333</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

5. Long-term Debt

Amounts payable at September 30, 2018 are comprised of the following individual issues:

	Governmental Activities	Business-type Activities	Public Improvement Districts
Certificates of Obligation \$4,170,000 Series 2014A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$160,000 to \$285,000 through August 15, 2034, with interest at 2%	\$ -	\$ -	\$ 3,540,000
Certificates of Obligation \$420,000 Series 2014B Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$15,000 to \$25,000 through August 15, 2034, with interest at 3%	\$ -	\$ 355,175	\$ -
Certificates of Obligation \$6,990,000 Series 2016 Combination Tax and Revenue certificates of Obligation, due in annual installments of \$220,000 to \$440,000 through April 15, 2036, with interest at 2.00%	\$ 6,455,000	\$ -	\$ -
Certificates of Obligation \$1,390,000 Series 2016 General Obligation Refunding Bonds, due in annual installments of \$135,000 to \$175,000 through April 15, 2025, with interest at 2.00%	\$ 1,120,000	\$ -	\$ -

The following is a summary of long-term debt transactions of the Town for the year ended September 30, 2018:

	September 30, 2017	Increase	Decrease	September 30, 2018	Due Within One Year
Governmental Activities					
Certificates of obligation	\$ 7,930,000	\$ -	\$ 355,000	\$ 7,575,000	\$ 365,000
Compensated absences	113,504	98,953	88,374	124,083	31,510
Total governmental activities	8,043,504	98,953	443,374	7,699,083	396,510
Business-type Activities					
Certificates of obligation	375,235	-	20,000	355,235	20,000
Note payable	294,553	-	294,553	-	-
Compensated absences	9,943	16,604	18,124	8,423	4,297
Total business-type activities	\$ 679,731	\$ 16,604	\$ 332,677	\$ 363,658	\$ 24,297
Public Improvement Districts					
Certificates of obligation	3,710,000	-	170,000	3,540,000	175,000
Total business-type activities	\$ 3,710,000	\$ -	\$ 170,000	\$ 3,540,000	\$ 175,000

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

5. Long-term Debt (continued)

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the fiscal years subsequent to September 30, 2018, are as follows:

Certificates of Obligations	Governmental Activities		Business Activities		Total	Public Improvement Districts	
	Principal	Interest	Principal	Interest		Principal	Interest
	2019	\$ 365,000	\$ 162,012	\$ 20,000		\$ 10,181	\$ 557,193
2020	420,000	154,712	20,000	9,781	604,493	180,000	101,625
2021	475,000	146,312	20,000	9,381	650,693	185,000	98,025
2022	505,000	136,812	20,000	8,981	670,793	185,000	94,325
2023	510,000	126,712	20,000	8,531	665,243	195,000	90,163
2024-2028	2,055,000	490,312	105,000	34,806	2,685,118	1,060,000	370,125
2029-2033	1,955,000	297,712	125,000	17,188	2,394,900	1,275,000	183,156
2034-2038	1,290,000	66,653	25,175	907	1,382,735	285,000	9,975
	<u>\$ 7,575,000</u>	<u>\$ 1,581,237</u>	<u>\$ 355,175</u>	<u>\$ 99,756</u>	<u>\$ 9,611,168</u>	<u>\$ 3,540,000</u>	<u>\$ 1,052,519</u>

Defeasance of Debt

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

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

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

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

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

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

The agreement requires the use of a water year of June 1 of each calendar year through May 31 of the next following calendar year and requires that approximately sixty days after the end of each annual payment period, the Town shall furnish in writing to the District service information for the water year. The Town paid a \$288,000 security deposit to the Upper Trinity Regional Water District upon execution of the agreement. The payment represents an estimate of two years of the Town's portion of the annual debt service requirements. The security deposit can be returned to the Town as early as three years from the start of the agreement if certain conditions are met. There are several fees and charges associated with the water contract such as equity fee, subscription fee, and volume charges. In addition, the Town financed the payment of a \$60,000 equity fee over 60 months (see Footnote 5 – Note Payable). As of September 30, 2018, this note payable was paid off.

7. Fund Balances

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

- Non-spendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance includes amounts that are constrained to specific purposes by their providers or by enabling legislations.
- Committed fund balance includes amounts which are constrained to specific purposes by the government itself, using its highest level of decision-making. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned fund balance includes amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates.
- Unassigned fund balance includes amounts that are available for any purpose. Unassigned fund balances are only reported in the general fund.

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

8. Interfund Transfers and Balances

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

8. Interfund Transfers and Balances (continued)

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

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2018.

9. Defined Benefit Pension Plan

Plan Description

The Town participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

9. Defined Benefit Pension Plan (continued)

Benefits Provided

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

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

Plan provisions for the Town were as follows:

	<u>Plan Year 2018</u>
Employee deposit rate	7%
Matching ratio (Town to Employee)	2 to 1
Years required for vesting	5
Retirement Eligibility (Age/Service)	60/5, 0/20
Updated Service Credit	100% Repeating Transfers
Annuity to Increase (to retirees)	0% of CPI
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2017</u>
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	23
Active employees	<u>30</u>
Total	<u><u>57</u></u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

9. Defined Benefit Pension Plan (continued)

Contributions

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

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 10.22% and 10.60% in calendar years 2017 and 2018, respectively. The town's contributions to TMRS for the year ended September, 30 2018, were \$164,269, and were equal to the required contributions.

