

**McLENNAN COUNTY  
APPRAISAL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2017**



**McLENNAN COUNTY APPRAISAL DISTRICT**

**TABLE OF CONTENTS**

**DECEMBER 31, 2017**

	<b><u>Page Number</u></b>
Independent Auditors' Report.....	1 – 3
Management's Discussion and Analysis .....	4 – 7
Basic Financial Statements:	
Statement of Net Position and Governmental Fund Balance Sheet.....	8
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance.....	9
Notes to Financial Statements.....	10 – 20
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual .....	21
Schedule of Changes in Net Pension Liability and Related Ratios .....	22
Texas County and District Retirement System – Schedule of Employer Contributions.....	23
Notes to Schedule of Employer Contributions .....	24
Compliance Section:	
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 <i>Government Auditing Standards</i> .....	25 – 26

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P A T T I L L O , B R O W N & H I L L , L . L . P .  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' 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, 2017, 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.

### ***Auditors' 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 auditors' 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, 2017, 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 April 27, 2018, 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 McLennan County Appraisal District's internal control over financial reporting and compliance.

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

Waco, Texas  
April 27, 2018

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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 2017 FINANCIAL AUDIT

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, 2017. 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 \$873,197. Of this amount on December 31, 2017, \$514,513 represented assigned net position which can be used to meet the Appraisal District's ongoing obligations. The District's total change in net position was \$288,747.

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, 2017, were \$15,333, an increase of \$4,777 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, 2017, 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>2017</u>	<u>2016</u>
Current and other assets	\$ 2,245,733	\$ 1,693,130
Capital assets	<u>1,494,603</u>	<u>1,559,917</u>
Total assets	<u>3,740,336</u>	<u>3,253,047</u>
Deferred outflows of resources	<u>1,019,710</u>	<u>1,090,515</u>
Long-term liabilities	2,549,331	2,538,085
Other liabilities	<u>1,229,225</u>	<u>1,062,475</u>
Total liabilities	<u>3,778,556</u>	<u>3,600,560</u>
Deferred inflows of resources	<u>108,293</u>	<u>158,552</u>
Net position:		
Net investment in capital assets	358,684	350,009
Unrestricted	<u>514,513</u>	<u>234,441</u>
Total net position	<u>\$ 873,197</u>	<u>\$ 584,450</u>

**DISTRICT'S CHANGE IN NET POSITION**

	<u>2017</u>	<u>2016</u>
Revenues:		
Program:		
Charges for services	\$ 3,998,615	\$ 3,913,850
Total program revenues	<u>3,998,615</u>	<u>3,913,850</u>
General:		
Interest and other	<u>15,333</u>	<u>10,556</u>
Total general revenues	<u>15,333</u>	<u>10,556</u>
Total revenues	<u>4,013,948</u>	<u>3,924,406</u>
Expenses:		
Tax appraisal - operations	3,671,578	3,796,335
Interest and other fiscal charges	<u>53,623</u>	<u>74,035</u>
Total expenses	<u>3,725,201</u>	<u>3,870,370</u>
Change in net position	288,747	54,036
Net position, beginning	<u>584,450</u>	<u>530,414</u>
Net position, ending	<u>\$ 873,197</u>	<u>\$ 584,450</u>

***Capital Asset and Debt Administration:***

Capital Assets: The District’s investment in capital assets for its operations as of December 31, 2017, amounts to \$1,494,603 (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 \$65,314 over the prior year. The decrease in capital asset value was due to current depreciation exceeding the District’s additions for the year and disposals of unused capital assets.

		<u>12/31/2017</u>
Building	\$ 1,466,455	
Furniture	208,354	
Equipment and software	<u>1,166,760</u>	
		2,841,569
Less: accumulated depreciation		<u>( 1,346,966)</u>
		<u>\$ 1,494,603</u>

***Long-term Debt:***

As of December 31, 2017, the District had \$1,135,919 in long-term debt with the building note payable. The District also has a liability of \$254,641 for compensated absences and unpaid sick leave and a liability of \$1,158,771 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, 2017, the District received \$4,013,948 in revenue. Of this amount, \$3,998,615 or 99.6% was received from these jurisdictions. The remaining \$15,333 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:***

The District did not have any negative variances with the budget for the fiscal year ended December 31, 2017.

