

**McLENNAN COUNTY
APPRAISAL DISTRICT**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2013

McLENNAN COUNTY APPRAISAL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of McLennan County Appraisal District
Waco, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of McLennan County Appraisal District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise McLennan County Appraisal District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the McLennan County Appraisal District, as of December 31, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information and the Texas County and District Retirement System – Schedule of Funding Progress on pages 3 – 5 and 16 – 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014, on our consideration of the McLennan County Appraisal District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District’s internal control over financial reporting and compliance.

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

Waco, Texas
May 27, 2014

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

2013 FINANCIAL AUDIT

Management's Discussion and Analysis provides a narrative overview of the financial activities and changes in the financial position of the McLennan County Appraisal District (McCAD) for the fiscal year ended December 31, 2013. Readers should use the additional required notes included in the standard Financial Audit of the Appraisal District along with this information.

Financial Highlights:

The assets of the McLennan County Appraisal District exceeded its liabilities by \$65,137. Of this amount on December 31, 2013, there was no unrestricted net position which could be used to meet the Appraisal District's ongoing obligations. McCAD's total net position decreased by \$107,718.

Investments by the District are governed by the Public Funds Investment Act, and are limited to interest earning bank accounts and Certificates of Deposit. Interest and other earnings for the financial year ended December 31, 2013, were \$17,000, a decrease from the previous year's earnings of \$17,075.

Overview of the Financial Statements:

This part of the discussion and analysis is merely intended to serve as an introduction for McCAD's basic financial statements for year-end. The District's basic financial statements are comprised of two components: (1) government-wide financial statements, which include the fund financial statement and (2) notes to the financial statements. The report also contains other required supplementary information in addition to the basic financial statements themselves.

The first report in the Financial Audit is the *Statement of Net Position and Governmental Fund Balance Sheet*, reporting the District's year-end position on December 31, 2013, based on the accrual method of accounting. This is followed by the *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance* for the year.

Behind these reports are *Notes to Financial Statements*, explaining in further detail accounting policies, cash and certificates of deposit, changes in general fixed assets, employees' retirement system, and leases. The final report in the audit is the *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual*. This report shows how effective the District has been in the past 12 months adhering to budgeted expenditures.

Financial Analysis:

DISTRICT'S NET POSITION

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 1,089,160	\$ 1,098,168
Capital assets	<u>1,672,017</u>	<u>1,720,061</u>
Total assets	2,761,177	2,818,229
Total liabilities	<u>2,696,040</u>	<u>2,645,374</u>
Net position:		
Net investment in capital assets	249,458	242,343
Unrestricted	<u>(184,321)</u>	<u>(69,488)</u>
Total net position	<u>\$ 65,137</u>	<u>\$ 172,855</u>

DISTRICT'S CHANGE IN NET POSITION

	<u>2013</u>	<u>2012</u>
Revenues:		
Program:		
Charges for services	\$ 3,377,202	\$ 3,194,171
Total program	3,377,202	3,194,171
General:		
Interest and other	<u>17,000</u>	<u>17,075</u>
Total general	<u>17,000</u>	<u>17,075</u>
Total revenues	3,394,202	3,211,246
Expenses:		
Tax appraisal - operations	3,416,313	3,507,420
Interest and other fiscal charges	<u>85,607</u>	<u>88,698</u>
Total expenses	<u>3,501,920</u>	<u>3,596,118</u>
Change in net position	(107,718)	(384,872)
Net position, beginning	<u>172,855</u>	<u>557,727</u>
Net position, ending	<u>\$ 65,137</u>	<u>\$ 172,855</u>

Capital Asset and Debt Administration:

Capital Assets: The District’s investment in capital assets for its operations as of December 31, 2013, amounts to \$1,672,017 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements, furniture, equipment, and software. The District’s total capital assets (before depreciation) decreased for the current fiscal year 3% over the prior year. The decrease in capital asset value was due to depreciation on McCAD capital assets exceeding current year additions.