Net Pension Liability

The Town's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

9. Defined Benefit Pension Plan (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	<u>100.0%</u>	

Discount Rate

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

9. Defined Benefit Pension Plan (continued)

Changes in the Net Pension Liability

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

	Changes in the Net Pension Liability		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 2,411,932	\$ 1,984,533	\$ 427,399
Changes for the year:			
Service cost	281,176	-	281,176
Interest	175,548	-	175,548
Changes in current period benefits	58,612	-	58,612
Difference between expected and actual experience	4,129	-	4,129
Changes in assumptions	-	-	-
Contributions - employer	-	180,185	(180,185)
Contributions - employee	-	127,147	(127,147)
Net investment income	-	275,603	(275,603)
Benefit payments, including refunds of employee contributions	(20,855)	(20,855)	-
Administrative expense	-	(1,425)	1,425
Other changes	-	(74)	74
Net changes	498,610	560,581	(61,971)
Balance at 12/31/2017	<u>\$ 2,910,542</u>	<u>\$ 2,545,114</u>	<u>\$ 365,428</u>

Sensitivity of the net pension liability to changes in the discount rate:

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

	Sensitivity of the Net Pension Liability to Changes in the Discount Rate		
	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Town's net pension liability	\$ 890,210	\$ 365,428	\$ (58,038)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2018, the Town recognized pension expense of \$284,704 and the calculation of the expense is summarized in the following table:

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

9. Defined Benefit Pension Plan (continued)

Schedule of Pension Expense	
Total service cost	\$ 281,176
Interest on the total pension liability	175,548
Changes in current period benefits	58,612
Employee contributions (reduction of expense)	(127,147)
Projected earnings on plan investments (reduction of expense)	(133,956)
Administrative expense	1,425
Other changes in fiduciary net position	72
Recognition of current year outflow (inflow) of resources - liabilities	695
Recognition of current year outflow (inflow) of resources - assets	(28,329)
Amortization of prior year outflows (inflows) of resources - liabilities	34,312
Amortization of prior year outflows (inflows) of resources - assets	22,296
Total pension expense	\$ 284,704

At September 30, 2018 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Schedule of Deferred Outflows and Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 19,419	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	164,269	-
Total	\$ 183,688	\$ -

\$164,269 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Amount
2018	\$ 28,973
2019	23,370
2020	(12,767)
2021	(20,774)
2022	654
Thereafter	-
Total	\$ 19,456

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

10. Other postemployment benefit (OPEB) obligations

Plan Description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered another postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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 term 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 contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

	2017
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	5
Active employees	30
Total	39

Actuarial assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

10. Other postemployment benefit (OPEB) obligations (continued)

Inflation	2.5% per year
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Note: The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the OPEB Liability

Changes in the OPEB liability for the Town are summarized in the following table:

	Changes in the OPEB Liability
	<u>Total OPEB Liability (a)</u>
Balance at 12/31/2016	\$ 33,093
Changes for the year:	
Service cost	2,543
Interest on Total OPEB Liability	1,292
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions or other inputs	3,614
Benefit payments	(363)
Net changes	<u>7,086</u>
Balance at 12/31/2017	<u>\$ 40,179</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

10. Other postemployment benefit (OPEB) obligations (continued)

Sensitivity of the OPEB liability to changes in the discount rate:

The following presents the OPEB liability of the Town, calculated using the discount rate of 3.31%, as well as what the Town's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

Sensitivity of the OPEB Liability to Changes in the Discount Rate			
	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Town's net pension liability	\$ 49,805	\$ 40,179	\$ 32,889

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended September 30, 2018, the Town recognized OPEB expense of \$4,269 and the calculation of the expense is summarized in the following table:

Schedule of OPEB Expense	
Service cost	\$ 2,543
Interest on total OPEB liability	1,292
Changes in benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience *	-
Changes in assumptions or other inputs **	434
Total pension expense	\$ 4,269

*In the year of implementation, the beginning of year liability is rolled back from the measurement date, so there will be no experience loss / (gain).

**Generally, this will only be the annual change in the municipal bond index rate.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

10. Other postemployment benefit (OPEB) obligations (continued)

At September 30, 2018 the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Schedule of Deferred Outflows and Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,216	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	181	-
Total	\$ 3,397	\$ -

\$3,180 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31	Amount
2018	\$ 434
2019	434
2020	434
2021	434
2022	434
Thereafter	1,010
Total	\$ 3,180

11. 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, 2018. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2018 or any of the three preceding years.

12. Contingent Liabilities

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

13. Tax Abatements

Tax Increment Reinvestment Zone Number Two

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

Reinvestment zone with Farmer Bros. Co.

Abatement is equal to the taxes assess on 85% of the value of Farmer Bros. Co's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2018 was \$5,646.

Reinvestment zone with SH114/IH35W Ventures, Ltd.

Abatement is equal to the taxes assess on 75% of increased value of the property and improvements. The improvements are estimated to be \$25,000,000. The abatement period is from January 1, 2017 to December 31, 2026. On September 14, 2016 the Real Property Tax Abatement Agreement was assigned to Farmer Bros. Co., a Delaware corporation qualified to do business in Texas. Farmer Bros. Co. is the sole party to the assigned contract. The total amount of taxes abated during the year ended September 30, 2018 was \$0.

