



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

The Honorable Mayor and
Members of the City Council
City of Denton, Texas

We have audited the financial statements of the City of Denton, Texas (City) as of and for the year ended September 30, 2017, and have issued our report thereon dated March 2, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 18, 2017, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City of Denton, Texas solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

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**Governmental Audit
Quality Center**

As part of the engagement we assisted in preparing the schedule of expenditures of federal and state awards of the City of Denton, Texas in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards*.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the schedule of expenditures of federal and state awards and any other nonaudit services we provided. Management acknowledged, in the management representation letter, our assistance with the preparation of the schedule of expenditures of federal and state awards and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City of Denton, Texas is included in Note 1 to the financial statements. The City implemented GASB Statement No. 77, "*Tax Abatement Disclosures*". This statement requires governments entering into tax abatement agreements to provide certain disclosures regarding these commitments such as descriptions of the agreements, the amounts abated, and any additional commitments by the governments in addition to abatements. The Statement only effects the notes to the financial statements. See note IV for disclosure requirements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the allowance for uncollectible property taxes receivable is based on a historical collection rate of outstanding property taxes. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accumulated depreciation is based on the related estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible accounts for ambulance receivables is based on a historical rate of ambulance receivables. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible trade accounts receivable is based on a historical rate of trade accounts receivable. We evaluated the key factors and assumptions used to develop the allowance for uncollectible trade accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible court fines and fees receivable is based on a historical collection rate of outstanding court fines and fees. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liabilities and net OPEB obligation are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuary makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liabilities and net OPEB obligation and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate for closure and post-closure costs for the municipal land fill were based upon an engineering study performed by Burns & McDonnell. We evaluated the key factors and assumptions used to develop the estimate of the closure and post-closure costs in determining that they are reasonable in relation to the financial statements as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the pension liabilities, net OPEB obligation, and the landfill post-closure costs liability.

The disclosures in the financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all immaterial and trivial misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated March 2, 2018.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Significant Forthcoming Accounting Standards

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board Statement No. 75 ("GASB 75"), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for periods beginning after June 15, 2017. The primary objective of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or "OPEB"). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

These new standards relate only to the accounting and reporting of OPEB plans within the GAAP based financial statements of governmental entities. They do not establish requirements as to the actual funding of these benefits. Those decisions are left to management and the governing body.

This Statement may have a material impact on recorded OPEB liabilities compared to application of current standards. Your processes should be updated to incorporate the new information requirements and the City should begin to gather information now to determine the future impacts on financial reporting.

Restriction on Use

This report is intended solely for the information and use of the City Council of the City of Denton, Texas and management of the City of Denton, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 2, 2018