

**McLENNAN COUNTY
APPRAISAL DISTRICT**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2020

McLENNAN COUNTY APPRAISAL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2020, 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

McLennan County Appraisal District's 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.

OFFICE LOCATIONS

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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, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of employer contributions 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 June 8, 2021, 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 solely 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 the effectiveness of 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 McLennan County Appraisal District's internal control over financial reporting and compliance.

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

Waco, Texas
June 8, 2021

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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 (the "District") for the fiscal year ended December 31, 2020. 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 and deferred outflows of resources of the McLennan County Appraisal District exceeded its liabilities and deferred inflows of resources by \$1,331,331. Of this amount on December 31, 2020, \$642,469 represented unrestricted net position which can be used to meet the District's ongoing obligations. The District's total change in net position was a decrease of \$144,755.

Investments by the District are governed by the Public Funds Investment Act and are limited to interest earning bank accounts. Interest and other earnings for the financial year ended December 31, 2020, were \$24,436, a decrease of \$58 over the prior year's earnings.

Overview of the Financial Statements:

This part of the discussion and analysis is merely intended to serve as an introduction for the District'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, 2020, 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>2020</u>	<u>2019</u>
Current and other assets	\$ 2,629,771	\$ 2,776,790
Capital assets	<u>1,581,993</u>	<u>1,608,973</u>
Total assets	<u>4,211,764</u>	<u>4,385,763</u>
Deferred outflows of resources	<u>391,409</u>	<u>1,157,822</u>
Long-term liabilities	1,501,724	2,756,524
Other liabilities	<u>1,238,484</u>	<u>1,249,094</u>
Total liabilities	<u>2,740,208</u>	<u>4,005,618</u>
Deferred inflows of resources	<u>531,634</u>	<u>61,881</u>
Net position:		
Net investment in capital assets	688,862	631,286
Unrestricted	<u>642,469</u>	<u>844,800</u>
Total net position	<u>\$ 1,331,331</u>	<u>\$ 1,476,086</u>

DISTRICT'S CHANGE IN NET POSITION

	<u>2020</u>	<u>2019</u>
Revenues:		
Program:		
Charges for services	\$ <u>3,947,222</u>	\$ <u>4,228,661</u>
Total program revenues	<u>3,947,222</u>	<u>4,228,661</u>
General:		
Interest and other	<u>24,436</u>	<u>24,494</u>
Total general revenues	<u>24,436</u>	<u>24,494</u>
Total revenues	<u>3,971,658</u>	<u>4,253,155</u>
Expenses:		
Tax appraisal - operations	4,073,358	4,032,814
Interest and other fiscal charges	<u>43,055</u>	<u>46,736</u>
Total expenses	<u>4,116,413</u>	<u>4,079,550</u>
Change in net position	(144,755)	173,605
Net position, beginning	<u>1,476,086</u>	<u>1,302,481</u>
Net position, ending	<u>\$ 1,331,331</u>	<u>\$ 1,476,086</u>

Capital Asset and Debt Administration:

Capital Assets:

The District's investment in capital assets for its operations as of December 31, 2020, amounts to \$1,581,993 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements, furniture, equipment and software, and aerial photography. The District's total capital assets (before depreciation) decreased for the current fiscal year \$291,080 over the prior year. The decrease in capital asset value was due to the District's disposals of unused capital assets and current depreciation exceeded current year additions.

		<u>12/31/2020</u>
Building	\$ 1,466,455	
Furniture	208,354	
Equipment and software	797,094	
Aerial photography	<u>512,960</u>	
Total capital assets being depreciated		2,984,863
Less: accumulated depreciation		<u>(1,402,870)</u>
Total capital assets being depreciated, net		<u>\$ 1,581,993</u>

Long-term Debt:

As of December 31, 2020, the District had \$893,131 in long-term debt with the building note payable. The District also has a liability of \$239,755 for compensated absences and unpaid sick leave and a liability of \$368,838 for a net pension liability related to the District's participation in the Texas County and District Retirement System.

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, 2020, the District received \$0 in revenue. Of this amount, \$0 or 99.4% was received from these jurisdictions. The remaining \$0 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.

Economic Factors and Next Year's Budget:

The District has no pending litigation other than valuation related cases. The District does plan on increased litigation costs in the future to support the defense of market value. The Board has implemented policies to ensure that the fund balance has sufficient capital reserves going forward. The District plans to assign and commit funds to cover both expected and unexpected expenses going forward. Excess funds will be credited back to the entities.