Tax Increment Reinvestment Zone Number Three

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

Reinvestment zone with Westco Aircraft Hardware Corp.

Abatement is equal to the taxes assess on 75% of the value of Westco Aircraft Hardware Corp's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2018 was \$0.

Reinvestment zone with Hempel USA, Inc.

Abatement is equal to the taxes assess on 75% of the value of Hempel's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2018 was \$0.

14. Leases

On December 4, 2018, the Town commenced an office lease for the Town Hall building. The lease agreement has a 5-year term with an option to renew the lease by the Town for two additional 5-year terms. The Town agreed to pay the following charges for the lease:

1. "Initial Common Area Maintenance (CAM) Charge" of \$1,250 per month;
2. "Initial Insurance Payment" of \$208 per month;
3. "Initial Tax Payment" payable monthly;
4. "Minimum Guaranteed Rental/Base Rent" of \$23.00 per square foot (SF) for 5,000 square feet of rentable area or \$9,792; and

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2018

14. Leases (continued)

5. “NNN” or all associated expenses such as taxes, CAM, and insurance, adjusted yearly to inflation indexed to inflation each year.

The Town received three months of free base rent and monthly expenses to be applied at the commencement of the lease.

Future minimum lease payments for operating leases with an initial or remaining lease term of twelve months or more at September 30, 2018 are as follows:

	<u>Amount</u>
2019	\$ 121,682
2020	165,106
2021	168,438
2022	171,838
2023	175,307
Thereafter	<u>-</u>
Total	<u>\$ 802,371</u>

15. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 20, 2019, the date the financial statements were available to be issued.

Town of Northlake, Texas
Notes to Required Supplementary Information
September 30, 2018

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.

REQUIRED SUPPLEMENTARY INFORMATION

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Town of Northlake, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
September 30, 2018

	2014	2015	2016	2017
Total pension liability				
Service cost	\$ 169,257	\$ 218,403	\$ 256,814	\$ 281,176
Interest	94,776	114,859	140,867	175,548
Change of benefit terms	-	-	-	58,612
Difference between expected and actual experience	14,773	33,719	62,182	4,129
Changes of assumptions	-	71,966	-	-
Benefit payments, including refunds of employee contributions	(21,688)	(11,286)	(12,871)	(20,855)
Net Change in Total Pension Liability	<u>257,118</u>	<u>427,661</u>	<u>446,992</u>	<u>498,610</u>
Total Pension Liability - Beginning	<u>1,280,161</u>	<u>1,537,279</u>	<u>1,964,940</u>	<u>2,411,932</u>
Total Pension Liability - Ending (a)	<u><u>1,537,279</u></u>	<u><u>1,964,940</u></u>	<u><u>2,411,932</u></u>	<u><u>2,910,542</u></u>
Plan Fiduciary Net Position				
Contributions-employer	75,574	128,506	147,406	180,185
Contributions-employee	83,179	100,846	114,649	127,147
Net investment income	68,838	2,078	110,118	275,603
Benefit payments, including refunds of employee contributions	(21,688)	(11,286)	(12,871)	(20,855)
Administrative expense	(718)	(1,265)	(1,241)	(1,425)
Other changes	(59)	(62)	(67)	(74)
Net Change in Plan Fiduciary Net Position	<u>205,126</u>	<u>218,817</u>	<u>357,994</u>	<u>560,581</u>
Plan Fiduciary Net Position - Beginning	<u>1,202,597</u>	<u>1,407,723</u>	<u>1,626,539</u>	<u>1,984,533</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,407,723</u></u>	<u><u>\$ 1,626,540</u></u>	<u><u>\$ 1,984,533</u></u>	<u><u>\$ 2,545,114</u></u>
Net Pension Liability - Ending (a) - (b)	129,556	338,400	427,399	365,428
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.57%	82.78%	82.28%	87.44%
Covered Employee Payroll	1,188,275	1,440,652	1,637,847	1,816,383
Net Pension Liability as a Percentage of Covered Employee Payroll	10.90%	23.49%	26.10%	20.12%

Town of Northlake, Texas
Required Supplementary Information
Schedule of Contributions
September 30, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 112,401	\$ 140,000	\$ 171,635	\$ 213,078
Contributions in relation to the actuarially determined contribution	100,291	141,715	173,585	214,948
Contribution deficiency (excess)	12,111	(1,715)	(1,950)	(1,870)
Covered employee payroll	1,341,854	1,558,966	1,773,085	2,055,781
Contributions as a percentage of covered employee payroll	7.00%	9.09%	9.79%	10.46%

Town of Northlake, Texas
Required Supplementary Information
Notes to Schedule of Contributions
September 30, 2018

Valuation Date:

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

Methods and Assumptions Used to Determin Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of reates that are specific to the Town's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes Adopted 20 yr, any age retirement eligibility.

Town of Northlake, Texas
Notes to Required Supplementary Information
September 30, 2018

1. Stewardship, Compliance and Accountability

Budgetary Information

The Town Council adopts an annual operating budget, which can be amended by the Council throughout the year. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of accounting principles generally accepted in the United States of America.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the Town Council, budgetary transfers between departments can be made. The budget amounts on the budgetary comparison schedules reflect the final budget authorization.

