

**DENCO AREA 9-1-1 DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2022**

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# Rod L. Abbott, CPA PLLC

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT

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

#### Opinions

I have audited the accompanying financial statements of the governmental activities and the major fund of the Denco Area 9-1-1 District (the "District"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Denco Area 9-1-1 District as of September 30, 2022, 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.

#### Basis for Opinions

I conducted my 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. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am required to be independent of the District, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, General Fund budgetary comparison schedule, and pension schedules be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

## Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 12, 2023 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,



Rod L. Abbott, CPA PLLC  
Tom Bean, Texas  
January 12, 2023

**DENCO AREA 9-1-1 DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2022**

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, 2022. 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 resources of the District exceeded its liabilities and deferred inflows of resources as of September 30, 2022 by \$15,474,030 (net position). Of that amount, \$6,051,087 is unrestricted and may be used to meet the District's ongoing obligations to citizens in accordance with the District's financial policies.
- The District's unrestricted net position increased by \$1,279,985 (27%) during the year.
- The District's total net position increased by \$2,086,711 (15.6%) during the year. A positive budget versus actual variance of \$1,405,764 for General Fund expenditures was a main contributor to this result.

***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 are comprised of 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 includes all the District's assets, deferred inflows and outflows of resources, and liabilities (including long-term items). The statement of activities 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 future fiscal years.

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 and the only fund of the District. 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.

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

	<u><b>FY22</b></u>	<u><b>FY21</b></u>
Current and other assets	\$ 7,002,105	\$ 5,013,278
Capital assets	<u>9,422,943</u>	<u>8,616,217</u>
Total assets	16,425,048	13,629,495
Deferred outflows of resources	<u>282,433</u>	<u>358,253</u>
Current payables & other liabilities	62,993	174,733
L-T liabilities	<u>164,394</u>	<u>140,356</u>
Total Liabilities	227,387	315,089
Deferred inflows of resources	<u>1,006,064</u>	<u>285,340</u>
Net position:		
Net investment in capital assets	9,422,943	8,616,217
Unrestricted	<u>6,051,087</u>	<u>4,771,102</u>
Total position	<u>\$ 15,474,030</u>	<u>\$ 13,387,319</u>

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

	<u><b>FY22</b></u>	<u><b>FY21</b></u>
Revenues:		
Program revenues		
Charges for 9-1-1 services	\$ 5,623,247	\$ 5,584,559
Operating grants and contributions	996,962	-
Capital grants and contributions	<u>200,139</u>	<u>53,093</u>
Total program revenues	6,820,348	5,637,652
General revenues		
Interest	32,346	2,648
Miscellaneous	<u>61,125</u>	<u>171,879</u>
Total general revenues	<u>93,471</u>	<u>174,527</u>
Total Revenues	<u>6,913,819</u>	<u>5,812,179</u>
Expenses:		
Direct services	4,045,855	3,927,226
General government	<u>781,253</u>	<u>971,168</u>
Total Expenses	<u>4,827,108</u>	<u>4,898,394</u>
Change in net position	2,086,711	913,785
Net position, beginning	<u>13,387,319</u>	<u>12,473,534</u>
Net position, ending	<u>\$ 15,474,030</u>	<u>\$ 13,387,319</u>

## **Analysis of District Operations –**

Cash and investments decreased (\$103,154) during fiscal year 2022 due to a large increase in capital outlays. Capital outlays increased from \$111,665 in 2021 to \$1,323,609 in 2022. The total 2022 increase in net position on the full accrual basis is \$2,086,711. A main reason for the large increase in net position is the accrual of \$996,962 of grants receivable at September 30, 2022. In the prior year (FY2021), net position increased \$913,785 and cash and investments increased by \$1,606,966.

### ***Debt Administration:***

The District does not have any outstanding debt.

### ***Other General Fund Highlights:***

The District's 2022 capital outlays for new property, plant, and equipment totaled \$1,323,609 and the majority of the outlays were for 9-1-1 infrastructure. The General Fund's revenues and other financing sources exceeded its expenditures by \$47,527 for fiscal year 2022.

For 2022 General Fund budget results, total actual revenues and other financing sources were above budgeted amounts by \$163,450. 9-1-1 service fees had the largest positive budget versus actual revenue variance at \$114,247. Total actual expenditures were well below the budgeted total, with an overall positive variance of \$1,405,764. The most favorable budget variance was \$891,846 for the Direct Services program expenditures. Overall, the General Fund had a positive budget versus actual result of \$1,569,214.