Contacting the District's Financial Manager:

This financial report is designed to provide the entities served by The District, 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 with 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, 2020

	<u>General</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables	-	-	-
Prepaid expenses	-	-	-
Capital assets, net of depreciation	<u>-</u>	<u>1,581,993</u>	<u>1,581,993</u>
Total assets	<u>-</u>	<u>1,581,993</u>	<u>1,581,993</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred resources related to pensions	<u>-</u>	<u>391,409</u>	<u>391,409</u>
Total deferred outflows of resources	<u>-</u>	<u>391,409</u>	<u>391,409</u>
LIABILITIES			
Accounts payable	-	-	-
Accrued liabilities	-	-	-
Unearned revenues	-	-	-
Compensated absences	-	239,755	239,755
Note payable	-	893,131	893,131
Net pension liability	<u>-</u>	<u>368,838</u>	<u>368,838</u>
Total liabilities	<u>-</u>	<u>1,501,724</u>	<u>1,501,724</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred resources related to pensions	<u>-</u>	<u>531,634</u>	<u>531,634</u>
Total deferred outflows of resources	<u>-</u>	<u>531,634</u>	<u>531,634</u>
FUND BALANCE/NET POSITION			
Fund balance:			
Committed:			
Litigation	300,000	(300,000)	-
Capital improvements	80,663	(80,663)	-
Technology and professional services	700,576	(700,576)	-
Refunds to taxing entities	<u>310,048</u>	<u>(310,048)</u>	<u>-</u>
Total fund balance	<u>1,527,696</u>	<u>(1,391,287)</u>	<u>136,409</u>
Total liabilities and fund balance	\$ <u>1,527,696</u>		
Net position:			
Net investment in capital assets		688,862	688,862
Unrestricted		<u>642,469</u>	<u>642,469</u>
Total net position		\$ <u>1,331,331</u>	\$ <u>1,331,331</u>

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

MCLENNAN COUNTY APPRAISAL DISTRICT

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

FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>General</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Tax appraisal - operations	\$ 3,812,697	\$ 260,661	\$ 4,073,358
Debt service			
Principal	84,556	(84,556)	-
Interest and other fiscal charges	43,055	-	43,055
Capital outlay	<u>167,759</u>	<u>(167,759)</u>	<u>-</u>
Total expenditures/expenses	<u>4,108,067</u>	<u>8,346</u>	<u>4,116,413</u>
 PROGRAM REVENUES			
Charges for services	<u>3,947,222</u>	<u>-</u>	<u>3,947,222</u>
Total program revenues	<u>3,947,222</u>	<u>-</u>	<u>3,947,222</u>
 GENERAL REVENUES			
Interest and other	<u>24,436</u>	<u>-</u>	<u>24,436</u>
Total general revenues	<u>24,436</u>	<u>-</u>	<u>24,436</u>
 CHANGE IN FUND BALANCE	 (136,409)	 136,409	 -
 CHANGE IN NET POSITION	 -	 (144,755)	 (144,755)
 FUND BALANCE/NET POSITION, BEGINNING	 <u>1,527,696</u>	 <u>(51,610)</u>	 <u>1,476,086</u>
 FUND BALANCE/NET POSITION, ENDING	 <u>\$ 1,391,287</u>	 <u>\$(59,956)</u>	 <u>\$ 1,331,331</u>

McLENNAN COUNTY APPRAISAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The McLennan County Appraisal District ("the District") 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, the District 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 the District are allocated a portion of the amount of the District's budget equal to the proportion that the total dollar amount of property taxes imposed in the District 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 the District.

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. 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 the District'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 the District. *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. 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 the District with a column for adjustments between the two statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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, the District 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.

The District reports the following major governmental fund:

The ***General Fund*** is the District’s primary operating fund. It accounts for all financial resources of the government.

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

Assets and Deferred Inflows of Resources, Liabilities and Deferred Inflows of Resources, and Net Position or Fund Balance

Cash and Investments

Cash consists of demand deposit accounts. The investment policies of the District are governed by state statute. Management has followed a practice of investing in 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. The District 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 their acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Furniture	5 - 10
Equipment and software	3 - 10
Aerial photography	3

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has the following items that qualify for reporting in this category.

- The difference in expected and actual economic experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions – This difference is deferred and amortized over a closed five-year period.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category.

