

**DENCO AREA
9-1-1 DISTRICT
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2016**

DENCO AREA 9-1-1 DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Managers
Denco Area 9-1-1 District
Lewisville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Denco Area 9-1-1 District ("the District"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 from 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's judgment, including the assessment of the risks of 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 and each major fund of Denco Area 9-1-1 District as of September 30, 2016, and the respective changes in financial position 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* on pages 3 through 5, *budgetary comparison information* on page 25 and *pension schedules* on pages 26-27 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017 on our consideration of the District's internal control over financial reporting and on our test 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 District's internal control over financial reporting and compliance.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

January 9, 2017

**DENCO AREA 9-1-1 DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(UNAUDITED)**

As management of the Denco Area 9-1-1 District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements which follow this section.

Financial Highlights:

- The assets and deferred outflows of the Denco Area 9-1-1 District exceeded its liabilities and deferred inflows as of September 30, 2016 by \$7,637,225 (Net Position). Of that, \$5,354,086 is unrestricted (unrestricted net position) and may be used to meet the District's ongoing obligations to citizens in accordance with the District's fiscal policies.
- The District's total net position increased by \$719,232 during the year.

Overview of the Financial Statements:

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: (1) government-wide financial statements, which include the fund financial statements, and (2) notes to the financial statements.

The Statement of Net Position presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when 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 the future fiscal periods.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with the finance-related legal requirements. The General Fund is a governmental fund. Governmental fund financial statements focus on current sources and uses 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.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis:

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. As of September 30, 2016, the District's assets exceeded liabilities by \$7,637,225.

Denco Area 9-1-1 District's Net Position

	2016	2015
Current and other assets	\$ 5,008,823	\$ 5,265,790
Capital assets	2,283,139	1,608,278
Total assets	<u>7,291,962</u>	<u>6,874,068</u>
Deferred outflows of resources	<u>508,609</u>	<u>156,231</u>
Total liabilities	<u>97,951</u>	<u>71,118</u>
Deferred inflows of resources	<u>65,395</u>	<u>41,188</u>
Net position:		
Net investment in capital assets	2,283,139	1,608,278
Unrestricted	5,354,086	5,309,715
Total net position	<u>\$ 7,637,225</u>	<u>\$ 6,917,993</u>

Analysis of the District's Operations – Overall, the District had an increase in cash and temporary cash investments in fiscal year 2016, of \$133,029. 9-1-1 service fee revenue, the primary revenue source for the District, increased by 4.2% in fiscal year 2016. District expenditures in 2016 were \$503,970 more than those in fiscal year 2015, an increase of 13.0%.

Denco Area 9-1-1 District's Change in Net Position

	2016	2015
Revenues:		
Charges for services – 9-1-1 service fees	\$ 4,883,305	\$ 4,684,656
General revenues:		
Interest	44,260	12,133
Miscellaneous	178,674	30,328
Total general revenues	<u>222,934</u>	<u>42,461</u>
Total revenues	<u>5,106,239</u>	<u>4,727,117</u>
Expenses:		
Personnel services	1,305,152	1,198,240
Administration	282,450	303,222
Direct services	<u>2,799,405</u>	<u>2,381,575</u>

Total expenses	<u>4,387,007</u>	<u>3,883,037</u>
Change in net position	719,232	844,080
Net position, beginning	6,917,993	5,956,784
Prior period adjustment due to GASB 68 & 71	-	117,129
Net position, ending	\$ <u>7,637,225</u>	\$ <u>6,917,993</u>

Debt Administration:

The District does not have any outstanding debt.

Discussion of Currently Known Facts, Decisions or Conditions in Fiscal Year 2017:

Total revenues in fiscal year 2017 are expected to decrease by \$157,994, due primarily to the continued decline in wireline access users, wireless service fee growth slowing to a projected 2.5%, and reduced interest earnings as capital project funds are expended and removed from investment accounts. Additionally, an arrears payment made by Verizon on wireline service fees in fiscal year 2016 inflated revenues by 2.6%.