		<u>12/31/2013</u>
Building	\$ 1,466,455	
Furniture	209,416	
Equipment and software	<u>1,922,005</u>	
		\$ 3,597,876
Less accumulated depreciation		<u>1,925,859</u>
		<u>\$ 1,672,017</u>

Long-term Debt:

As of December 31, 2013, McCAD had \$1,422,559 in long-term debt. The District also has a liability of \$221,250 for compensated absences and unpaid sick leave.

Revenue:

The District receives the majority of its revenue from the 42 taxing jurisdictions it serves in McLennan County. This would include cities, school districts, the County, and special districts. During the fiscal year ended December 31, 2013, the District received \$3,394,202 in revenue. Of this amount, \$3,377,202 or 99% was received from these jurisdictions. The remaining \$17,000 was from interest earned on the District’s investments and from the sale of copies of District data to the public through the Public Information Act and other District revenues.

Budget Variances:

There were no areas in the budget for fiscal year ended December 31, 2013, that reflected significant expenditures over original budgeted amounts.

Contacting the District’s Financial Manager:

This financial report is designed to provide the entities served by McCAD, the residents of McLennan County, and the District’s creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives from the taxing entities. If you have questions about this report or need additional financial information, please contact the McLennan County Appraisal District, P. O. Box 2297, Waco, TX 76703 and attention to the Chief Appraiser.

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BASIC FINANCIAL STATEMENTS

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MCLENNAN COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET

DECEMBER 31, 2013

	<u>General</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 1,088,600	\$ -	\$ 1,088,600
Receivables	560	-	560
Capital assets, net of depreciation	<u>-</u>	<u>1,672,017</u>	<u>1,672,017</u>
Total assets	<u>1,089,160</u>	<u>1,672,017</u>	<u>2,761,177</u>
LIABILITIES			
Accounts payable	16,045	-	16,045
Accrued liabilities	127,638	-	127,638
Deferred revenues	908,548	-	908,548
Compensated absences	-	221,250	221,250
Note payable	<u>-</u>	<u>1,422,559</u>	<u>1,422,559</u>
Total liabilities	<u>1,052,231</u>	<u>1,643,809</u>	<u>2,696,040</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Unassigned	<u>36,929</u>	<u>(36,929)</u>	<u>-</u>
Total fund balance	<u>36,929</u>	<u>(36,929)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,089,160</u>		
Net position:			
Net investment in capital assets		249,458	249,458
Unrestricted		<u>(184,321)</u>	<u>(184,321)</u>
Total net position		<u>\$ 65,137</u>	<u>\$ 65,137</u>

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

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MCLENNAN COUNTY APPRAISAL DISTRICT

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE**

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>General</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Tax appraisal - operations	\$ 3,291,415	\$ 124,898	\$ 3,416,313
Debt service			
Principal	55,159	(55,159)	-
Interest and other fiscal charges	85,607	-	85,607
Capital outlay	80,476	(80,476)	-
Total expenditures/expenses	<u>3,512,657</u>	<u>(10,737)</u>	<u>3,501,920</u>
PROGRAM REVENUES			
Charges for services	<u>3,377,202</u>	<u>-</u>	<u>3,377,202</u>
Total program revenues	<u>3,377,202</u>	<u>-</u>	<u>3,377,202</u>
GENERAL REVENUES			
Interest and other	<u>17,000</u>	<u>-</u>	<u>17,000</u>
Total general revenues	<u>17,000</u>	<u>-</u>	<u>17,000</u>
NET CHANGE IN FUND BALANCE	(118,455)	118,455	-
CHANGE IN NET POSITION	-	(107,718)	(107,718)
FUND BALANCE/NET POSITION, BEGINNING	<u>155,384</u>	<u>17,471</u>	<u>172,855</u>
FUND BALANCE/NET POSITION, ENDING	<u>\$ 36,929</u>	<u>\$ 28,208</u>	<u>\$ 65,137</u>

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

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McLENNAN COUNTY APPRAISAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The McLennan County Appraisal District (“McCAD”) was created by the 66th Legislature of the State of Texas under the provisions of Senate Bill 621 known as the Property Tax Code. Under this code, McCAD was established in McLennan County and is responsible for appraising all property within the county for ad valorem tax purposes. Each of the taxing units within McCAD are allocated a portion of the amount of McCAD’s budget equal to the proportion that the total dollar amount of property taxes imposed in McCAD by the unit for the tax year bears to the sum of the total dollar amount of property taxes imposed by all taxing units participating in McCAD.