- The difference in expected and actual economic experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the 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 legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted 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, the District'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 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 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, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

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 the District 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, the District's deposits may not be returned to it. As of December 31, 2020, all of the District's deposit balances were covered by FDIC insurance and pledged governmental securities.

Interest Rate Risk. In accordance with its investment policy, the District 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 the District'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, 2020, 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
Furniture	208,354	-	-	208,354
Equipment and software	799,168	5,250	(7,324)	797,094
Aerial photography	<u>801,966</u>	<u>167,729</u>	<u>(456,735)</u>	<u>512,960</u>
Total capital assets being depreciated	<u>3,275,943</u>	<u>172,979</u>	<u>(464,059)</u>	<u>2,984,863</u>
Less accumulated depreciation:				
Building	(322,619)	(29,330)	-	(351,949)
Furniture	(117,004)	(10,150)	-	(127,154)
Equipment and software	(707,732)	(25,539)	3,506	(729,765)
Aerial photography	<u>(519,615)</u>	<u>(119,403)</u>	<u>445,016</u>	<u>(194,002)</u>
Total accumulated depreciation	<u>(1,666,970)</u>	<u>(184,422)</u>	<u>448,522</u>	<u>(1,402,870)</u>
Total capital assets, being depreciated, net	<u>\$ 1,608,973</u>	<u>\$ (11,443)</u>	<u>\$ (15,537)</u>	<u>\$ 1,581,993</u>

Defined Benefit Pension Plan

Plan Description. The District participates in a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent, multiple-employer, public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

All non-temporary employees participate in the plan. Employees in a temporary position are not eligible for membership.

Benefits Provided. TCDRS provides retirement, disability and survivor benefits for all eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

Members can retire at age 60 and above with 8 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 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 their employer.

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. By law, employee accounts earn 7% interest. 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.

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	19
Active employees	<u>38</u>
	<u>92</u>

Contributions. The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for the District were required to contribute 7% of their annual gross earnings during the fiscal year. The required contribution rate for the District was 12.67% in calendar year 2020. However, the District elected to use a rate of 13%. The District's contributions to TCDRS for the year ended December 31, 2020, were \$286,577, which exceeded required contributions by \$36,513.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Overall payroll growth	2.0% per year
Investment rate of return	8.0%, net of administrative and investment expense, including inflation

The District has no automatic cost-of-living adjustments ("COLA") and one is not considered to be substantively automatic. Therefore, no assumption for future cost-of-living adjustments is included in the actuarial valuation. Each year, the District may elect an ad-hoc COLA for its retirees.

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The actuarial assumptions that determined the total pension liability as of December 31, 2020 were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except for mortality assumptions. Mortality assumptions were updated for the 2017 valuation to reflect projected improvements.

The long-term expected rate of return on pension plan investments is 8.10%. 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.

The long-term expected rate of return on TCDRS is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on April 2020 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 30-year time horizon; the most recent analysis was performed in 2017. The target allocation and best estimates of geometric real rates return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
International Equities - Developed	MSCI World Ex USA (net)	7.00%	5.20%
International Equities - Emerging	MSCI EM Standard (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

⁽¹⁾ Target asset allocation adopted at the June 2020 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per Cliffwater's 2020 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.10%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8.1%) in measuring the 2020 Net Pension Liability:

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 14,362,823	\$ 12,911,005	\$ 11,666,103
Fiduciary net position	<u>12,542,167</u>	<u>12,542,167</u>	<u>12,542,167</u>
Net pension liability/(asset)	<u>\$ 1,820,656</u>	<u>\$ 368,838</u>	<u>\$ (876,064)</u>

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 12,680,407	\$ 11,145,733	\$ 1,534,674
Changes for the year:			
Service cost	248,759	-	248,759
Interest on total pension liability ⁽¹⁾	1,014,610	-	1,014,610
Effect of economic/demographic gains or losses	(210,545)	-	(210,545)
Refund of contributions	(110,028)	(110,028)	-
Benefit payments	(712,198)	(712,198)	-
Administrative expenses	-	(9,558)	9,558
Member contributions	-	132,937	(132,937)
Net investment income	-	1,830,770	(1,830,770)
Employer contributions	-	276,883	(276,883)
Other ⁽²⁾	-	(12,372)	12,372
Balance at 12/31/2019	<u>\$ 12,911,005</u>	<u>\$ 12,542,167</u>	<u>\$ 368,838</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Relates to allocation of system-wide items.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. The report may be obtained on the Internet at www.tcdrs.org.