Total expenditures in fiscal year 2017 are anticipated to increase by 46% or \$2,449,774. This increase can be attributed almost exclusively to the \$3,150,000 in the Capital Projects line item. These funds will be used in the construction of the Annex facility projected to begin in 2017. If the cost of the Annex facility project were factored out for fiscal year 2017, spending would decrease by 13%, or \$700,226, when compared to fiscal year 2016 spending.

The District expects its non-reserved cash to decrease by \$2,948,098 in fiscal year 2017. This decrease comes from slightly lower revenue projections and the Annex facility project.

Requests for Information:

This financial report is designed to provide our citizens with a general overview of the District's finances. If you have any questions about this report or need any additional information, please contact the Executive Director, Attn: Mark Payne, at P.O. Box 293028, Lewisville, Texas 75029-3058, or call (972) 221-0911.

DENCO AREA 9-1-1 DISTRICT

**STATEMENT OF NET POSITION
AND GOVERNMENTAL FUND BALANCE SHEET**

SEPTEMBER 30, 2016

	General Fund	TexPool NG911 Fund	Logic Building Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 4,630,694	\$ -	\$ -	\$ 4,630,694	\$ -	\$ 4,630,694
Temporary cash investments	51	-	1	52	-	52
Service fees receivable	284,770	-	-	284,770	-	284,770
Net pension asset	-	-	-	-	93,307	93,307
Capital assets:						
Nondepreciable	-	-	-	-	437,250	437,250
Depreciable, net	-	-	-	-	1,845,889	1,845,889
Total assets	<u>4,915,515</u>	<u>-</u>	<u>1</u>	<u>4,915,516</u>	<u>2,376,446</u>	<u>7,291,962</u>
Deferred Outflows of Resources						
Deferred outflow related to TCDRS	-	-	-	-	508,609	508,609
Liabilities						
Accounts payable	34,739	-	-	34,739	-	34,739
Long-term liabilities						
Due within one year	-	-	-	-	-	-
Due in more than one year	-	-	-	-	63,212	63,212
Total liabilities	<u>34,739</u>	<u>-</u>	<u>-</u>	<u>34,739</u>	<u>63,212</u>	<u>97,951</u>
Deferred Inflows of Resources						
Deferred inflow related to TCDRS	-	-	-	-	65,395	65,395
Fund Balance/Net Position						
Fund balance:						
Committed	2,948,098	-	1	2,948,099	(2,948,099)	-
Unassigned	1,932,677	-	-	1,932,677	(1,932,677)	-
Total fund balance	<u>4,880,775</u>	<u>-</u>	<u>1</u>	<u>4,880,776</u>	<u>(4,880,776)</u>	<u>-</u>
Total liabilities and fund balance	\$ <u>4,915,514</u>	<u>-</u>	\$ <u>1</u>	\$ <u>4,915,515</u>		
Net Position						
Investment in capital assets					2,283,139	2,283,139
Unrestricted					5,354,086	5,354,086
Total net position					<u>\$ 7,637,225</u>	<u>\$ 7,637,225</u>

The accompanying notes are an integral part of these financial statements

DENCO AREA 9-1-1 DISTRICT
STATEMENT OF ACTIVITIES
AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	TexPool NG911 Fund	Logic Building Fund	Total	Adjustments	Statement of Net Position
Expenditures/expenses:						
Personnel services	\$ 1,375,667	\$ -	\$ -	\$ 1,375,667	\$ (70,515)	\$ 1,305,152
Administration	282,450	-	-	282,450		282,450
Direct services	3,474,267	-	-	3,474,267	(674,861)	2,799,406
Total expenditures/expenses	<u>5,132,384</u>	<u>-</u>	<u>-</u>	<u>5,132,384</u>	<u>(745,376)</u>	<u>4,387,008</u>
Program revenues:						
Charges of services - 9-1-1 service fees	4,883,305	-	-	4,883,305		4,883,305
Total program revenues	<u>4,883,305</u>	<u>-</u>	<u>-</u>	<u>4,883,305</u>	<u>-</u>	<u>4,883,305</u>
General revenues:						
Interest income	44,260	-	-	44,260		44,260
Miscellaneous	178,674	-	-	178,674		178,674
Total general revenues	<u>222,934</u>	<u>-</u>	<u>-</u>	<u>222,934</u>	<u>-</u>	<u>222,934</u>
Total program/general revenues	<u>5,106,239</u>	<u>-</u>	<u>-</u>	<u>5,106,239</u>	<u>-</u>	<u>5,106,239</u>
Excess of revenues and expenditures	<u>(26,145)</u>	<u>-</u>	<u>-</u>	<u>(26,145)</u>	<u>26,145</u>	<u>-</u>
Other financing sources (uses):						
Transfers in	1	-	-	1	(1)	-
Transfers out	-	(1)	-	(1)	1	-
Total other financing sources (uses)	<u>1</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position					719,231	719,231
Fund balance/net position:						
Beginning	4,906,919	1	1	4,906,921	2,011,073	6,917,994
Ending	<u>\$ 4,880,775</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 4,880,776</u>	<u>\$ 2,756,449</u>	<u>\$ 7,637,225</u>