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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Town of Northlake, Texas
Combining Balance Sheet
Non Major Governmental Funds
September 30, 2018

	Special Revenue Funds							Blended Component Units		Total Non Major Governmental Funds	
	Court Special Revenue Fund	Court Technology Fund	Police Asset Forfeiture Fund	Police Special Training Fund	Child Safty Fund	Court Online Access Fees Fund	Roadway Impact Fee Funds	Tax Increment Reinvestment Zone Fund	Economic Development Corporation 4A		Community Development Corporation 4B
Assets											
Cash and cash equivalents	\$ 60,332	\$ 15,530	\$ 16,727	\$ 473	\$ 98,069	\$ 57,949	\$ 781,367	\$ 46,896	\$ 604,055	\$ 582,560	\$ 2,263,958
Receivables:											
Sales taxes	-	-	-	-	-	-	-	-	55,897	55,897	111,794
Goods available for sale	-	-	6,601	-	-	-	-	-	-	-	6,601
Other assets	-	-	-	-	-	-	-	-	3	3	6
Total assets	<u>60,332</u>	<u>15,530</u>	<u>23,328</u>	<u>473</u>	<u>98,069</u>	<u>57,949</u>	<u>781,367</u>	<u>46,896</u>	<u>659,955</u>	<u>638,460</u>	<u>2,382,359</u>
Liabilities and Fund Balances											
Liabilities:											
Accounts payable	-	-	-	-	15	-	-	-	75,327	75,202	150,544
Accrued liabilities	8	-	6,643	-	-	-	-	-	323	323	7,297
Deferred revenue	-	-	6,601	-	-	-	-	-	-	-	6,601
Total liabilities	<u>8</u>	<u>-</u>	<u>13,244</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,650</u>	<u>75,525</u>	<u>164,442</u>
Fund balances:											
Restricted for											
Court technology and security	60,324	15,530	-	-	-	57,949	-	-	-	-	133,803
Public safty	-	-	10,084	473	98,054	-	-	-	-	-	108,611
Capital projects	-	-	-	-	-	-	781,367	-	-	-	781,367
TIRZ development	-	-	-	-	-	-	-	46,896	-	-	46,896
Economic development	-	-	-	-	-	-	-	-	584,305	-	584,305
Community development	-	-	-	-	-	-	-	-	-	562,935	562,935
Total fund balances	<u>60,324</u>	<u>15,530</u>	<u>10,084</u>	<u>473</u>	<u>98,054</u>	<u>57,949</u>	<u>781,367</u>	<u>46,896</u>	<u>584,305</u>	<u>562,935</u>	<u>2,217,917</u>
Total liabilities and fund balances	<u>\$ 60,332</u>	<u>\$ 15,530</u>	<u>\$ 23,328</u>	<u>\$ 473</u>	<u>\$ 98,069</u>	<u>\$ 57,949</u>	<u>\$ 781,367</u>	<u>\$ 46,896</u>	<u>\$ 659,955</u>	<u>\$ 638,460</u>	<u>\$ 2,382,359</u>
	-	-	-	-	-	-	-	-	-	-	-

Town of Northlake, Texas
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non Major Governmental Funds
September 30, 2018

	Special Revenue Funds							Blended Component Units		Total Non Major Governmental Funds	
	Court Special Revenue Fund	Court Technology Fund	Police Asset Forfeiture Fund	Police Special Training Fund	Child Safty Fund	Court Online Access Fees Fund	Roadway Impact Fee Funds	Tax Increment Reinvestment Zone Fund	Economic Development Corporation 4A		Community Development Corporation 4B
Revenues											
Taxes:											
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,451	\$ -	\$ -	\$ 73,451
Sales and beverage	-	-	-	-	-	-	-	-	320,992	320,992	641,984
Interest income	2,878	2,671	4	-	2,782	2,671	-	-	3,197	3,185	17,388
Municipal court fines	9,939	18,368	-	-	-	-	-	-	-	-	28,307
Seized goods	-	-	6,938	-	-	-	-	-	-	-	6,938
Online access fees	-	-	-	-	-	17,724	-	-	-	-	17,724
Roadway impact fees	-	-	-	-	-	-	744,960	-	-	-	744,960
Miscellaneous	-	-	-	1,377	4,708	-	-	-	19,989	19,989	46,063
Total revenues	12,817	21,039	6,942	1,377	7,490	20,395	744,960	73,451	344,178	344,166	1,576,815
Expenditures											
Current											
Municipal court	5,758	2,858	-	-	-	19,114	-	-	-	-	27,730
Police	-	-	600	1,320	2,425	-	-	-	-	-	4,345
Development services	-	-	-	-	-	-	-	31,752	329,810	329,602	691,164
Promotional	-	-	-	-	-	-	-	-	17,454	18,767	36,221
Total expenditures	5,758	2,858	600	1,320	2,425	19,114	-	31,752	347,264	348,369	759,460
Excess of revenues over expenditures	7,059	18,181	6,342	57	5,065	1,281	744,960	41,699	(3,086)	(4,203)	817,355
Other Financing Sources											
Transfers out	(46,293)	-	-	-	-	-	-	-	(25,000)	(25,000)	(96,293)
Total other financing sources	(46,293)	-	-	-	-	-	-	-	(25,000)	(25,000)	(96,293)
Net change in fund balances	(39,234)	18,181	6,342	57	5,065	1,281	744,960	41,699	(28,086)	(29,203)	721,062
Fund balances - beginning	99,558	(2,651)	3,742	416	92,989	56,668	36,407	5,197	612,391	592,138	1,496,855
Fund balances - ending	\$ 60,324	\$ 15,530	\$ 10,084	\$ 473	\$ 98,054	\$ 57,949	\$ 781,367	\$ 46,896	\$ 584,305	\$ 562,935	\$ 2,217,917