In evaluating how to define the entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Codification, Section 2100. The basic, but not the only, criterion for including a potential component unit with the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, no additional component units are included in defining McCAD’s reporting entity.

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 nonfiduciary activities of McCAD. *Governmental activities* are supported by tax appraisal services and investment revenue.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

McCAD reports the following major governmental fund:

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

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

Assets, Liabilities and Net Position or Equity

Cash and Investments

Cash consists of demand deposit accounts. The investment policies of McCAD are governed by state statute. Management has followed a practice of investing in certificates of deposit.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. McCAD defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Assets	Years
Buildings	20 - 50
Furniture	5 - 10
Equipment and software	5 - 10

Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the Board of Directors, McCAD’s highest level of decision making authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by McCAD’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

Net Position

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

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenue and expenses. Accordingly, actual results may differ from estimated amounts.

2. DETAILED NOTES ON ALL FUNDS

Deposits and Cash Equivalents

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, McCAD's deposits may not be returned to it. As of December 31, 2013, all of McCAD's deposit balances were covered by FDIC insurance and pledged governmental securities.

Interest Rate Risk. In accordance with its investment policy, McCAD manages its exposure to declines in fair market values by limiting the average dollar-weighted maturity of its portfolio to a maximum of 365 days.

Credit Risk. It is McCAD's policy, as defined in the Texas Public Funds Investment Act, to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, being depreciated:				
Building	\$ 1,466,455	\$ -	\$ -	\$ 1,466,455
Leasehold improvements	-	-	-	-
Furniture	209,416	-	-	209,416
Equipment and software	<u>1,833,367</u>	<u>88,638</u>	<u>-</u>	<u>1,922,005</u>
Total capital assets being depreciated	<u>3,509,238</u>	<u>88,638</u>	<u>-</u>	<u>3,597,876</u>
Less accumulated depreciation:				
Building	(117,316)	(29,329)	-	(146,645)
Furniture	(47,016)	(10,150)	-	(57,166)
Equipment and software	<u>(1,624,845)</u>	<u>(97,203)</u>	<u>-</u>	<u>(1,722,048)</u>
Total accumulated depreciation	<u>(1,789,177)</u>	<u>(136,682)</u>	<u>-</u>	<u>(1,925,859)</u>
Total capital assets, being depreciated, net	<u>\$ 1,720,061</u>	<u>\$ (48,044)</u>	<u>\$ -</u>	<u>\$ 1,672,017</u>

Employees' Retirement Plan

Plan Description

McCAD provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 641 nontraditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCERS (TCERS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 10 years of service. Members who withdraw their personal contributions in a lump sum, prior to being vested, are not entitled to any amounts contributed by their employer. At service retirement, a retiree may choose to receive a portion, up to 100%, of the member's account balance as a partial lump sum payment (PLSP). The member will also receive a reduced retirement annuity based on the matching portion of the total deposits at retirement and any remaining balance.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 13% for calendar year 2013. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ended December 31, 2013, the annual pension cost for the TCDRS plan for its employees was \$237,570, and the actual contributions were \$237,570.

The District contributed using the actuarially determined rate of 13.00% for the accounting year 2013.

The deposit rate payable by the employee members for the accounting year 2013 is the rate of 7.00% as adopted by the Board of Directors.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2009, the basis for determining the contribution rate for calendar year 2010. The December 31, 2011, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period	12.5	13.4	15.1
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value
Actuarial Assumptions:			
Investment return	8.0%	8.0%	8.0%
Projected salary increases	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

**Trend Information for the
Retirement Plan for the Employees of McLennan County Appraisal District**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/11	\$ 232,013	100%	\$ -
12/31/12	228,315	100%	-
12/31/13	237,570	100%	-

Transition Disclosure. It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning in 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported pension liability is zero.