The accompanying notes are an integral part of these financial statements

DENCO AREA 9-1-1 DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Denco Area 9-1-1 District (the "District") is a special communication district authorized by the Emergency Communication District Act (Article 1432e, Vernon's Texas Civil Statutes) and confirmed by voters of Denton County on August 8, 1987. Fees were collected from customers beginning in January 1988, and the District became operational in March 1988. The purpose of the District is to establish the number 9-1-1 as the primary emergency telephone number to communities in Denton County and certain geographically contiguous communities in Dallas County, in order to facilitate a quick response to any person calling the number seeking police, fire, medical and other emergency numbers.

The activities of the District, until the date the 9-1-1 system became fully operational, consisted primarily of collecting and investing accumulated service fees from the telephone companies that service the communities within the District, and developing proposals for the implementation of the 9-1-1 network and equipment configuration within the District for optimum cost benefit. The 9-1-1 system became fully operational on August 18, 1990.

Since the date the 9-1-1 system became fully operational, the activities of the District have included 9-1-1 systems management and maintenance, database management, training, public education, planning and fiscal management of District resources to assist its member jurisdictions in responding to police, fire and medical emergency calls by providing an efficient, effective and enhanced 9-1-1 emergency telecommunication system.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the government. Governmental activities are supported by 9-1-1 fees, contract services and investment revenue.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are identifiable with a specific function, personnel, operations or direct services. Direct services are 9-1-1 system related expenses. Program revenue is 9-1-1 service fees collected by vendors for telephone services and remitted to the District. General revenue includes miscellaneous revenue (revenue for contract services provided by the District and non-budgeted revenue) and interest on District deposits and investments.

The government-wide and fund financial statements are provided for the governmental funds of the District with a column for adjustments between the two statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. 9-1-1 fees are recognized as revenue in the year for which they are billed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded with a liability is incurred, as under accrual accounting.

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 Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. 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.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The **TexPool NG911 Fund** is one of the District's Capital Projects Funds. It accounts for all financial resources that the government holds for future investment in the NG911 system.

The **Logic Building Fund** is one of the District's Capital Projects Funds. It accounts for all financial resources that the government holds for future investment in a new office building.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Assets, Liabilities and Net Position or Equity

Cash and investments

Cash consists of demand deposit accounts. The investment policies of the District are governed by state statute. Management has followed a practice of investing in TexPool and LOGIC public funds investment pools.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & improvements	5-50
Equipment	3-10

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Vacation and sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted into cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification included amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the Board of Managers, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Board of Managers removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District's committed fund balance is

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

\$2,948,099 at September 30, 2016 and results from the District's adopted deficit budget for the 2016-2017 year.

- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Managers or the Executive Director.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. The unassigned balance at September 30, 2016 was \$1,932,677.

The District does not have any nonspendable, restricted or assigned fund balance at September 30, 2016.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

Subsequent Events

Management has reviewed events subsequent to September 30, 2016 through January 9, 2017, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be disclosed in the financial statements.

2. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity; (2) portfolio diversification; (3) allowable investments; (4) acceptable investments; (5) expected rates of return; (6) maximum allowable stated maturity of portfolio investments; (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio; (8) investment staff quality and capabilities; and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U.S. agencies and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts; and (10) common trust funds. The Act also requires the District to have an independent auditor perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local parties.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2016, the carrying amount of the District's deposits were \$4,630,594 and the bank balance was \$5,270,083. The District's deposits at September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the District's depository bank in the District's name.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

The District's investments at September 30, 2016, are shown below:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 16	45
LOGIC Investments	36	45
Total Fair Value	<u>\$ 52</u>	45

In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposits:

- b. Depository Bank: Point Bank, Pilot Point, Texas.
- c. The fair value of securities pledged as of the date of the highest combined balance on deposit was \$5,080,211.
- d. The highest combined balances of cash and savings deposits amounted to \$5,028,074 occurred during the month of January 2016.
- e. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.
- f. The bank certificates of deposit were fully covered by FDIC insurance at all times.

Fair Value Measurements

The District Categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

The District's investments in Public Investment Pools are not required to be measured at fair value but are measured at amortized cost.

DENCO AREA 9-1-1 DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 132,023	\$ -	\$ -	\$ 132,023
Construction in progress	-	305,227	-	305,227
Total capital assets not being depreciated	<u>132,023</u>	<u>305,227</u>	<u>-</u>	<u>437,250</u>
Capital assets, being depreciated				
PSAP equipment	140,679	432,482	-	573,161
Buildings and improvements	1,608,278	-	-	1,608,278
Parking lot	10,000	-	-	10,000
Equipment	204,091	116,360	-	320,451
Total capital assets being depreciated	<u>1,963,048</u>	<u>548,842</u>	<u>-</u>	<u>2,511,890</u>
Less accumulated depreciation:				
PSAP equipment	(102,390)	(107,371)	-	(209,761)
Buildings and improvements	(222,000)	(40,064)	-	(262,064)
Parking lot	(6,500)	(1,000)	-	(7,500)
Equipment	(155,903)	(30,773)	-	(186,676)
Total accumulated depreciation	<u>(486,793)</u>	<u>(179,208)</u>	<u>-</u>	<u>(666,001)</u>
Total capital assets, being depreciated, net	<u>1,476,255</u>	<u>369,634</u>	<u>-</u>	<u>1,845,889</u>
Governmental activities capital assets, net	<u>\$ 1,608,278</u>	<u>\$ 674,861</u>	<u>\$ -</u>	<u>\$ 2,283,139</u>

Defined Benefit Pension Plans

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 656 non-traditional defined benefit plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, TX 79768-2034.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equal 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

All eligible employees of the District are required to participate in TCDRS.

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

	Plan Year 2015	Plan Year 2016
Employee deposit rate	7.00%	7.00%
Employer deposit rate	16.00%	16.00%
Matching ratio (District to employee)	2 to 1	2 to 1
Years required for vesting	8	8
Service retirement eligibility (expressed as age/years of service)	60/8,0/20	60/8,0/20

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to buy not yet receiving benefits	3
Active employees	<u>13</u>
Total	18

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

Contributions

The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee compensation, and the employer matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the employer. Under the state law governing TCDRS, the contribution rate for each employer is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. Participating employers are required to contribute at the actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees.

Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience. In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs.

Employees of the District were required to contribute 7% of their annual compensation during the fiscal year. The District elected contribution rates of 16.00% and 16.00% in calendar years 2016 and 2015, respectively. The required rate for the District was 5.15% and 7.65% for the years 2016 and 2015, respectively. The District's contributions to TCDRS for the year ended September 30, 2016 were \$153,373, and were greater than the required contributions.

Net Pension Liability/Asset

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

Actuarial assumptions:

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

Inflation	3.0% per year
Overall payroll growth	3.5% per year, including inflation
Investment Rate of Return	8.1%, net of pension plan investment expense, including inflation

Except where indicated in the section of this GASB 68 report entitled "Actuarial Methods and Assumptions Used for GASB Calculations", the assumptions used in this analysis for the December 31, 2015 financial reporting metrics are the same as those used in the December 31, 2015 actuarial valuation analysis for Denco Area 9-1-1 District - Denton County.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

Following is a description of the assumptions used in the December 31, 2015 actuarial valuation analysis for Denco Area 9-1-1 District - Denton County. This information may also be found in the Denco Area 9-1-1 District - Denton County December 31, 2015 Summary Valuation Report.

