PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
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Board of Directors
McLennan County Appraisal District
Waco, Texas

We have audited the financial statements of the McLennan County Appraisal District (the "District") as of and for the year ended December 31, 2022 and have issued our report thereon dated June 19, 2023. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated November 9, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

**Planned Scope and Timing of the Audit**

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

**Compliance with All Ethics Requirements Regarding Independence**

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

As part of the engagement we assisted in preparing the financial statements and related notes to the financial statements of the District in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards.*

In order to reduce threats to our independence caused by these nonattest services to an acceptable level, we applied certain safeguards. These safeguards include a concurring quality review, which is a review of the financial statements and key audit areas which is performed by a partner or manager who has adequate experience in audits of local governments, but who was not involved in this audit engagement. The concurring reviewer serves as an evaluator of the performance of the engagement team and the nonattest services provided.

In addition, management assumed responsibility for the financial statements and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged, in the management representation letter, our assistance with the preparation of the financial statements and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

**Significant Risks Identified**

We have considered the following significant risks during our audit process, which required special audit consideration. None of the specific risks below have resulted in a significant matter, finding, or issue.

| **Significant Risk Identified** | **Reasoning for Special Audit Consideration** |
|---|---|
| 1. Management override of controls | The risk that members of management could circumvent well-designed and effective internal controls. |
| 2. Loss contingencies | Significant volume of protests, appeals and lawsuits related to property appraisals. |
| 3. Lease Accounting | New accounting standard (GASB 87, Leases) requires new financial reporting and note disclosures. |

**Qualitative Aspects of the Entity's Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. As described in the notes to the financial statements, during the year, the District changed its method of accounting and disclosures for leases by adopting Governmental Accounting Standards (GASB) Statement No. 87, *Leases.* Accordingly the adoption of this standard did not result in a restatement of beginning fund balance and net position, but assets and liabilities were recognized, and more extensive notes were required.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

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

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

- Management's estimate of the net pension liability (asset) and pension expense are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liability and pension expense and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

*Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting McLennan County Appraisal District's financial statements relate to the net pension liability and pension expense.

**Significant Difficulties Encountered during the Audit**

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

**Uncorrected and Corrected Misstatements**

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

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

**Disagreements with Management**

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

**Circumstances that Affect the Form and Content of the Auditor's Report**

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No such circumstances exist.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated June 19, 2023.

**Management's Consultations with Other Accountants**

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

**New Accounting Pronouncements**

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the County include the following:

Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements – The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. GASB 94 will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

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. This Statement will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

GASB Statement No. 100, Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62 - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

**Other Significant Matters, Findings or Issues**

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

**Other Information Included in the Annual Financial Report**

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's Annual Financial Report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the other information and considered whether a material inconsistency exists between the other information and the financial statements, or if the other information otherwise appears to be materially misstated.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

**Restriction on Use**

This report is intended solely for the information and use of the Board of Directors and management of the McLennan County Appraisal District and is not intended to be, and should not be used by anyone other than these specified parties.

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

Waco, Texas
June 19, 2023

# McLENNAN COUNTY APPRAISAL DISTRICT

## ANNUAL FINANCIAL REPORT

## FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022

**McLENNAN COUNTY APPRAISAL DISTRICT**

TABLE OF CONTENTS

DECEMBER 31, 2022

PATTILLO, BROWN & HILL, L.L.P.
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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors
McLennan County Appraisal District
Waco, Texas

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the financial statements of the governmental activities and major fund of McLennan County Appraisal District (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of McLennan County Appraisal District, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of McLennan County Appraisal District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Emphasis of Matter – Change in Accounting Principle***

As described in the notes to the financial statements, in fiscal year 2022 the County adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

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

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

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

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

In performing an audit in accordance with GAAS and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information be presented to supplement the basic financial statements. Such information, is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 19, 2023, 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 19, 2023

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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, 2022. 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 $2,205,419. Of this amount on December 31, 2022, $1,453,733 represented unrestricted net position which can be used to meet the District's ongoing obligations. The District's total change in net position was an increase of $722,126.