***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.

# **BASIC FINANCIAL STATEMENTS**

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**MCLENNAN COUNTY APPRAISAL DISTRICT**

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

**DECEMBER 31, 2017**

	<u>General</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,226,086	\$ -	\$ 2,226,086
Receivables	350	-	350
Prepaid expenses	19,297	-	19,297
Capital assets, net of depreciation	<u>-</u>	<u>1,494,603</u>	<u>1,494,603</u>
Total assets	<u>2,245,733</u>	<u>1,494,603</u>	<u>3,740,336</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred resources related to pensions	<u>-</u>	<u>1,019,710</u>	<u>1,019,710</u>
Total deferred outflows of resources	<u>-</u>	<u>1,019,710</u>	<u>1,019,710</u>
<b>LIABILITIES</b>			
Accounts payable	24,114	-	24,114
Accrued liabilities	48,575	-	48,575
Unearned revenues	1,156,536	-	1,156,536
Compensated absences	-	254,641	254,641
Note payable	-	1,135,919	1,135,919
Net pension liability	<u>-</u>	<u>1,158,771</u>	<u>1,158,771</u>
Total liabilities	<u>1,229,225</u>	<u>2,549,331</u>	<u>3,778,556</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred resources related to pensions	<u>-</u>	<u>108,293</u>	<u>108,293</u>
Total deferred outflows of resources	<u>-</u>	<u>108,293</u>	<u>108,293</u>
<b>FUND BALANCE/NET POSITION</b>			
Fund balance:			
Committed:			
Litigation	300,000	( 300,000)	-
Capital improvements	80,663	( 80,663)	-
General reserves	249,993	( 249,993)	-
Refunds to taxing entities	<u>385,852</u>	<u>( 385,852)</u>	<u>-</u>
Total fund balance	<u>1,016,508</u>	<u>( 1,016,508)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,245,733</u>		
Net position:			
Net investment in capital assets		358,684	358,684
Unrestricted		<u>514,513</u>	<u>514,513</u>
Total net position		<u>\$ 873,197</u>	<u>\$ 873,197</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, 2017**

	<u>General</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Tax appraisal - operations	\$ 3,438,491	\$ 233,087	\$ 3,671,578
Debt service			
Principal	73,989	( 73,989)	-
Interest and other fiscal charges	53,623	-	53,623
Capital outlay	<u>61,992</u>	<u>( 61,992)</u>	<u>-</u>
Total expenditures/expenses	<u>3,628,095</u>	<u>97,106</u>	<u>3,725,201</u>
<b>PROGRAM REVENUES</b>			
Charges for services	<u>3,998,615</u>	<u>-</u>	<u>3,998,615</u>
Total program revenues	<u>3,998,615</u>	<u>-</u>	<u>3,998,615</u>
<b>GENERAL REVENUES</b>			
Interest and other	<u>15,333</u>	<u>-</u>	<u>15,333</u>
Total general revenues	<u>15,333</u>	<u>-</u>	<u>15,333</u>
<b>CHANGE IN FUND BALANCE</b>	385,853	( 385,853)	-
<b>CHANGE IN NET POSITION</b>	-	288,747	288,747
<b>FUND BALANCE/NET POSITION, BEGINNING</b>	<u>630,655</u>	<u>( 46,205)</u>	<u>584,450</u>
<b>FUND BALANCE/NET POSITION, ENDING</b>	<u>\$ 1,016,508</u>	<u>\$( 143,311)</u>	<u>\$ 873,197</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, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

The McLennan County Appraisal District (“the District”) was created by the 66<sup>th</sup> 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	5 - 10

***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.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Changes in actuarial assumptions - This difference is deferred and amortized over a closed five year period.