Economic Assumptions

TCDRS system-wide economic assumptions:

Real rate of return	5.0%
Inflation	3.0%
Long-term investment return	8.0%

The assumed long-term investment return of 8% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Employer-specific economic assumptions:

Growth in membership	0.0%
Payroll growth	0.0%

The payroll growth assumption is for the aggregate covered payroll of an employer.

The long-term expected rate of return on pension plan investments is 8.1%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. 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 TCDRS.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS's investment consultant. The numbers shown are based on January 2016 information for a 7-10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon. The most recent analysis was performed in 2013. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities – Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	10.00%	5.45%
International Equities – Emerging	50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index	8.00%	6.45%
Investment – Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.

DENCO AREA 9-1-1 DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Changes in the Net Pension Liability/(Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liab./(Asset) (a) – (b)
Balances at 12/31/2014	\$3,752,582	\$4,105,581	\$ (352,999)
Changes for the year:			
Service Cost	120,374	-	120,374
Interest	305,362	-	305,362
Change in benefit terms	(25,736)	-	(25,736)
Effect of economic/demographic gains or losses	(35,511)	-	(35,511)
Changes of assumptions	39,430	-	39,430
Refund of contributions	-	-	-
Benefit payments	(98,748)	(98,748)	-
Administrative expenses	-	(2,979)	2,979
Member contributions	-	63,674	(63,674)
Net investment income	-	(62,523)	62,523
Employer contributions	-	145,539	(145,539)
Other changes	-	516	(516)
Balances at 12/31/2015	\$4,057,753	\$4,151,060	\$(93,307)

DENCO AREA 9-1-1 DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

Sensitivity Analysis

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.1%) or 1 percentage-point higher (9.1%) than the current rate:

	1% Decrease in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.1%)
Total pension liability			
	\$4,628,530	\$4,057,753	\$3,582,538
Fiduciary net position	4,151,058	4,151,060	4,151,058
Net pension liability/(asset)	<u>\$ 477,472</u>	<u>\$(93,307)</u>	<u>\$(568,520)</u>

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

Pension Expense/(Income)	January 1, 2015 to December 31, 2015
Service cost	\$ 120,374
Interest on total pension liability	305,362
Effect of plan changes	(25,736)
Administrative expenses	2,979
Member contributions	(63,674)
Expected investment return net of Investment expenses	(339,820)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(11,304)
Recognition of assumption changes or inputs	4,929
Recognition of investment gains or losses	92,300
Other	(516)
Pension expense/(income)	<u>\$ 84,894</u>

For the year ended September 30, 2016, the District recognized pension expense of \$84,894.

DENCO AREA 9-1-1 DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 65,395
Changes in assumptions	34,501	-
Net difference between projected and actual earnings	357,368	-
Contributions subsequent to the measurement date	116,740	-
Total	\$ 508,609	\$ 65,395

\$116,740 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2017	\$ 85,925
2018	85,925
2019	85,925
2020	74,094
2021	(6,375)
Thereafter	980

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

Risk Management

The District is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for the purpose of providing coverage against risks which are inherent in operating a political subdivision. The District pays annual premiums to the Pool for liability, property and workers' compensation coverage. The District's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies reinsurance contracts. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the District loss control services to assist the District in following a plan of loss control that may result in reduced losses. The District agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The District also carries commercial insurance on all other risks of loss, including employee health and accident insurance.

During the previous three years, the District has had no significant reductions in insurance coverage and the settlements did not exceed the insurance coverage.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Statement of Net Position and Government Fund Balance Sheet

The Statement of Net Position and Government Fund Balance Sheet includes adjustments between *fund balance* and *net position*. The reasons for these adjustments are as follows:

Net pension assets in the statement of net position are not current financial resources and, therefore, are not reported in the governmental funds balance sheet, net of related deferred outflows and inflows	536,521
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financials	2,283,139
Long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the fund financials	(63,212)

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

The Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance includes adjustments between the change in fund balance and change in net position. The reasons for these adjustments are as follows:

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.	(674,861)
Some expenses (compensated absences) reported in the Statement of Activities do not require the use of current financial resources, and, therefore, are not reported in the fund financials	2,036
Annual pension contributions are reported as expenditures in the governmental funds. However, in Statement of Activities, the annual pension cost is expensed and the net pension asset is amortized.	68,479