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, 2022, were $42,283, a decrease of $18,658 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, 2022, 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 capital 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**

| | 2022 | 2021 |
|---|---|---|
| Current and other assets | $ 2,904,671 | $ 2,730,215 |
| Net pension asset | 1,308,061 | - |
| Capital assets | 1,463,986 | 1,392,815 |
| Total assets | 5,676,718 | 4,123,030 |
| Deferred outflows of resources | 759,483 | 912,336 |
| Long-term liabilities | 914,027 | 1,707,630 |
| Other liabilities | 1,286,787 | 1,223,335 |
| Total liabilities | 2,239,157 | 2,930,965 |
| Deferred inflows of resources | 1,991,625 | 621,108 |
| Net position: | | |
| Net investment in capital assets | 751,686 | 588,088 |
| Unrestricted | 1,453,733 | 895,205 |
| Total net position | $ 2,205,419 | $ 1,483,293 |

**DISTRICT'S CHANGE IN NET POSITION**

| | 2022 | 2021 |
|---|---|---|
| Revenues: | | |
| Program: | | |
| Charges for services | $ 4,334,819 | $ 4,037,772 |
| Total program revenues | 4,334,819 | 4,037,772 |
| General: | | |
| Interest and other | 42,283 | 60,941 |
| Total general revenues | 42,283 | 60,941 |
| Total revenues | 4,377,102 | 4,098,713 |
| Expenses: | | |
| Tax appraisal - operations | 3,619,279 | 3,907,544 |
| Interest and other fiscal charges | 35,697 | 39,207 |
| Total expenses | 3,654,976 | 3,946,751 |
| Change in net position | 722,126 | 151,962 |
| Net position, beginning | 1,483,293 | 1,331,331 |
| Net position, ending | $ 2,205,419 | $ 1,483,293 |

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

***Capital Assets:***

The District's investment in capital assets for its operations as of December 31, 2022, amounts to $1,463,986 (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) increased for the current fiscal year $271,319 over the prior year. The increase in capital asset value was due to the District's purchase of equipment and aerial photography.

| | | 12/31/2022 |
|---|---|---|
| Building | $ 1,466,455 | |
| Furniture | 208,354 | |
| Equipment and software | 887,841 | |
| Right to use - equipment | 44,143 | |
| Aerial photography | 357,446 | |
| Total capital assets being depreciated | | 2,964,239 |
| Less: accumulated depreciation | | ( 1,500,253) |
| Total capital assets being depreciated, net | | $ 1,463,986 |

***Long-term Debt:***

As of December 31, 2022, the District had $712,300 in long-term debt with the building note payable. The District also has a liability of $201,727 for compensated absences and unpaid sick leave.

***Revenue:***

The District receives the majority of its revenue from the 45 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, 2022, the District received $4,377,102 in revenue. Of this amount, $4,334,819 or 99% was received from these jurisdictions. The remaining $42,283 was from interest earned on the District's investments.

***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 retained for planned capital expenditures.

***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, 315 S. 26th Street, Waco, TX 76710 with attention to the Chief Appraiser.

# BASIC FINANCIAL STATEMENTS

**MCLENNAN COUNTY APPRAISAL DISTRICT**

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET

DECEMBER 31, 2022

| | General | Adjustments | Statement of Net Position |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 2,854,965 | $ - | $ 2,854,965 |
| Receivables | 689 | - | 689 |
| Prepaid expenses | 49,017 | - | 49,017 |
| Net pension asset | - | 1,308,061 | 1,308,061 |
| Capital assets, net of depreciation | - | 1,463,986 | 1,463,986 |
| Total assets | 2,904,671 | 2,772,047 | 5,676,718 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred resources related to pensions | - | 759,483 | 759,483 |
| Total deferred outflows of resources | - | 759,483 | 759,483 |
| **LIABILITIES** | | | |
| Accounts payable | 39,449 | - | 39,449 |
| Accrued liabilities | 134,221 | - | 134,221 |
| Unearned revenues | 1,113,117 | - | 1,113,117 |
| Compensated absences | - | 201,727 | 201,727 |
| Leases payable | - | 38,343 | 38,343 |
| Note payable | - | 712,300 | 712,300 |
| Total liabilities | 1,286,787 | 952,370 | 2,239,157 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred resources related to pensions | - | 1,991,625 | 1,991,625 |
| Total deferred outflows of resources | - | 1,991,625 | 1,991,625 |
| **FUND BALANCE/NET POSITION** | | | |
| Fund balance: | | | |
| Committed: | | | |
| Litigation | 610,000 | ( 610,000) | - |
| Capital improvements | 800,000 | ( 800,000) | - |
| Technology and professional services | 207,884 | ( 207,884) | - |
| Total fund balance | 1,617,884 | ( 1,617,884) | - |
| Total liabilities and fund balance | $ 2,904,671 | | |
| Net position: | | | |
| Net investment in capital assets | | 751,686 | 751,686 |
| Unrestricted | | 1,453,733 | 1,453,733 |
| Total net position | | $ 2,205,419 | $ 2,205,419 |