### ***Discussion of Currently Known Facts, Decisions or Conditions***

Total revenues anticipated for fiscal year 2023 are budgeted at \$5,904,175, with 98.9% being derived from 9-1-1 service fee revenue. This projected revenue is at the same level as fiscal year 2022. Estimated interest earned on investments was projected to remain steady. Total expenditures proposed in the fiscal year 2023 budget and financial plan reflect a \$1,071,239 decrease in spending when compared to the budgeted expenditures for fiscal year 2022, based on the completion of the one-time public-safety radio project. The total projected expenditures for fiscal year 2023 reflect deficit spending in the amount of \$352,773 for one-time costs of equipment and vehicle replacements and facility upgrades.

Fiscal year 2022 spending was less than budgeted due to the lingering recovery from COVID-19 on district public education and outreach operations coupled with less than expected contingency spending on the public safety radio project.

Due to the one-time expenses in the fiscal year 2023 budget, the District budgeted its total fund balance to decrease by \$352,773. However, subsequent to budget finalization, the District received approval of a Next Generation 9-1-1 grant which is projected to add approximately \$2 million in unbudgeted revenue to the fiscal year 2023 fund balance.

### ***Requests for Information:***

This report is to provide users with an overview of the District's finances. Additional information requests may be directed to the Executive Director at 1075 Princeton St., Lewisville, Texas 75067, or call (972) 221-0911.



**DENCO AREA 9-1-1 DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
SEPTEMBER 30, 2022**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 823,582	\$ -	\$ 823,582
Pooled investments	3,322,375	-	3,322,375
Service fees receivable	481,405	-	481,405
Grants receivable	996,962	-	996,962
Net pension asset	-	1,377,781	1,377,781
Capital assets:			
Non-depreciable	-	232,819	232,819
Depreciable (net)	-	9,190,124	9,190,124
Total assets	<u>5,624,324</u>	<u>10,800,724</u>	<u>16,425,048</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - Pension plan	-	282,433	282,433
Total deferred outflows of resources	-	282,433	282,433
<b>Liabilities</b>			
Accounts payable	13,125	-	13,125
Accrued payroll liabilities	49,868	-	49,868
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	164,394	164,394
Total liabilities	<u>62,993</u>	<u>164,394</u>	<u>227,387</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - Pension plan	-	1,006,064	1,006,064
Unavailable grant revenue	996,962	(996,962)	-
Total deferred inflows of resources	<u>996,962</u>	<u>9,102</u>	<u>1,006,064</u>
<b>Fund Balance</b>			
Unassigned	<u>4,564,369</u>	<u>(4,564,369)</u>	
Total fund balance	<u>4,564,369</u>	<u>(4,564,369)</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,624,324</u>		
<b>Net Position</b>			
Net investment in capital assets		9,422,943	9,422,943
Unrestricted		6,051,087	6,051,087
Total net position		<u>\$ 15,474,030</u>	<u>\$ 15,474,030</u>

The accompanying notes to financial statements are an integral part of this statement.

**DENCO AREA 9-1-1 DISTRICT  
STATEMENT OF ACTIVITIES AND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Direct services	\$ 3,726,865	\$ 318,990	\$ 4,045,855
General government	871,949	(90,696)	781,253
Capital outlays	1,323,609	(1,323,609)	-
Total expenditures/expenses:	<u>5,922,423</u>	<u>(1,095,315)</u>	<u>4,827,108</u>
Program revenues:			
Charges for services - 9-1-1 service fees	5,623,247	-	5,623,247
Operating grants and contributions	-	996,962	996,962
Capital grants and contributions	253,232	(53,093)	200,139
Total program revenues:	<u>5,876,479</u>	<u>943,869</u>	<u>6,820,348</u>
General revenues:			
Interest income	32,346	-	32,346
Miscellaneous	61,125	-	61,125
Total general revenues:	<u>93,471</u>	<u>-</u>	<u>93,471</u>
Excess (deficiency) of revenues over (under) expenditures	<u>47,527</u>	<u>(47,527)</u>	
Other financing sources (uses):	<u>-</u>	<u>-</u>	
Net change in fund balance	<u>47,527</u>		
Change in net position		2,039,184	2,086,711
Fund balance/net position			
Beginning of year	4,516,842	8,870,477	13,387,319
End of year	<u>\$ 4,564,369</u>	<u>\$ 10,909,661</u>	<u>\$ 15,474,030</u>

The accompanying notes to financial statements are an integral part of this statement.