Town of Northlake, Texas
 Budgetary Comparison Schedule - General Fund
 Year ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property	\$ 842,210	\$ 910,000	\$ 885,559	\$ (24,441)
Sales and beverage	480,000	600,000	642,746	42,746
Franchise	305,000	325,800	376,093	50,293
Building permits, plat and other fees	1,433,450	1,632,525	1,546,713	(85,812)
Municipal court	600,000	500,000	510,818	10,818
Interest income	2,500	2,500	6,699	4,199
Miscellaneous	153,760	153,760	213,766	60,006
Total revenues	<u>3,816,920</u>	<u>4,124,585</u>	<u>4,182,394</u>	<u>57,809</u>
Expenditures				
Current				
General government	882,171	981,011	866,111	114,900
Municipal court	274,005	272,505	257,457	15,048
Development services	532,218	554,853	610,551	(55,698)
Police	1,541,970	1,610,900	1,542,814	68,086
Public works	749,825	745,205	623,885	121,320
Capital outlay	33,225	31,815	8,269	23,546
Total expenditures	<u>4,013,414</u>	<u>4,196,289</u>	<u>3,909,087</u>	<u>287,202</u>
Excess (deficiency) of revenues over expenditures	(196,494)	(71,704)	273,307	345,011
Other financing sources (uses):				
Transfers in	230,881	230,881	200,000	(30,881)
Transfers out	-	(500,000)	(500,000)	-
Total other financing sources (uses)	<u>230,881</u>	<u>(269,119)</u>	<u>(300,000)</u>	<u>(30,881)</u>
Net change in fund balances	34,387	(340,823)	(26,693)	314,130
Fund balance, beginning of year	1,857,987	1,857,987	1,857,987	-
Fund balance, end of year	<u>\$ 1,892,374</u>	<u>\$ 1,517,164</u>	<u>\$ 1,831,294</u>	<u>\$ 314,130</u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Hotel/Motel Tax Fund
 Year ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Hotel/Motel tax	\$ 300,000	\$ 300,000	\$ 444,447	\$ 144,447
Interest income	10,805	10,805	14,421	3,616
Total revenues	<u>310,805</u>	<u>310,805</u>	<u>458,868</u>	<u>148,063</u>
Expenditures				
Police	23,550	23,550	26,991	(3,441)
Promotional	67,525	68,025	31,210	36,815
Total expenditures	<u>91,075</u>	<u>91,575</u>	<u>58,201</u>	<u>33,374</u>
Net change in fund balances	<u>219,730</u>	<u>219,230</u>	<u>400,667</u>	<u>181,437</u>
Fund balance, beginning of year	<u>1,484,307</u>	<u>1,484,307</u>	<u>1,484,307</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,704,037</u></u>	<u><u>\$ 1,703,537</u></u>	<u><u>\$ 1,884,974</u></u>	<u><u>\$ 181,437</u></u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Capital Projects Fund
 Year ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$ -	\$ -	\$ 110,931	\$ 110,931
Expenditures				
General government	-	-	22,086	(22,086)
Public works	-	150,000	110,874	39,126
Capital outlay	5,200,000	1,300,000	3,518,165	(2,218,165)
Total expenditures	5,200,000	1,450,000	3,651,125	(2,201,125)
Net change in fund balances	(5,200,000)	(1,450,000)	(3,540,194)	(2,090,194)
Fund balance, beginning of year	5,959,853	5,959,853	5,959,853	-
Fund balance, end of year	\$ 759,853	\$ 4,509,853	\$ 2,419,659	\$ (2,090,194)