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, 2022

| | General | Adjustments | Statement of Activities |
|---|---|---|---|
| **EXPENDITURES/EXPENSES** | | | |
| Tax appraisal - operations | $ 3,905,962 | $( 286,683) | $ 3,619,279 |
| Debt service | | | |
| Principal | 98,227 | ( 98,227) | - |
| Interest and other fiscal charges | 35,697 | - | 35,697 |
| Capital outlay | 252,726 | ( 252,726) | - |
| Total expenditures/expenses | 4,292,612 | ( 637,636) | 3,654,976 |
| **PROGRAM REVENUES** | | | |
| Charges for services | 4,334,819 | - | 4,334,819 |
| Total program revenues | 4,334,819 | - | 4,334,819 |
| **GENERAL REVENUES** | | | |
| Interest and other | 42,283 | - | 42,283 |
| Total general revenues | 42,283 | - | 42,283 |
| **OTHER FINANCING SOURCES** | | | |
| Issuance of leases | 26,514 | ( 26,514) | - |
| Total other financing sources | 26,514 | ( 26,514) | - |
| **CHANGE IN FUND BALANCE** | 111,004 | ( 111,004) | - |
| **CHANGE IN NET POSITION** | - | 722,126 | 722,126 |
| **FUND BALANCE/NET POSITION, BEGINNING** | 1,506,880 | ( 23,587) | 1,483,293 |
| **FUND BALANCE/NET POSITION, ENDING** | $ 1,617,884 | $ 587,535 | $ 2,205,419 |

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

## 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 are tangible and intangible, which include property, plant and equipment, and right to use assets 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 and right to use assets are depreciated/amortized using the straight-line method over the following useful lives:

| Assets | Years |
|---|---|
| Buildings | 20 - 50 |
| Furniture | 5 - 10 |
| Equipment and software | 3 - 10 |
| Aerial photography | 3 |
| Right to use assets | Lease Term |

***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 assets 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 assets 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.

***Leases***

The District is a lessee for a noncancellable lease of equipment. The District recognizes lease liability and an intangible right-to-use lease assets in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of $5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

***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.

***Change in Accounting Principle***

GASB Statement No. 87, Leases, was adopted effective January 1, 2022. The statement addresses accounting and financial reporting for lease contracts. Statement No. 87 establishes standards for recognizing and measuring assets, liabilities, deferred outflows of resources, deferred inflows of resources, and revenues and expenses related to leases in the basic financial statements, in addition to requiring more extensive note disclosures. The adoption of this standard did not result in a restatement of beginning fund balance or net position, but assets, deferred inflows and liabilities were recognized, and more extensive note disclosures were required.

## 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, 2022, 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, 2022, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Government activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Building | $ 1,466,455 | $ - | $ - | $ 1,466,455 |
| Furniture | 208,354 | - | - | 208,354 |
| Equipment and software | 764,267 | 169,578 | ( 46,004) | 887,841 |
| Aerial photography | 449,948 | 75,227 | ( 167,729) | 357,446 |
| Right to use - equipment | 17,629 | 26,514 | - | 44,143 |
| Total capital assets being depreciated | 2,906,653 | 271,319 | ( 213,733) | 2,964,239 |
| Less accumulated depreciation: | | | | |
| Building | ( 381,278) | ( 29,329) | - | ( 410,607) |
| Furniture | ( 137,304) | ( 10,150) | - | ( 147,454) |
| Equipment and software | ( 722,478) | ( 47,259) | 46,004 | ( 723,733) |
| Aerial photography | ( 255,149) | ( 125,354) | 167,729 | ( 212,774) |
| Right to use - equipment | - | ( 5,685) | - | ( 5,685) |
| Total accumulated depreciation | ( 1,496,209) | ( 217,777) | 213,733 | ( 1,500,253) |
| Total capital assets, being depreciated, net | $ 1,410,444 | $ 53,542 | $ - | $ 1,463,986 |

## 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 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after ten 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, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 38 |
| Inactive employees entitled to but not yet receiving benefits | 20 |
| Active employees | 37 |
| | 95 |

**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 participate 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 12.55% in calendar year 2022. However, the District elected to use a rate of 13%. The District's contributions to TCDRS for the year ended December 31, 2022, were $260,175, which exceeded required contributions by $9,006.