**Schedule of Funding Progress for the Retirement Plan
For the Employees of McLennan County Appraisal District**

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
2012	\$ 5,742,458	\$ 6,898,405	\$ 1,155,947	83.24%	\$ 1,826,524	63.29%

Long-term Debt

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2014	\$ 58,432	\$ 82,333
2015	61,901	78,865
2016	65,575	75,191
2017	69,467	71,298
2018	73,591	67,175
2019-2023	438,894	264,934
2024-2028	585,557	118,271
2029	69,142	2,000
Total	<u>\$ 1,422,559</u>	<u>\$ 760,067</u>

Changes in Long-term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Witin One Year</u>
Governmental activities:					
Note on building/furniture	\$ 1,477,718	\$ -	\$ 55,159	\$ 1,422,559	\$ 58,433
Compensated absences	<u>224,872</u>	<u>124,237</u>	<u>127,859</u>	<u>221,250</u>	<u>44,250</u>
Total long-term liabilities	<u>\$ 1,702,590</u>	<u>\$ 124,237</u>	<u>\$ 183,018</u>	<u>\$ 1,643,809</u>	<u>\$ 102,683</u>

Litigation

On various occasions, McCAD can be either a defendant or co-defendant in lawsuits. While McCAD and legal counsel cannot predict the results of any litigation, it believes it has meritorious defenses to those actions, proceedings and claims. It is the opinion of McCAD management and legal counsel that any ultimate uninsured liability to McCAD from these lawsuits will not be material.

The District is a defendant in a claim of breach of contract suit involving a commercial lease agreement. The plaintiff was successful in a jury trial that ended November 17, 2012 and was awarded damages by the jury. The District has filed an appeal on the case which is to be heard by the Tenth Court of Appeals. The plaintiff has filed their brief and the District is in the process of filing theirs. It is reasonably possible that the District could be unsuccessful with their appeal. If this is the result, damages to the District could range from \$463,242 to \$536,227.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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MCLENNAN COUNTY APPRAISAL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Amounts	
REVENUES				
Appraisal assessments	\$ 3,377,202	\$ 3,377,202	\$ 3,377,202	\$ -
Interest and other income	<u>20,000</u>	<u>20,000</u>	<u>17,000</u>	<u>(3,000)</u>
Total revenues	<u>3,397,202</u>	<u>3,397,202</u>	<u>3,394,202</u>	<u>(3,000)</u>
EXPENDITURES				
Current:				
Salaries	1,920,908	1,912,199	1,820,074	92,125
Benefits	653,330	634,623	579,027	55,596
Office operations	519,360	427,921	250,578	177,343
Maintenance of structures and equipment	141,325	137,065	134,399	2,666
Professional fees	432,970	513,486	507,337	6,149
Debt service	140,766	140,766	140,766	-
Capital outlay	<u>38,001</u>	<u>80,600</u>	<u>80,476</u>	<u>124</u>
Total expenditures	<u>3,846,660</u>	<u>3,846,660</u>	<u>3,512,657</u>	<u>334,003</u>
CHANGE IN FUND BALANCE	(449,458)	(449,458)	(118,455)	331,003
FUND BALANCE, BEGINNING	<u>449,458</u>	<u>449,458</u>	<u>155,384</u>	<u>(294,074)</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,929</u>	<u>\$ 36,929</u>

MCLENNAN COUNTY APPRAISAL DISTRICT

**SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**

FOR THE YEAR ENDED DECEMBER 31, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2010	\$ 5,151,416	\$ 6,130,400	84.03%	\$ 978,984	\$ 1,900,300	51.52%
12/31/2011	5,420,587	6,496,502	83.44%	1,075,915	1,856,105	57.97%
12/31/2012	5,742,458	6,898,405	83.24%	1,155,947	1,826,524	63.29%

COMPLIANCE SECTION

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
of McLennan County Appraisal District
Waco, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of McLennan County Appraisal District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise McLennan County Appraisal District's basic financial statements, and have issued our report thereon dated May 27, 2014.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
May 27, 2014