DENCO AREA 9-1-1 DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Service fees	\$ 4,790,439	\$ 4,790,439	\$ 4,883,305	\$ 92,866
Interest income	22,000	22,000	44,260	22,260
Miscellaneous	199,800	199,800	178,674	(21,126)
Total revenues	<u>5,012,239</u>	<u>5,012,239</u>	<u>5,106,239</u>	<u>94,000</u>
EXPENDITURES:				
Personnel services	1,489,207	1,489,207	1,375,667	113,540
Administration	311,250	311,250	282,450	28,800
Direct services	3,593,058	3,593,058	3,474,267	118,791
Total expenditures	<u>5,393,515</u>	<u>5,393,515</u>	<u>5,132,384</u>	<u>261,131</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ <u>(381,276)</u>	\$ <u>(381,276)</u>	\$ <u>(26,145)</u>	\$ <u>355,131</u>

The accompanying notes are an intergral part of these financial statements

DENCO AREA 9-1-1 DISTRICT

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total Pension Liability		
Service cost	\$ 120,374	\$ 149,503
Interest on total pension liability	305,362	283,043
Effect of plan changes	(25,736)	-
Effect of assumption changes or inputs	39,430	-
Effect of economic/demographic (gains) or losses	(35,511)	(48,052)
Benefit payments/refunds of contributions	(98,748)	(103,921)
Net change in total pension liability	<u>305,171</u>	<u>280,573</u>
Total pension liability, beginning	<u>3,752,582</u>	<u>3,472,009</u>
Total pension liability, ending	\$ <u>4,057,753</u>	\$ <u>3,752,582</u>
Fiduciary Net Position		
Employer contributions	\$ 145,539	\$ 211,187
Member contributions	63,674	63,942
Investment income net of investment expenses	(62,523)	249,309
Benefit payments/refunds of contributions	(98,748)	(103,921)
Administrative expenses	(2,979)	(3,010)
Other	516	(977)
Net change in fiduciary net position	<u>45,479</u>	<u>416,530</u>
Fiduciary net position, beginning	<u>4,105,581</u>	<u>3,689,051</u>
Fiduciary net position, ending	<u>4,151,060</u>	<u>\$4,105,581</u>
Net pension liability / (asset), ending	\$ <u>(93,307)</u>	\$ <u>\$(352,999)</u>
Fiduciary net position as a % of total pension liability	102.3%	109.41%
Pensionable covered payroll	\$ 909,621	\$ 913,462
Net pension liability as a % of covered payroll	-10.26%	-38.64%

Note: GASB 68, Paragraph 81, 2,a, requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of December 31, 2014 – the period from January 1, 2014 – December 31, 2014.

Note: Only one year of data is presented in accordance with GASB 68, Paragraph 139. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

DENCO AREA 9-1-1 DISTRICT

SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 49,367	\$ 67,525
Contribution in Relation to the Contractually Required Contribution	<u>153,373</u>	<u>141,229</u>
Contribution Deficiency (Excess)	\$ <u>(104,006)</u>	\$ <u>(73,704)</u>
District's Covered-Employee Payroll	\$ 958,581	\$ 882,681
Contributions as a Percentage of Covered-Employee Payroll	16.00%	16.00%

DENCO AREA 9-1-1 DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016

CHANGES OF BENEFIT TERMS

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

CHANGES OF ASSUMPTIONS

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

BUDGETING

An operating budget is adopted each year for the General Fund on the cash basis used to reflect actual revenue and expenditures. The Board of Managers is authorized to transfer budgeted amounts between accounts; however, before any revisions that increase the total expenditures are effective, the District must send the budget to participating jurisdictions for approval in the same manner as required for the original budget approval. Budgeted amounts are as originally adopted, or as amended by the Board of Managers.

Members:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' 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 Board of Managers
Denco Area 9-1-1 District
Lewisville, 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 and each major fund of Denco Area 9-1-1 District, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Denco Area 9-1-1 District's basic financial statements, and have issued our report dated January 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District'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 District's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hankins, Eastup, Deaton, Tonn & Seay
Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

January 9, 2017