### *Actuarial Assumptions*

The Total Pension Liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.00% per year |
| Investment rate of return | 7.50%, 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 | 135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| Service retirees, beneficiaries and non-depositing members | 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| Disabled retirees | 160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |

The actuarial assumptions that determined the total pension liability as of December 31, 2021 were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2020.

The long-term expected rate of return on pension plan investments is 7.50%. 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 2022 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a long-term time horizon; the most recent assumption was adopted in March 2021. 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 | 11.50% | 3.80% |
| Global Equities | MSCI World (net) Index | 2.50% | 4.10% |
| International Equities - Developed | MSCI World Ex USA (net) Index | 5.00% | 3.80% |
| International Equities - Emerging | MSCI EM Standard (net) Index | 6.00% | 4.30% |
| Investment-Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | -0.85% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 9.00% | 1.77% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 16.00% | 6.25% |
| Distressed Debt | Cambridge Associates Distressed Securities Index [3] | 4.00% | 4.50% |
| REIT Equities | 67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index | 2.00% | 3.10% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 2.00% | 3.85% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index [4] | 6.00% | 5.10% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index [5] | 25.00% | 6.80% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 6.00% | 1.55% |
| Cash Equivalents | 90-Day U.S. Treasury | 2.00% | -1.05% |

[1] Target asset allocation adopted at the March 2022 TCDRS Board meeting.
[2] Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.6%, per Cliffwater's 2021 capital market assumptions.
[3] Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.
[4] Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.
[5] Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.60%. 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 7.60%. 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 (7.6%) in measuring the 2022 Net Pension Liability:

| | 1% Decrease 6.6% | Current Discount Rate 7.6% | 1% Increase 8.6% |
|---|---|---|---|
| Total pension liability | $ 16,340,224 | $ 14,667,005 | $ 13,237,712 |
| Fiduciary net position | 15,975,066 | 15,975,066 | 15,975,066 |
| Net pension liability/(asset) | $ 365,158 | $( 1,308,061) | $( 2,737,354) |

***Changes in the Net Pension Liability***

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at 12/31/2020 | $ 14,207,852 | $ 13,509,938 | $ 697,914 |
| Changes for the year: | | | |
| Service cost | 268,323 | - | 268,323 |
| Interest on total pension liability [1] | 1,069,295 | - | 1,069,295 |
| Effect of economic/demographic gains or losses | 23,824 | - | 23,824 |
| Effect of assumptions changes or inputs | ( 74,110) | - | ( 74,110) |
| Refund of contributions | ( 28,232) | ( 28,232) | - |
| Benefit payments | ( 799,947) | ( 799,947) | - |
| Administrative expenses | - | ( 8,643) | 8,643 |
| Member contributions | - | 137,577 | ( 137,577) |
| Net investment income | - | 2,917,461 | ( 2,917,461) |
| Employer contributions | - | 255,516 | ( 255,516) |
| Other [2] | - | ( 8,604) | 8,604 |
| Balance at 12/31/2021 | $ 14,667,005 | $ 15,975,066 | $( 1,308,061) |

*[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, 2021, the District recognized pension expense of $(210,244). At December 31, 2022, 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 | $ 77,113 | $ 84,218 |
| Changes in actuarial assumptions | 422,194 | 59,288 |
| Difference between projected and actual investment earnings | - | 1,848,119 |
| Contributions subsequent to the measurement date | 260,176 | - |
| Total | $ 759,483 | $ 1,991,625 |

$260,176 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, 2023. 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, | |
|---|---|
| 2023 | $( 279,457) |
| 2024 | ( 526,220) |
| 2025 | ( 295,068) |
| 2026 | ( 391,573) |

## Changes in Long-term Debt

Long-term debt activity for the year ended December 31, 2022 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Note payable | $ 804,727 | $ - | $ 92,427 | $ 712,300 | $ 96,633 |
| Lease liability | 17,629 | 26,514 | 5,800 | 38,343 | 9,259 |
| Compensated absences | 204,989 | 153,828 | 157,090 | 201,727 | 40,345 |
| Total long-term liabilities | $ 1,027,345 | $ 180,342 | $ 255,317 | $ 952,370 | $ 146,237 |