Town of Northlake, Texas
 Budgetary Comparison Schedule - Debt Service Fund
 Year ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Assessment taxes	\$ 556,937	\$ 600,000	\$ 630,735	\$ 30,735
Interest income	500	500	2,688	2,188
Total revenues	<u>557,437</u>	<u>600,500</u>	<u>633,423</u>	<u>32,923</u>
Expenditures				
Debt service				
Principal	375,000	375,000	355,000	20,000
Interest and fiscal charges	181,937	181,937	171,205	10,732
Total expenditures	<u>556,937</u>	<u>556,937</u>	<u>526,205</u>	<u>30,732</u>
Other financing sources (uses)				
Transfers in	-	550,000	550,000	-
Net change in fund balances	<u>500</u>	<u>593,563</u>	<u>657,218</u>	<u>63,655</u>
Fund balance, beginning of year	<u>126,530</u>	<u>126,530</u>	<u>126,530</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 127,030</u></u>	<u><u>\$ 720,093</u></u>	<u><u>\$ 783,748</u></u>	<u><u>\$ 63,655</u></u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Economic Development Corporation 4A
 Year ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 240,000	\$ 300,000	\$ 320,992	\$ 20,992
Interest income	650	650	3,197	2,547
Miscellaneous	22,000	22,000	19,989	(2,011)
Total revenues	<u>262,650</u>	<u>322,650</u>	<u>344,178</u>	<u>21,528</u>
Expenditures				
Development services	177,025	357,275	329,810	27,465
Promotional	26,500	26,750	17,454	9,296
Total expenditures	<u>203,525</u>	<u>384,025</u>	<u>347,264</u>	<u>36,761</u>
Other financing sources (uses)				
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balances	34,125	(86,375)	(28,086)	58,289
Fund balance, beginning of year	<u>612,391</u>	<u>612,391</u>	<u>612,391</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 646,516</u></u>	<u><u>\$ 526,016</u></u>	<u><u>\$ 584,305</u></u>	<u><u>\$ 58,289</u></u>

Town of Northlake, Texas
 Budgetary Comparison Schedule - Community Development Corporation 4B
 Year ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales taxes	\$ 240,000	\$ 300,000	\$ 320,992	\$ 20,992
Interest income	650	650	3,185	2,535
Miscellaneous	22,000	22,000	19,989	(2,011)
Total revenues	<u>262,650</u>	<u>322,650</u>	<u>344,166</u>	<u>21,516</u>
Expenditures				
Development services	177,025	357,275	329,602	27,673
Promotional	26,500	26,750	18,767	7,983
Total expenditures	<u>203,525</u>	<u>384,025</u>	<u>348,369</u>	<u>35,656</u>
Other financing sources (uses)				
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balances	34,125	(86,375)	(29,203)	57,172
Fund balance, beginning of year	<u>592,138</u>	<u>592,138</u>	<u>592,138</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 626,263</u></u>	<u><u>\$ 505,763</u></u>	<u><u>\$ 562,935</u></u>	<u><u>\$ 57,172</u></u>

COMPLIANCE AND INTERNAL CONTROL SECTION

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

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

Members:
American Institute of CPAs
Texas Society of CPAs

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Northlake, Texas (the “Town”), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated February 20, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Richardson, Texas

February 20, 2019

STATISTICAL SECTION

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Town of Northlake, Texas
Schedule of Net Position By Component
Last Three Years

Table 1

	FISCAL YEAR		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Governmental Activities:			
Net Investment In Capital Assets	3,022,060	(2,224,043)	622,501
Restricted	7,371,608	9,067,546	1,838,381
Unrestricted	<u>1,055,212</u>	<u>2,573,478</u>	<u>4,313,308</u>
Total Governmental Activities Net Assets	<u>\$ 11,448,880</u>	<u>\$ 9,416,981</u>	<u>\$ 6,774,190</u>
Business-type Activities:			
Net Investment In Capital Assets	5,697,160	4,258,425	3,343,561
Restricted	-	-	-
Unrestricted	<u>2,085,468</u>	<u>1,150,742</u>	<u>1,497,218</u>
Total Business-type Activities Net Assets	<u>\$ 7,782,628</u>	<u>\$ 5,409,167</u>	<u>\$ 4,840,779</u>
Primary Government:			
Net Investment In Capital Assets	8,719,220	2,034,382	3,966,062
Restricted	7,371,608	9,067,546	1,838,381
Unrestricted	<u>3,140,680</u>	<u>3,724,220</u>	<u>5,810,526</u>
Total Primary Government Net Assets	<u>\$ 19,231,508</u>	<u>\$ 14,826,148</u>	<u>\$ 11,614,969</u>