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

For the year ended December 31, 2020, the District recognized pension expense of \$356,907. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 68,085	\$ 204,508
Changes in actuarial assumptions	36,747	-
Difference between projected and actual investment earnings	-	327,126
Contributions subsequent to the measurement date	<u>286,577</u>	<u>-</u>
Total	<u>\$ 391,409</u>	<u>\$ 531,634</u>

\$286,577 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Fiscal Year Ended December 31,	
2021	\$(88,678)
2022	(122,584)
2023	15,611
2024	(231,151)

Long-term Debt

Annual debt service requirements to maturity for the District’s long-term debt are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2021	\$ 88,404	\$ 39,207
2022	92,427	35,185
2023	96,633	30,979
2024	101,030	26,581
2025	105,628	21,984
2026-2029	<u>409,009</u>	<u>37,630</u>
Total	<u>\$ 893,131</u>	<u>\$ 191,566</u>

Changes in Long-term Debt

Long-term debt activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Direct borrowings	\$ 977,687	\$ -	\$ 84,556	\$ 893,131	\$ 88,404
Compensated absences	<u>244,163</u>	<u>135,197</u>	<u>139,605</u>	<u>239,755</u>	<u>47,951</u>
Total long-term liabilities	<u>\$ 1,221,850</u>	<u>\$ 135,197</u>	<u>\$ 224,161</u>	<u>\$ 1,132,886</u>	<u>\$ 136,355</u>

Litigation

On various occasions, the District can be either a defendant or co-defendant in lawsuits. While the District and legal counsel cannot predict the results of any litigation, it believes it has meritorious defenses to those actions, proceedings and claims.

The District is involved in 106 lawsuits as of year-end related to taxpayers challenging appraisal values on their properties. Although the District would not be directly liable for any potential judgements or settlements in these cases, in the event that adverse judgements are reached in these cases, the District could suffer the imposition of some attorney fees ranging from \$2,000 to \$100,000.

Related Party Transactions

For the year ended December 31, 2020, the District had one Board Member who was also an executive officer of the District's depository financial institution. This member abstained from voting when the depository contract bid was being approved.

New Accounting Principles

Significant new accounting standard not yet implemented by the District includes the following.

Statement No. 87, *Leases* – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the District in fiscal year 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements* – This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 will be implemented in fiscal year 2023 and the impact has not yet been determined.

**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, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Appraisal assessments	\$ 4,358,511	\$ 4,358,411	\$ 3,947,222	\$ (411,189)
Interest and other income	<u>25,000</u>	<u>25,000</u>	<u>24,436</u>	<u>(564)</u>
Total revenues	<u>4,383,511</u>	<u>4,383,411</u>	<u>3,971,658</u>	<u>(411,753)</u>
EXPENDITURES				
Current:				
Salaries	2,115,249	2,115,249	1,947,518	167,731
Benefits	790,100	790,000	702,280	87,720
Office operations	301,800	301,800	345,770	(43,970)
Maintenance of structures and equipment	192,176	192,176	287,265	(95,089)
Professional fees	510,279	510,279	529,864	(19,585)
Contingency	125,000	125,000	-	125,000
Debt service	128,407	128,407	127,611	796
Capital outlay	<u>220,500</u>	<u>220,500</u>	<u>167,759</u>	<u>52,741</u>
Total expenditures	<u>4,383,511</u>	<u>4,383,411</u>	<u>4,108,067</u>	<u>275,344</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(136,409)</u>	<u>(136,409)</u>
CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>(136,409)</u>	<u>(136,409)</u>
FUND BALANCE, BEGINNING	<u>1,527,696</u>	<u>1,527,696</u>	<u>1,527,696</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,527,696</u>	<u>\$ 1,527,696</u>	<u>\$ 1,391,287</u>	<u>\$ (136,409)</u>