## Note Payable

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

| Year Ending December 31, | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2023 | $ 96,633 | $ 30,979 |
| 2024 | 101,030 | 26,581 |
| 2025 | 105,628 | 21,984 |
| 2026 | 110,434 | 17,177 |
| 2027 | 115,460 | 12,151 |
| 2028-2029 | 183,115 | 8,301 |
| Total | $ 712,300 | $ 117,173 |

## Lease Liability

A summary of leases payables as of December 31, 2022, are as follows for governmental activities are as follows:

| Purpose of Lease | Interest Rate | Initial Year of Lease | Amount of Initial Liability | Interest Current Year | Amounts Outstanding 12/31/2022 | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| **Governmental activities:** | | | | | | |
| Right to Use: | | | | | | |
| Equipment - Postage | 2.290% | 2021 | $ 17,629 | $ 361 | $ 13,550 | $ 4,173 |
| Equipment - Printers | 2.360% | 2022 | $ 26,514 | 151 | 24,793 | 5,086 |
| Total governmental activities | | | | $ 512 | $ 38,343 | $ 9,259 |

The future principal and interest lease payments as of December 31, 2022, are as follows for governmental activities:

| Year Ended December 31, | Governmental Activities Principal | Interest | Total Requirements |
|---|---|---|---|
| 2023 | $ 9,259 | $ 797 | $ 10,056 |
| 2024 | 9,477 | 579 | 10,056 |
| 2025 | 9,700 | 356 | 10,056 |
| 2026 | 6,196 | 160 | 6,356 |
| 2027 | 3,711 | 33 | 3,744 |
| Totals | $ 38,343 | $ 1,925 | $ 40,268 |

## 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 133 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, 2022, 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. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements – The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. GASB 94 will be implemented in fiscal year 2023 and the impact has not yet been determined.

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.

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62 – The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

# REQUIRED
# SUPPLEMENTARY INFORMATION

**MCLENNAN COUNTY APPRAISAL DISTRICT**

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

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2022

| | Budgeted Amounts | | | Variance With |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Final Budget Positive (Negative) |
| **REVENUES** | | | | |
| Appraisal assessments | $ 4,334,815 | $ 4,334,815 | $ 4,334,819 | $ 4 |
| Interest and other income | 25,000 | 25,000 | 42,283 | 17,283 |
| Total revenues | 4,359,815 | 4,359,815 | 4,377,102 | 17,287 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Salaries | 2,104,176 | 2,014,000 | 2,016,488 | ( 2,488) |
| Benefits | 779,500 | 779,500 | 694,128 | 85,372 |
| Office operations | 362,922 | 471,700 | 454,914 | 16,786 |
| Maintenance of structures and equipment | 235,940 | 270,290 | 269,354 | 936 |
| Professional fees | 566,165 | 561,575 | 471,078 | 90,497 |
| Contingency | 100,000 | - | - | - |
| Debt service | 127,612 | 127,612 | 133,924 | ( 6,312) |
| Capital outlay | 213,500 | 265,140 | 252,726 | 12,414 |
| Total expenditures | 4,489,815 | 4,489,817 | 4,292,612 | 197,205 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | ( 130,000) | ( 130,002) | 84,490 | 214,492 |
| **OTHER FINANCING SOURCES** | | | | |
| Issuance of leases | - | - | 26,514 | 26,514 |
| Total other financing sources | - | - | 26,514 | 26,514 |
| **CHANGE IN FUND BALANCE** | ( 130,000) | ( 130,002) | 111,004 | 241,006 |
| **FUND BALANCE, BEGINNING** | 1,506,880 | 1,506,880 | 1,506,880 | - |
| **FUND BALANCE, ENDING** | $ 1,376,880 | $ 1,376,878 | $ 1,617,884 | $ 241,006 |