Source of information: Statement of Net Position

Town of Northlake, Texas
Changes in Net Position
Last Three Years

Table 2

	2018	2017	2016
Expenses:			
Governmental Activities:			
General Government	928,400	1,437,941	1,562,134
Municipal Court	263,078	279,833	238,250
Police	1,574,463	932,591	1,139,912
Public Works	952,983	1,312,199	658,352
Development Services	1,274,815	1,016,548	-
Economic Development	-	636,186	636,186
Promotional	67,431	61,929	38,233
Interest and Fiscal Charges	150,220	432,877	226,945
Total Governmental Activities Expenses	<u>5,211,390</u>	<u>6,110,104</u>	<u>4,500,012</u>
Business-type Activities:			
Water and Sewer	<u>3,294,171</u>	<u>2,568,970</u>	<u>1,613,800</u>
Total Business-type Activities Expenses	<u>3,294,171</u>	<u>2,568,970</u>	<u>1,613,800</u>
Total Primary Government Activities Expenses	<u>\$ 8,505,561</u>	<u>\$ 8,679,074</u>	<u>\$ 6,113,812</u>
Program Revenues:			
Governmental Activities:			
Charges for services:			
General Government	\$ 1,546,713	1,341,544	\$ 1,061,699
Municipal Courts	578,133	544,561	593,352
Operating Grants and Contributions	-	-	-
Total Governmental Activities Program Revenue	<u>2,124,846</u>	<u>1,886,105</u>	<u>1,655,051</u>
Business-type Activities:			
Charges for services:			
Water and Sewer	3,783,858	3,296,635	2,584,170
Operating Grants and Contributions	1,300,406	-	-
Total Business-type Activities Program Revenues	<u>5,084,264</u>	<u>3,296,635</u>	<u>2,584,170</u>
Total Primary Government Program Revenues	<u>\$ 7,209,110</u>	<u>\$ 5,182,740</u>	<u>\$ 4,239,221</u>
Net (Expense) Revenue			
Governmental Activities	(3,086,544)	(4,223,999)	(2,844,961)
Business-type Activities	1,790,093	727,665	970,370
Total Primary Government Net Expense	<u>\$ (1,296,451)</u>	<u>\$ (3,496,334)</u>	<u>\$ (1,874,591)</u>
General Revenues and Other Changes in Net Position			
Governmental Activities:			
Taxes:			
Property Taxes	1,572,424	1,179,013	922,534
Sales Taxes	1,284,730	1,246,433	1,359,296
Franchise Taxes	376,093	282,277	257,563
Hotel/Motel Taxes	444,447	267,965	257,813
Interest	160,360	113,463	40,944
Roadway Impact Fees	744,960	-	-
Assessments	-	610,503	436,420
Miscellaneous	335,428	1,542,348	204,122
Transfers In (Out)	200,000	172,262	146,629
Total Governmental Activities	<u>5,118,442</u>	<u>5,414,264</u>	<u>3,625,321</u>
Business-type Activities:			
Water/Sewer Impact Fees	747,134	-	-
Interest Earnings (Expense)	37,718	(6,339)	(28,061)
Miscellaneous	(1,487)	20,324	60,734
Transfers In (Out)	(200,000)	(172,262)	(146,629)
Total Business-type Activities	<u>583,365</u>	<u>(158,277)</u>	<u>(113,956)</u>
Total Primary Government	<u>\$ 5,701,807</u>	<u>\$ 5,255,987</u>	<u>\$ 3,511,365</u>
Change In Net Position			
Governmental Activities	2,031,898	1,190,265	780,360
Business-type Activities	2,373,458	569,388	856,414
Total Primary Government	<u>\$ 4,405,356</u>	<u>\$ 1,759,653</u>	<u>\$ 1,636,774</u>

Source of information: Statement of Activities

Town of Northlake, Texas
Governmental Fund Balances
Last Three Years

Table 3

	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Fund			
Unassigned	1,831,294	1,925,453	1,575,023
Restricted	-	-	-
Total General Fund	<u>\$ 1,831,294</u>	<u>\$ 1,925,453</u>	<u>\$ 1,575,023</u>
All Other Governmental Funds:			
Restricted for:			
Utility Cost Participation	\$ 65,310	-	\$ -
Promotional Activities	\$ 1,884,974	1,484,307	\$ 1,258,552
Public Improvement		119,353	\$ 1,373,509
Economic Development		612,391	\$ 595,579
Community Development		592,138	\$ 575,332
Capital Projects	\$ 2,419,659	5,996,260	
Debt Service	\$ 783,748	126,531	
Restricted, Reported In Non-Major Governmental Funds:			
Roadway Impact Fees	781,367	-	
Court Technology, Security and Child Safety	133,803	250,722	250,910
Public Safety	108,611	-	
TIRZ Development	46,896	-	
Economic Development	584,305	-	
Community Development	562,935	-	
Capital Projects	-	-	11,071
Debt Service	-	-	249,740
Other Purposes	-	5,197	(1,385)
Total All Other Governmental Funds	<u>\$ 7,371,608</u>	<u>\$ 9,186,899</u>	<u>\$ 4,313,308</u>
Total Fund Balance	<u>\$ 9,202,902</u>	<u>\$ 11,112,352</u>	<u>\$ 5,888,331</u>

Source of information: Balance Sheet - Governmental Funds

Town of Northlake, Texas
Changes In Fund Balances - Governmental Funds
Last Three Years

Table 4

	2018	2017	2016
Revenues			
Taxes:			
Property	\$ 1,589,745	\$ 1,190,441	\$ 954,486
Sales and beverage	1,284,730	1,246,433	1,359,296
Franchise	376,093	282,277	257,563
Hotel/Motel	444,447	267,965	257,813
Building permits, plant and other fees	1,546,713	1,341,544	1,061,699
Municipal court	539,125	592,248	601,110
Interest income	154,890	103,235	40,581
Online access fees	17,724	-	-
Roadway impact fees	744,960	-	-
Assessments	-	610,503	436,420
Miscellaneous	266,767	1,450,364	205,153
Total revenues	<u>6,965,194</u>	<u>7,085,010</u>	<u>5,174,121</u>
Expenditures			
Current:			
General government	893,117	1,206,381	1,429,193
Municipal court	285,187	275,528	232,668
Development services	1,301,715	932,591	636,186
Police	1,574,150	1,263,326	1,069,797
Public works	734,759	681,092	425,044
Promotional	67,431	61,929	38,233
Capital outlay	3,526,434	2,927,584	1,717,484
Debt service:			
Principal	355,000	2,005,000	300,000
Interest and fiscal charges	171,205	459,276	242,624
Total expenditures	<u>8,908,998</u>	<u>9,812,707</u>	<u>6,091,229</u>
Excess (deficiency) of revenues over expenditures	<u>(1,943,804)</u>	<u>(2,727,697)</u>	<u>(917,108)</u>
Other financing sources (uses)			
Proceeds of long-term debt	-	8,380,000	-
Premium on bond	-	215,287	-
Transfers in	750,000	6,935,000	484,416
Transfers out	(596,293)	(7,578,569)	(755,748)
Total other financing sources (uses)	<u>153,707</u>	<u>7,951,718</u>	<u>(271,332)</u>
Net change in fund balances	<u><u>(1,790,097)</u></u>	<u><u>5,224,021</u></u>	<u><u>(1,188,440)</u></u>
Debt service as a percentage of noncapital expenditures	9.78%	35.79%	12.41%