**DENCO AREA 9-1-1 DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

**NOTE A - 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 Act (Article 1432e, Vernon's Texas Civil Statutes) and confirmed by voters of Denton County on August 8, 1987. Fees collections began in January of 1988 and the District became operational in March of 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 services.

The District's 9-1-1 system became fully operational on August 18, 1990. Since that date, 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 and contract services.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue is 9-1-1 service fees collected by vendors for telephone services and remitted to the District. Interest on investments or other items not properly included among program revenues are reported instead as general revenues.

Government-wide and fund financial statements are provided for the governmental fund of the District with a column for adjustments between the two statements. The District has no business-type activities or component units.

**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. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of 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. Revenues are recognized when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) pension full accrual basis balances.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

For purposes of measuring the net pension asset or liability, deferred inflows/outflows 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 TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. 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.

The District reports the following major governmental fund:

#### **General Fund**

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The District has no other funds of any type.

### **Assets, Liabilities, and Net Position or Fund Balance**

#### ***Cash and Pooled Investments***

The District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Other deposits with longer maturities are classified as other investments. Deposits held in governmental investment pools such as LOGIC and TexPool are reported on the balance sheet separately as pooled investments. Investment policies followed by the District are governed by State statutes.

#### ***Capital Assets***

Property, plant and equipment used in governmental fund type operations are shown in the statement of net position column for governmental type activities. 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 when purchased or constructed. Donated capital assets are capitalized at their estimated fair value at the donation date. Depreciation is not realized in governmental funds, but is realized on the statement of activities on the straight-line basis.

Property, plant, and equipment are depreciated over the following useful lives:

<u>Asset Category</u>	<u>Depreciable Life in Years</u>
Buildings and Improvements	5-50
Equipment	3-10

#### ***Long Term Liabilities***

Long-term liabilities expected to be financed from governmental fund types are shown on the statement of net position, rather than governmental funds. Principal payments for debts are expensed on the fund financial statement, but this expense is removed for the government-wide statement of activities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

#### ***Compensated Absences***

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Except for the Executive Director, there is no liability for unpaid accumulated sick leave since the District will not pay any unused amounts when employees separate from service with the District. Vacation pay is accrued on the government-wide statement of net position as a liability due in more than one year. These balances increased from the beginning of year balance of \$140,356 to \$164,394 at September 30, 2022.

#### ***Budget and Budgetary Accounting***

The official District budget is prepared and adopted for the General Fund during the month of September.

#### ***Fund Balance Classifications***

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

- Non-spendable - Includes amounts that can't be spent because they are either (a) not in spendable form, or (2) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted into cash within the next year.
- Restricted – 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 (c) imposed by law through constitutional provisions or enabling legislation.
- Committed – Includes amounts that can be only used 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 can't be used for any 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.
- Assigned – 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 – Includes the residual fund balance for the General Fund. An unassigned fund balance would also include negative fund balances of any other type of fund balance classification that can't be eliminated by offsetting assigned fund balance amounts.

The District does not have any non-spendable, restricted, committed, or assigned fund balances at September 30, 2022.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are 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, then unassigned funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

#### *Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position on the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied. It's the District's policy to consider restricted net position to be 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, deferred outflows and inflows of resources, 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.

### NOTE B – CASH EQUIVALENTS AND POOLED INVESTMENTS

The Public Funds Investment Act (PFIA) contains specific provisions in the area of investment practices, management reports, and establishment of appropriate policies. Among other things, PFIA requires the District to adopt, implement, and publicize an investment policy. The 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 PFIA 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 PFIA and with local parties.

In compliance with the PFIA, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- Custodial Credit Risk – Deposits – The risk is that, in the event of bank failure, the District's deposits may not be returned to it. At September 30, 2022, the carrying amount of the District's cash deposits were \$823,482 and the Point Bank bank balance was \$1,035,683. The District's cash deposits were entirely covered by FDIC insurance or by pledged securities held by the District's depository bank in the District's name. At September 30, 2022, the carrying amount and financial institution balances of the District's pooled investments were \$3,322,375. The District also holds \$100 of cash on hand.
- For 2022, FDIC insurance for cash deposits totaled \$250,000. Pledged securities fully covered non-FDIC insured cash deposits during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE B – CASH EQUIVALENTS AND POOLED INVESTMENTS - CONTINUED

As of September 30, 2022, the District maintains pooled investments with LOGIC Investments and the state-operated TexPool system as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>	<u>Standard and Poors Rating</u>
TexPool	\$ 604,328	24	AAAm
LOGIC Investments	2,718,047	19	AAAm
	<u>\$ 3,322,375</u>	<u>52</u>	

### NOTE C – 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 judgment and considers factors specific to each asset or liability.