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 only one type of item that qualifies for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

***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 TCDRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. 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, 2017, 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, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, being depreciated:				
Building	\$ 1,466,455	\$ -	\$ -	\$ 1,466,455
Furniture	209,416	-	( 1,062)	208,354
Equipment and software	2,101,962	61,992	( 997,194)	1,166,760
Total capital assets being depreciated	<u>3,777,833</u>	<u>61,992</u>	<u>( 998,256)</u>	<u>2,841,569</u>
Less accumulated depreciation:				
Building	( 234,632)	( 29,329)	-	( 263,961)
Furniture	( 87,616)	( 10,150)	1,062	( 96,704)
Equipment and software	( 1,895,668)	( 87,827)	997,194	( 986,301)
Total accumulated depreciation	<u>( 2,217,916)</u>	<u>( 127,306)</u>	<u>998,256</u>	<u>( 1,346,966)</u>
Total capital assets, being depreciated, net	<u>\$ 1,559,917</u>	<u>\$( 65,314)</u>	<u>\$ -</u>	<u>\$ 1,494,603</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](http://www.tcdrs.org).

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. 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 20 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, 2016 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	17
Active employees	40
	<hr/>
	92
	<hr/> <hr/>

**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 rates for the District was 12.39% in calendar year 2017. However, the District elected to use a rate of 13%. The District’s contributions to TCDRS for the year ended December 31, 2017, were \$273,308, which exceeded required contributions by \$30,000.

**Net Pension Liability.** The District’s Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial Assumptions***

The Total Pension Liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	2.0% per year
Investment rate of return	8.0%, net of pension plan 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	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with one year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

The actuarial assumptions that determined the total pension liability as of December 31, 2016, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except for mortality assumptions. Mortality assumptions were updated for the 2016 valuation to reflect projected improvements.

The long-term expected rate of return on pension plan investments is 8.0%. 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 inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2017 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

<b>Asset Class</b>	<b>Benchmark</b>	<b>Target Allocation <sup>(1)</sup></b>	<b>Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup></b>
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities - Emerging	MSCI EM Standard (net) Index	7.00%	5.70%
Investment-Grade Bonds	Barclays U.S Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

<sup>(1)</sup> Target asset allocation adopted at the April 2017 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return in addition to assumed inflation of 2.0% per Cliffwater's 2017 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

## **Discount Rate**

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

## Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 11,148,080	\$ 10,083,925	\$ 1,064,155
Changes for the year:			
Service cost	247,308	-	247,308
Interest on total pension liability <sup>(1)</sup>	885,020	-	885,020
Effect of economic/demographic gains or losses	108,681	-	108,681
Refund of contributions	( 7,239)	( 7,239)	-
Benefit payments	( 692,695)	( 692,695)	-
Administrative expenses	-	( 8,074)	8,074
Member contributions	-	127,935	( 127,935)
Net investment income	-	744,126	( 744,126)
Employer contributions	-	267,595	( 267,595)
Other <sup>(2)</sup>	-	14,811	( 14,811)
Balance at 12/31/2016	<u>\$ 11,689,155</u>	<u>\$ 10,530,384</u>	<u>\$ 1,158,771</u>

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

<sup>(2)</sup> Relates to allocation of system-wide items.