Source of information: Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Town of Northlake, Texas
Assessed Value And Estimated Actual Value of Taxable Property
Last Three Years

Table 5

Fiscal Year Ended Sep. 30th	Estimated Market Value		Less: Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property			
2018	\$ 485,614,807	\$ 114,099,682	\$ 58,937,781	\$ 540,776,708	\$ 0.295000
2017	340,385,891	55,685,887	21,051,251	375,020,527	\$ 0.295000
2016	231,742,810	63,603,656	23,185,497	272,160,969	\$ 0.295000

Town of Northlake, Texas
Direct And Overlapping Property Tax Rates (per \$100 of assessed value)
Last Three Years

Table 6

Fiscal Year Ended Sep. 30th	Town of Northlake Direct Rates			Overlapping Rates			Total Rate Tax Rate
	M&O Rate	Debt Service Rate	Total Rate	Argyle Independent School District	Emergency Services District	Denton County	
2018	\$ 0.177600	\$ 0.117400	\$ 0.295000	\$ 1.585050	\$ 0.100000	\$ 0.237812	\$ 2.217862
2017	0.190300	0.104700	0.295000	1.570050	0.099820	0.248409	2.213279
2016	0.217700	0.077300	0.295000	1.570050	0.100000	0.262000	2.227050

Fiscal Year Ended Sep. 30th	Town of Northlake Direct Rates			Overlapping Rates			Total Rate Tax Rate
	M&O Rate	Debt Service Rate	Total Rate	Northwest Independent School District	Emergency Services District	Denton County	
2018	\$ 0.177600	\$ 0.117400	\$ 0.295000	\$ 1.490000	\$ 0.100000	\$ 0.237812	\$ 2.122812
2017	0.190300	0.104700	0.295000	1.452500	0.099820	0.248409	2.095729
2016	0.217700	0.077300	0.295000	1.452500	0.100000	0.262000	2.109500

Source: Denton County Appraisal District

There are two school districts that serve the residents of Northlake; Northwest Independent School District and Argyle Independent School District

Town of Northlake, Texas
Ratio of General Bonded Debt Outstanding
Last Three Years

Table 7

Fiscal Year Ended Sep. 30th	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Component Units</u>		Total Outstanding Debt	% of Actual Taxable Value Of Property (1)
	Certificate of Obligation Bonds	Certificate of Obligation Bonds	Notes Payable	Total Primary Government	Public Improvement Districts		
2018	\$ 7,575,000	\$ 355,235	\$ 0	\$ 7,930,235	\$ 3,540,000	\$ 11,470,235	0.02
2017	11,640,000	375,175	294,553	12,309,728	-	12,309,728	0.03
2016	5,265,000	390,121	439,478	6,094,599	-	6,094,599	0.02

Notes: (1) See Exhibit for property value data.

(2) Population information was obtained from the North Central Texas Council of Governments

Town of Northlake, Texas
Principal Tax Payers
Current Year And Three Years Ago

Table 8

Taxpayer Name	2018		2016	
	Rank	Taxable Value	Rank	Taxable Value
Chadwick Apartments Phase 1 LTD	1	37,625,295	2	21,643,857
Northport 35 Investors, LLC	2	37,009,886	1	35,296,858
Dry Creek Apartments, LTD	3	36,201,120		
Cabot IV TX1B01 Bo2 LLC	4	22,731,030	4	18,360,000
Intercapital Creekside LLC	5	21,500,000	3	20,700,000
DCT Northlake LP	6	20,473,676	5	17,542,600
Qicktrip Corp.	7	9,374,676	7	9,467,441
Farmer Bros. Co	8	9,353,475		
The Clorox Sales Company	9	9,000,013		
Nash Canyon Falls, LLC	10	8,039,584		
Devon Energy Production Co LP			6	10,939,921
Enervest Operating LLC			8	5,172,850
Nomac Drilling Corporaton			9	4,716,410
Hydro Conduit of Texas LP			10	4,200,000

Source: Denton County Appraisal District

Town of Northlake, Texas

**Full-Time Equivalent Government Employees By Function/Program
Last Three Years**

Table 9

<u>Function/Program:</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Government	4	4	4
Municipal Court	3	3	3
Development Services	2	1.25	1.25
Police	13.75	13.75	12.5
Public Works	4.24	4.24	3.37
Promotional	0.25	0.25	0.25
Water/Sewer	<u>6.74</u>	<u>6.74</u>	<u>5.32</u>
Total	33.98	33.23	29.69

Source: Town Budget Office