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

### NOTE D – BUDGETARY CONTROL

State law requires that a governmental entity adopt an annual budget and that it not exceed approved expenditures at the level of budgetary control. The District was in compliance with this requirement for the fiscal year ended 2022.

### NOTE E – ACCOUNTS RECEIVABLE

9-1-1 service fee receivables for the District at September 30, 2022 totaled \$481,405. The District's allowance for doubtful receivables is \$0 because all year-end receivables were subsequently collected. The District also accrued \$996,962 of receivables related to a Commission on State Emergency Communications grant.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE F – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022 is as follows:

	Beginning <u>Balances</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balances</u>
<u>Non-Depreciable</u>				
Land	\$ 232,819	\$ -	\$ -	\$ 232,819
<u>Depreciable</u>				
PSAP Equipment	3,112,221	1,323,609	-	4,435,830
Building and building improvements	7,597,668	-	-	7,597,668
Parking Lot	10,000	-	-	10,000
Equipment	331,382	-	-	331,382
Gross Assets being Depreciated:	<u>11,051,271</u>	<u>1,323,609</u>	-	<u>12,374,880</u>
<u>Less accumulated depreciation:</u>				
PSAP Equipment	(1,525,706)	(350,100)	-	(1,875,806)
Building and building improvements	(821,748)	(159,852)	-	(981,600)
Parking Lot	(10,000)	-	-	(10,000)
Equipment	(310,419)	(6,930)	-	(317,349)
Total accumulated depreciation:	<u>(2,667,873)</u>	<u>(516,883)</u>	-	<u>(3,184,756)</u>
Net Capital Assets being Depreciated:	<u>8,383,398</u>	<u>806,726</u>	-	<u>9,190,124</u>
Total Net Capital Assets	<u>\$ 8,616,217</u>	<u>\$ 806,726</u>	<u>\$ -</u>	<u>\$ 9,422,943</u>

Depreciation for general fixed assets is included as an expense for governmental activities on the statement of activities. Depreciation expense totaled \$516,883 for 2022 and allocated to the Direct Services function.

### NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to litigation, theft, property damage, errors and omissions, injuries, and natural disasters. The District's insurance is by membership in the Texas Municipal League, a public entity risk pool operated by the Texas Municipal League Board for the benefit of governmental units in Texas. Insurance in effect at September 30, 2022 included: Workers' compensation, general liability, automobile liability, personal property, and errors and omissions. There were no significant changes in insurance coverage from the prior year. Settled claims for risks did not exceed insurance coverage for the 2022 fiscal year.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE H – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of Certain Differences between the Statement of Net Position and the Governmental Fund Balance Sheet**

Fund balances of governmental funds: \$ 4,564,369

**Amounts reported for governmental activities in the statement of net position are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 9,422,943

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. (164,394)

Grant revenue earned, but not received within sixty days after fiscal year-end is not readily available. Thus, this balance is a deferred inflow of resources in the governmental funds. 996,962

The \$1,377,781 net pension asset, net of a related \$282,433 deferred outflow of pension resources, and a (\$1,006,064) deferred inflow of pension resources, are not current financial resources, and therefore, are not reported in the funds. 654,150

Net position of governmental activities: \$ 15,474,030

**Explanation of Certain Differences between the Statement of Activities and the Governmental Fund Revenues, Expenditures, and Changes in Fund Balance**

**Amounts reported for governmental activities in the Statement of Activities are different because:**

Net change in fund balances: \$ 47,527

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 by which \$1,323,609 of capital outlays expense exceeded (\$516,883) of depreciation expense in the current period. 806,726

(Increases) decreases in the accrued compensated absences balance is not an expenditure for the governmental funds, but this full accrual based expenditure is realized for the government-wide financial statements. (24,038)

Governmental funds only recognize grant receivables as revenue if received within sixty days after fiscal year-end, but the full accrual government-wide financial statements report the balance as grant revenue. This is the increase in grant receivables realized. 943,869

Governmental funds only report pension contributions for the year, but the full accrual government-wide financial statements report the annual pension income (expense) as calculated by TCDRS. This is the amount that pension income exceeded contributions. 312,627

Change in net position of governmental activities: \$ 2,086,711

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE I – DEFINED BENEFIT PENSION PLAN**

Plan Description

The District provides retirement 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 multi-employer public employee retirement system consisting of 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 request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, TX. 79768-2034.