## Sensitivity Analysis

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-higher (9.1%) than the current rate:

	1% Decrease	Current	1% Increase
	7.1%	Discount Rate 8.1%	9.1%
Total pension liability	\$ 12,968,670	\$ 11,689,155	\$ 10,604,191
Fiduciary net position	<u>10,530,284</u>	<u>10,530,384</u>	<u>10,530,384</u>
Net pension liability/(asset)	<u>\$ 2,438,386</u>	<u>\$ 1,158,771</u>	<u>\$ 73,807</u>

## 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](http://www.tcdrs.org).



## **Changes in Long-term Debt**

Long-term debt activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Note on building/furniture	\$ 1,209,908	\$ -	\$ 73,989	\$ 1,135,919	\$ 77,355
Net Pension Liability	1,064,155	362,211	267,595	1,158,771	-
Compensated absences	<u>264,022</u>	<u>117,568</u>	<u>126,949</u>	<u>254,641</u>	<u>50,928</u>
Total long-term liabilities	<u>\$ 2,538,085</u>	<u>\$ 479,779</u>	<u>\$ 468,533</u>	<u>\$ 2,549,331</u>	<u>\$ 128,283</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 70 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 \$2,500 to \$100,000.

## **Related Party Transactions**

For the year ended December 31, 2017, the District had two Board Members that were also executive officers of the District's depository financial institution. These two members also abstained from voting when the depository contract bid was being approved.

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**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, 2017**

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget Positive (Negative)
<b>REVENUES</b>				
Appraisal assessments	\$( 3,998,615)	\$( 3,998,615)	\$ 3,998,615	\$ 7,997,230
Interest and other income	13,500	13,500	15,333	1,833
Total revenues	<u>( 3,985,115)</u>	<u>( 3,985,115)</u>	<u>4,013,948</u>	<u>7,999,063</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	1,928,039	1,928,039	1,871,360	56,679
Benefits	712,150	712,150	655,424	56,726
Office operations	456,858	456,858	275,057	181,801
Maintenance of structures and equipment	163,367	163,367	132,683	30,684
Professional fees	504,869	504,869	503,967	902
Debt service	140,832	140,832	127,612	13,220
Capital outlay	106,000	106,000	61,992	44,008
Total expenditures	<u>4,012,115</u>	<u>4,012,115</u>	<u>3,628,095</u>	<u>384,020</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>( 7,997,230)</u>	<u>( 7,997,230)</u>	<u>385,853</u>	<u>8,383,083</u>
<b>CHANGE IN FUND BALANCE</b>	<u>( 7,997,230)</u>	<u>( 7,997,230)</u>	<u>385,853</u>	<u>8,383,083</u>
<b>FUND BALANCE, BEGINNING</b>	<u>630,655</u>	<u>630,655</u>	<u>630,655</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$( 7,366,575)</u>	<u>\$( 7,366,575)</u>	<u>\$ 1,016,508</u>	<u>\$ 8,383,083</u>

**MCLENNAN COUNTY APPRAISAL DISTRICT**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Plan Year Ended December 31</b>	<u><b>2014</b></u>	<u><b>2015</b></u>	<u><b>2016</b></u>
<b>Total Pension Liability</b>			
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>
<b>Plan Fiduciary Net Position</b>			
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.

**MCLENNAN COUNTY APPRAISAL DISTRICT**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Fiscal Year Ended December 31,</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pensionable Covered Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2008	\$ 187,794	\$ 187,794	\$ -	\$ 1,735,616	10.8%
2009	182,423	287,121	( 104,698)	1,816,964	15.8%
2010	234,687	267,537	( 32,850)	1,900,300	14.1%
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	243,308	273,308	( 30,000)	1,871,601	14.6%

# MCLENNAN COUNTY APPRAISAL DISTRICT

## NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

### FOR THE YEAR ENDED DECEMBER 31, 2017

**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** 11.6 years (based on contribution rate calculated in 12/31/2016 valuation)

**Asset Valuation Method** 5-year smoothed market

**Inflation** 3.0%

**Salary Increases** Varies by age and service. 4.9% average over career including inflation.

**Investment Rate of Return** 8.00%, net of 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** In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

**Changes in Plan Provisions Reflected in the Schedule of Employer Contributions** 2015: No changes in plan provisions.  
2016: No changes in plan provisions.

# **COMPLIANCE SECTION**

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P A T T I L L O , B R O W N & H I L L , 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 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, 2017, 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 April 27, 2018.

**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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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  
April 27, 2018