MCLENNAN COUNTY APPRAISAL DISTRICT

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

FOR THE YEAR ENDED DECEMBER 31, 2020

Plan Year Ended December 31	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service costs	\$ 245,136	\$ 243,275	\$ 247,308
Interest total pension liability	833,114	851,239	885,020
Effect of plan changes	-	(37,806)	-
Effect of assumption changes or inputs	-	115,196	-
Effect of economic/demographic (gains) or losses	(212,431)	(38,866)	108,681
Benefit payments/refunds of contributions	<u>(696,581)</u>	<u>(660,878)</u>	<u>(699,934)</u>
Net change in total pension liability	169,238	472,159	541,075
Total pension liability - beginning	<u>10,506,683</u>	<u>10,675,921</u>	<u>11,148,080</u>
Total pension liability - ending (a)	<u>\$ 10,675,921</u>	<u>\$ 11,148,080</u>	<u>\$ 11,689,155</u>
Plan Fiduciary Net Position			
Employer contributions	\$ 258,791	\$ 267,281	\$ 267,595
Member contributions	123,673	127,936	127,935
Investment income net of investment expenses	679,673	16,071	744,126
Benefit payments refunds of contributions	(696,581)	(660,878)	(699,934)
Administrative expenses	(7,844)	(7,315)	(8,074)
Other	<u>(112,779)</u>	<u>10,797</u>	<u>14,811</u>
Net change in plan fiduciary net position	244,933	(246,108)	446,459
Plan fiduciary net position - beginning	<u>10,085,100</u>	<u>10,330,033</u>	<u>10,083,925</u>
Plan fiduciary net position - ending (b)	<u>\$ 10,330,033</u>	<u>\$ 10,083,925</u>	<u>\$ 10,530,384</u>
Net pension liability - ending (a) - (b)	<u>\$ 345,889</u>	<u>\$ 1,064,155</u>	<u>\$ 1,158,771</u>
Fiduciary net position as a percentage of total pension liability	96.76%	90.45%	90.09%
Pensionable covered payroll	\$ 1,766,768	\$ 1,827,664	\$ 1,827,644
Net pension liability as a percentage of covered payroll	19.58%	58.22%	63.40%

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 249,907	\$ 235,516	\$ 248,759
937,455	972,530	1,014,610
-	-	-
91,867	-	-
(90,180)	77,248	(210,545)
(745,616)	(737,475)	(822,226)
443,433	547,819	230,598
<u>11,689,155</u>	<u>12,132,588</u>	<u>12,680,407</u>
\$ <u>12,132,588</u>	\$ <u>12,680,407</u>	\$ <u>12,911,005</u>
\$ 273,308	\$ 279,676	\$ 276,883
131,013	134,441	132,937
1,531,579	(221,734)	1,830,770
(745,616)	(737,475)	(822,226)
(7,786)	(8,952)	(9,558)
(4,647)	(8,458)	(12,372)
1,177,851	(562,502)	1,396,434
<u>10,530,384</u>	<u>11,708,235</u>	<u>11,145,733</u>
\$ <u>11,708,235</u>	\$ <u>11,145,733</u>	\$ <u>12,542,167</u>
\$ <u>424,353</u>	\$ <u>1,534,674</u>	\$ <u>368,838</u>
96.50%	87.90%	97.14%
\$ 1,871,608	\$ 1,920,591	\$ 1,899,098
22.67%	79.91%	19.42%

MCLENNAN COUNTY APPRAISAL DISTRICT

**TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM-
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

FOR THE YEAR ENDED DECEMBER 31, 2020

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2011	\$ 199,346	\$ 262,013	\$(62,667)	\$ 1,856,105	14.1%
2012	208,406	258,315	(49,909)	1,826,524	14.1%
2013	222,536	267,724	(45,188)	1,831,570	14.6%
2014	224,203	258,791	(34,588)	1,766,768	14.6%
2015	227,361	267,281	(39,920)	1,827,664	14.6%
2016	217,307	267,595	(50,288)	1,827,650	14.6%
2017	222,160	273,308	(51,148)	1,871,601	14.6%
2018	234,120	279,606	(45,486)	1,920,046	14.6%
2019	225,423	276,883	(51,460)	1,899,098	14.6%
2020	250,064	286,577	(36,513)	1,973,667	14.5%

MCLENNAN COUNTY APPRAISAL DISTRICT

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2020

Valuation Date Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contributions rates:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	9.1 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of administrative and investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: No changes in plan provisions. 2016: No changes in plan provisions. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions. 2019: No changes in plan provisions.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.

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COMPLIANCE SECTION

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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

Board of Directors
McLennan County Appraisal District
Waco, Texas

We have audited, 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, 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, 2020, 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 June 8, 2021.

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) as a basis for designing 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 financial statements. 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
June 8, 2021