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 eight or more years of service, with twenty 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 eight 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 the employer.

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

Plan provisions of the District are as follows:

	Plan Year 2022	Plan Year 2021
Employee Deposit Rate	7.00%	7.00%
Employer Deposit Rate	9.30%	6.73%
Matching (District to employee)	2 to 1	2 to 1
Years for full vesting	8	8
Service requirement eligibility (expressed as age/years of service)	60/8, 0/20	60/8, 0/20

***Employees Covered by Benefit Terms***

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	4
Inactive employees entitled to buy, but not yet receiving benefits:	17
Active employees:	<u>14</u>
Total:	35

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE I – DEFINED BENEFIT PENSION PLAN - CONTINUED

#### **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%, 200%, or 250%, 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. Employer 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 (and also the required rates) of 9.30% and 6.73% in calendar years 2022 and 2021, respectively. The District's contributions to TCDRS for the year ended September 30, 2022 were \$93,449 and equal to the required contribution.

#### **Net Pension Liability/Asset**

The District's net pension liability/asset (NPL/NPA) was measured as of December 31, 2021, and the total pension liability (TPL) used to calculate the NPL/NPA was determined by an actuarial valuation as of that date.

#### ***Actuarial Assumptions:***

The TPL in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	4.7% average over career, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation

The assumptions used in this analysis for the December 31, 2021 financial reporting metrics are the same as those used in the December 31, 2021 actuarial valuation analysis for the District.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE I – DEFINED BENEFIT PENSION PLAN – CONTINUED

Following is a description of the assumptions used in the December 31, 2021 actuarial valuation analysis for the District. This information may also be found in the District’s December 31, 2021 Summary Valuation Report issued by TCDRS.

#### Economic Assumptions

TCDRS system-wide economic assumptions:

Real rate of return	5.00%
Inflation	2.50%
Long-term investment return	7.50%

The assumed long-term investment return of 7.5% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 7.5% 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% (made up of 2.5% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.7% per year for a career employee.

Employer-specific 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 of pension plan investments is 7.6%. 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 2022 information for a 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 long-term time horizon. The most recent analysis was performed in March of 2021.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE I – DEFINED BENEFIT PENSION PLAN – CONTINUED

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return
U.S. Equities	Dow Jones U.S. Total Stock Market Index	11.50%	3.80%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	2.50%	4.10%
Global Equities	MSCI World (net) Index	5.00%	3.80%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	6.00%	4.30%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	3.00%	-0.85%
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	9.00%	1.77%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	16.00%	6.25%
Direct Lending	S&P/LSTA Leveraged Loan Index	4.00%	4.50%
Distressed Debt	Cambridge Associates Distressed Securities Index	2.00%	3.10%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.85%
Master Limited Partnerships	Alerian MLP Index	6.00%	5.10%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	25.00%	6.80%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	6.00%	1.55%
Cash Equivalents	90-Day U.S. Treasury	2.00%	-1.05%

#### **Discount Rate**

The discount rate used to measure the Total Pension Liability was 7.6%. This rate reflects the long-term rate of return funding valuation assumption of 7.5%, 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:

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 exists 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE I – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 benefits 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, TCDRS has used an alternative to determine the sufficiency of the fiduciary net position in all future years. This 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.
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 project 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 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, TCDRS has used a discount rate of 7.6%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.5%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE I – DEFINED BENEFIT PENSION PLAN – CONTINUED

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 12/31/2020:	\$ 6,549,396	\$ 6,818,006	\$ (268,610)
Changes for the year:			
Service cost	152,743		152,743
Interest on total pension liability	504,422		504,422
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	(9,506)		(9,506)
Effect of assumptions changes or inputs	(20,101)		(20,101)
Refund of contributions	-	-	-
Benefit payments	(132,447)	(132,447)	-
Administrative expenses		(4,557)	4,557
Member contributions		68,723	(68,723)
Net investment income		1,508,577	(1,508,577)
Employer contributions		159,397	(159,397)
Other changes		4,589	(4,589)
Balances at 12/31/2021:	\$ 7,044,507	\$ 8,422,288	\$ (1,377,781)

### Sensitivity Analysis

The following presents the net pension liability/asset of the District, calculated using the discount rate of 7.6%, 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 (6.6%) or 1 percentage point higher (8.6%) than the current rate:

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Total pension liability	\$ 8,108,818	\$ 7,044,507	\$ 6,164,711
Fiduciary net position	8,422,288	8,422,288	8,422,288
Net pension liability (asset)	\$ (313,470)	\$ (1,377,781)	\$ (2,257,577)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE I – DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

Pension Expense/(Income)	Calendar Year 2021
Service cost	\$ 152,743
Interest on total pension liability	504,422
Effect of plan changes	-
Administrative expenses	4,557
Member contributions	(68,723)
Expected investment return net of expenses	(521,739)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains/losses	(24,213)
Recognition of assumption changes or inputs	98,928
Recognition of investment gains/losses	(264,736)
Other	(4,589)
Pension Expense/(Income)	\$ (123,350)

For the year ended September 30, 2022, the District recognized a pension expense (income) of (\$123,350).

At September 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Inflows / Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 49,529	\$ 1,765
Changes of assumptions	15,239	203,305
Net difference between projected and actual earnings	941,296	-
Contributions subsequent to the measurement date	N/A	77,363
Totals:	\$ 1,006,064	\$ 282,433

\$77,363 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending:</u>	
2023	\$ (130,882)
2024	(240,260)
2025	(232,485)
2026	(197,367)
2027	-
Thereafter	-
	\$ (800,994)



## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **NOTE J – GROUP TERM LIFE INSURANCE BENEFIT**

Effective January 1, 2020, the District offered its employees a group term life insurance benefit (GTLI) through TCDRS. The GTLI Plan, available to all District employees, allows their selected beneficiary, upon employee death, to receive a life insurance payment equal to the employee's annual wages. The District pays the premiums for the GTLI Plan and, under federal tax law, those premiums are considered a type of income for the employee. The GTLI is only available to current employees. Therefore, the GTLI is not an other post-employment benefit subject to Governmental Accounting Standards Board Statement #75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The District's required contribution rate is based on annual employee compensation and was 0.17% and 0.15% in calendar years 2022 and 2021, respectively. The District's GTLI contributions to TCDRS for the year ended September 30, 2022 were \$1,774, and were equal to the required contributions.

### **NOTE K – 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.

### **NOTE L – CONTINGENT LIABILITIES**

The District recognized a substantial amount of revenue from government grants in 2022, all of which are subject to audit by federal and state agencies. The determination of amounts received under these programs generally is based upon allowable costs reported to the respective agencies. As a result, there exists a possibility to repay any amount in excess of allowable costs. The amount, if any, of costs that may be disallowed by these granting agencies cannot be determined at this time.

### **NOTE M – SUBSEQUENT EVENTS**

Management has reviewed events subsequent to September 30, 2022 up to the date of the auditor's report as shown on page three, which is the date the financial statements were available to be issued. There are no subsequent events to disclose.

**REQUIRED SUPPLEMENTARY INFORMATION**

**DENCO AREA 9-1-1 DISTRICT**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<b>Budget - Original and Final</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Expenditures:</b>			
Direct services	\$ 4,618,711	\$ 3,726,865	\$ 891,846
General government	1,000,976	871,949	129,027
Capital outlays	1,708,500	1,323,609	384,891
Total Expenditures:	<u>7,328,187</u>	<u>5,922,423</u>	<u>1,405,764</u>
<b>Program revenues:</b>			
Charges for services - 9-1-1 service fees	5,509,000	5,623,247	114,247
Capital grants and contributions	245,000	253,232	8,232
Total program revenues:	<u>5,754,000</u>	<u>5,876,479</u>	<u>122,479</u>
<b>General revenues:</b>			
Interest income	2,500	32,346	29,846
Miscellaneous	50,000	61,125	11,125
Total general revenues:	<u>52,500</u>	<u>93,471</u>	<u>40,971</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,521,687)</u>	<u>\$ 47,527</u>	<u>\$ 1,569,214</u>
Other financing sources (uses):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	<u><u>\$ (1,521,687)</u></u>	<u><u>\$ 47,527</u></u>	<u><u>\$ 1,569,214</u></u>

Note - The operating budget is adopted each year on the cash basis and 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.

The accompanying notes to financial statements are an integral part of this statement.