**MCLENNAN COUNTY APPRAISAL DISTRICT**

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

FOR THE YEAR ENDED DECEMBER 31, 2022

| **Plan Year Ended December 31** | **2014** | **2015** | **2016** |
|---|---|---|---|
| **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 | ( 696,581) | ( 660,879) | ( 699,934) |
| Net change in total pension liability | 169,238 | 472,159 | 541,075 |
| Total pension liability - beginning | 10,506,683 | 10,675,921 | 11,148,080 |
| Total pension liability - ending (a) | $ 10,675,921 | $ 11,148,080 | $ 11,689,155 |
| **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 | ( 112,779) | 10,797 | 14,811 |
| Net change in plan fiduciary net position | 244,933 | ( 246,108) | 446,459 |
| Plan fiduciary net position - beginning | 10,085,100 | 10,330,033 | 10,083,925 |
| Plan fiduciary net position - ending (b) | $ 10,330,033 | $ 10,083,925 | $ 10,530,384 |
| Net pension liability - ending (a) - (b) | $ 345,889 | $ 1,064,155 | $ 1,158,771 |
| 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.

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| | $ 249,907 | $ 235,516 | $ 248,759 | $ 221,802 | $ 268,323 |
| | 937,455 | 972,530 | 1,014,610 | 1,034,600 | 1,069,295 |
| | - | - | - | - | - |
| | 91,867 | - | - | 703,657 | ( 74,110) |
| | ( 90,180) | 77,248 | ( 210,545) | 71,007 | 23,824 |
| | ( 745,616) | ( 737,475) | ( 822,226) | ( 734,219) | ( 828,179) |
| | 443,433 | 547,819 | 230,598 | 1,296,847 | 459,153 |
| | 11,689,155 | 12,132,588 | 12,680,407 | 12,911,005 | 14,207,852 |
| | $ 12,132,588 | $ 12,680,407 | $ 12,911,005 | $ 14,207,852 | $ 14,667,005 |
| | | | | | |
| | $ 273,308 | $ 279,676 | $ 276,883 | $ 286,577 | $ 255,516 |
| | 131,013 | 134,441 | 132,937 | 138,157 | 137,577 |
| | 1,531,579 | ( 221,734) | 1,830,770 | 1,295,056 | 2,917,461 |
| | ( 745,616) | ( 737,475) | ( 822,226) | ( 734,219) | ( 828,179) |
| | ( 7,786) | ( 8,952) | ( 9,558) | ( 9,885) | ( 8,643) |
| | ( 4,647) | ( 8,458) | ( 12,372) | ( 7,915) | ( 8,604) |
| | 1,177,851 | ( 562,502) | 1,396,434 | 967,771 | 2,465,128 |
| | 10,530,384 | 11,708,235 | 11,145,733 | 12,542,167 | 13,509,938 |
| | $ 11,708,235 | $ 11,145,733 | $ 12,542,167 | $ 13,509,938 | $ 15,975,066 |
| | $ 424,353 | $ 1,534,674 | $ 368,838 | $ 697,914 | $( 1,308,061) |
| | 96.50% | 87.90% | 97.14% | 95.09% | 108.92% |
| | $ 1,871,608 | $ 1,920,591 | $ 1,899,098 | $ 1,973,668 | $ 1,965,387 |
| | 22.67% | 79.91% | 19.42% | 35.36% | -66.55% |

**MCLENNAN COUNTY APPRAISAL DISTRICT**

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM-
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2022

| Fiscal Year Ended December 31, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 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% |
| 2021 | 234,910 | 243,333 | ( 8,423) | 1,871,795 | 13.0% |
| 2022 | 251,169 | 260,175 | ( 9,006) | 2,001,349 | 13.0% |

# MCLENNAN COUNTY APPRAISAL DISTRICT

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2022

| | |
|---|---|
| **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** | 12.80 years (based on contribution rate calculated in 12/31/2021 valuation) |
| **Asset Valuation Method** | 5-year smoothed market |
| **Inflation** | 2.50% |
| **Salary Increases** | Varies by age and service. 4.7% average over career including inflation. |
| **Investment Rate of Return** | 7.50%, 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** | 135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| **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.<br>2017: New mortality assumptions were reflected.<br>2018: No changes in plan provisions were reflected in the Schedule.<br>2019: No changes in plan provisions were reflected in the Schedule.<br>2020: No changes in plan provisions were reflected in the Schedule.<br>2021: No changes in plan provisions were reflected in the Schedule. |

# COMPLIANCE SECTION

PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
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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, 2022, 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 19, 2023.

***Report on 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 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 or significant deficiencies may exist that were not identified.

***Report on 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 19, 2023