**DENCO AREA 9-1-1 DISTRICT  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (LAST TEN MEASUREMENT YEARS)  
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
<b>Total Pension Liability</b>								
Service cost	\$ 152,743	\$ 150,950	\$ 155,454	\$ 161,212	\$ 154,718	\$ 149,150	\$ 120,374	\$ 149,503
Interest on total pension liability	504,422	472,686	436,537	401,640	368,278	330,663	305,362	283,043
Effect of plan changes	-	-	-	-	-	-	(25,736)	-
Effect of assumptions changes or inputs	(20,101)	396,753	-	-	(983)	-	39,430	-
Effect of economic/demographic gains or losses	(9,507)	(75,923)	419	1,097	1,612	7,192	(35,511)	(48,052)
Benefit payments/Refund of contributions	(132,447)	(156,457)	(127,364)	(127,364)	(109,460)	(99,167)	(98,748)	(103,921)
Net Change in Total Pension Liability	495,110	788,009	465,046	436,585	414,165	387,838	305,171	280,573
Total pension liability, beginning	6,549,397	5,761,387	5,296,340	4,859,754	4,445,589	4,057,751	3,752,582	3,472,009
Total pension liability, ending	<u>\$ 7,044,507</u>	<u>\$ 6,549,396</u>	<u>\$ 5,761,386</u>	<u>\$ 5,296,339</u>	<u>\$ 4,859,754</u>	<u>\$ 4,445,589</u>	<u>\$ 4,057,753</u>	<u>\$ 3,752,582</u>
<b>Fiduciary Net Position</b>								
Employer contributions	159,397	73,468	66,664	60,099	168,038	157,847	145,539	211,187
Member contributions	68,723	74,967	79,362	73,805	73,516	69,058	63,674	63,942
Investment income (net of expenses)	1,508,577	639,563	871,092	(100,567)	673,346	308,304	(62,523)	249,309
Benefit payments/Refund of contributions	(132,447)	(156,457)	(127,364)	(127,364)	(109,460)	(99,167)	(98,748)	(103,921)
Administrative expenses	(4,557)	(4,989)	(4,718)	(4,261)	(3,593)	(3,348)	(2,979)	(3,010)
Other	4,588	376	1,502	738	1,737	14,753	516	(977)
Net Change in Fiduciary Net Position	1,604,281	626,928	886,538	(97,550)	803,584	447,447	45,479	416,530
Fiduciary Net Position, beginning	6,818,007	6,191,078	5,304,539	5,402,088	4,598,505	4,151,058	4,105,581	3,689,051
Fiduciary Net Position, ending	<u>8,422,288</u>	<u>6,818,006</u>	<u>6,191,077</u>	<u>5,304,538</u>	<u>5,402,089</u>	<u>4,598,505</u>	<u>4,151,060</u>	<u>4,105,581</u>
Net pension liability / (asset), ending	<u>\$ (1,377,781)</u>	<u>\$ (268,610)</u>	<u>\$ (429,691)</u>	<u>\$ (8,199)</u>	<u>\$ (542,335)</u>	<u>\$ (152,916)</u>	<u>\$ (93,307)</u>	<u>\$ (352,999)</u>
Fiduciary net position as a percentage of total pension liability	119.56%	104.10%	107.46%	100.15%	111.16%	103.44%	102.30%	109.41%
Pensionable covered payroll	\$ 981,760	\$ 1,070,959	\$ 1,133,743	\$ 1,054,355	\$ 1,050,235	\$ 986,544	\$ 909,621	\$ 913,462
Net pension liability as a percentage of covered payroll	-140.34%	-25.08%	-37.90%	-0.78%	-51.64%	-15.50%	-10.26%	-38.64%

Note 1 - GASB 68 requires that information on this schedule be presented on the measurement date basis, which is on a calendar year basis. This schedule will also ultimately present the last ten years of information. The measurement year 2014 is the first year for which this information is available.

Note 2 - There were no changes in benefit terms and no changes in assumptions or other inputs that would affect the measurement of the total pension liability during the measurement period.

**DENCO AREA 9-1-1 DISTRICT  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS (LAST TEN FISCAL YEARS)  
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 93,449	\$ 66,303	\$ 68,055	\$ 61,961	\$ 59,451	\$ 55,774	\$ 49,367	\$ 67,525
Contributions in relation to the contractually required contributions	<u>93,449</u>	<u>159,658</u>	<u>68,055</u>	<u>61,961</u>	<u>87,705</u>	<u>165,255</u>	<u>153,373</u>	<u>141,229</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (93,355)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,254)</u>	<u>\$ (109,481)</u>	<u>\$ (104,006)</u>	<u>\$ (73,704)</u>
District's covered-employee payroll	\$ 1,070,880	\$ 979,886	\$ 1,031,344	\$ 1,062,503	\$ 1,043,000	\$ 1,032,844	\$ 958,581	\$ 882,681
Contributions as a percentage of covered employee payroll	8.73%	16.29%	6.60%	5.83%	8.41%	16.00%	16.00%	16.00%

Note 1 - GASB 68 requires that information on this schedule be presented on the District's fiscal year basis. This schedule will also ultimately present the last ten years of information. 2015 is the first year for which this information is available.

**COMPLIANCE AND INTERNAL CONTROLS SECTION**

# Rod L. Abbott, CPA PLLC

## Certified Public Accountant

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

I 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 the major fund of the Denco Area 9-1-1 District (the District), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 12, 2023.

#### **Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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 an 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.



Rod L. Abbott, CPA PLLC

Tom Bean, Texas  
January 12, 2023



# Rod L. Abbott, CPA PLLC

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

#### Report on Compliance for Each Major Federal Program

##### ***Opinion on Each Major Federal Program***

I have audited Denco Area 9-1-1 District's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of District's major federal programs for the year ended September 30, 2022. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

##### ***Basis for Opinion on Each Major Federal Program***

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion on compliance for each major federal program. My audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

##### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

## ***Auditor's Responsibilities for the Audit of Compliance***

My objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on my audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as I considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that I identified during the audit.

### **Report on Internal Control over Compliance**

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

My consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during my audit I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

My audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rod L. Abbott, CPA PLLC

Tom Bean, Texas  
January 12, 2023

**DENCO AREA 9-1-1 DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

<u>Federal Grantor and Program</u>	<u>CFDA No.</u>	<u>Pass-Through Agency</u>	<u>Federal I.D. No.</u>	<u>Pass-Through Identifying No.</u>	<u>Program Expenditures</u>
National Telecommunications and Information Administration - 9-1-1 Program	20.615	Commission on State Emergency Communications	020-1892	20C-0032	\$ 200,139
U. S. Dept. of the Treasury - State and Local Fiscal Recovery Funds - Next Generation 9-1-1	21.067	Commission on State Emergency Communications	020-1892	4549601	\$ 996,962
Total Expenditures of Federal Awards					<u>\$ 1,197,101</u>

**DENCO AREA 9-1-1 DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2022**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Denco Area 9-1-1 District (the “District”) under programs of the federal government for the year ended September 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

**NOTE 4 – DE MINIMIS INDIRECT COST RATE**

The District elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**DENCO AREA 9-1-1 DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2022**

**Section I – Summary of the Auditor’s Results**

**Financial Statement Audit**

- |  |            |
|--|------------|
| 1. Type of Auditor’s Report Issued on Financial Statements – | Unmodified |
| 2. Internal Control Over Financial Reporting:                |            |
| a. Material weakness(es) identified?                         | No         |
| b. Significant deficiency(ies) identified?                   | No         |
| 3. Noncompliance material to financial statements noted?     | No         |

**Audit of Federal Awards**

- |   |            |
|---|------------|
| 1. Internal Control Over Major Programs:  |            |
| a. Material weakness(es) identified?  | No         |
| b. Significant deficiency(ies) identified that are not considered to<br>be material weaknesses?                                 | No         |
| 2. Type of Auditor’s Report Issued on Compliance For Major Programs   | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in<br>accordance with Uniform Guidance (2 CFR 200)??           | No         |
| 4. The programs tested as major programs include:   |            |
| CFDA #21.067          Covid19 – State and Local Fiscal Recovery Funds   |            |
| 5. Dollar threshold used to distinguish between Type A and Type B<br>Programs as described in the Uniform Guidance (2 CFR 200): | \$ 750,000 |
| 6. Auditee qualified as low-risk auditee under Uniform Guidance (2 CFR 200)?  | No         |

**DENCO AREA 9-1-1 DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2022**

**Section II – Findings related to the financial statements which are required to be reported  
in accordance with Governmental Auditing Standards generally accepted in the  
United States of America:**

There are no audit findings.

**Section III –Findings and questioned costs for federal awards which are required to be  
reported under Uniform Guidance**

There are no audit findings.

**DENCO AREA 9-1-1 DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED SEPTEMBER 30, 2022**

**The following prior audit findings were required to be reported under OMB Circular No. A-133, Section 510(a) (for the major program) for the prior year:**

There were no prior audit findings.