

March 31, 2016

To the Honorable Mayor and City Council
City of McLendon-Chisholm, Texas
McLendon-Chisholm, Texas

We have audited the financial statements of the governmental and business activities and the general fund of the City of McLendon-Chisholm, Texas for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 24, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of McLendon-Chisholm, Texas are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of McLendon-Chisholm, Texas' financial statements were:

Management's estimate of the depreciation of the City's fixed assets is based upon management's estimate of the specific assets useful life and the cost of the assets is depreciated accordingly. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the ad valorem is based on their ad valorem tax rates and information provided by the appraisal district. We evaluated the key factors and assumptions used to develop the ad valorem receivable estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 31, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- During 2015, the city did not adequately communicate with their CPA bookkeeper Ray Smith nor did they seem to have a solid understanding of their transactions with the Sonoma Verde Developer and the related PID. This led to a significant amount of time being spent during the audit working with Ray Smith, City Management, PID Management, Attorneys and Developers to ensure accurate accounting of all transactions. This also led to material correcting journal entries including:
 - \$7,618,440 of infrastructure assets transferred from the Sonoma Verde Developer to the City in January 2015 for Phase 1-A (split between the General Fund and the Utility Fund).
 - \$185,918 of depreciation expense on these assets in 2015.
 - \$149,535 of multiple Bond related adjustments to correct the principal, premium, cost, and interest expense on the City Hall bond.
 - \$38,688 of multiple development funds of which \$36,000 related to sewer tap rebates.

- During 2015 new accounting guidance was issued regarding defined benefit pension plans. Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As documented in Note IX of the financial statements, the city began a TMRS plan for their employees as of October 1, 2014. This accounting guidance will need to be implemented and a Pension Liability recorded in FYE 2016. We do not believe the FYE 2015 financial statements are materially misstated by omitting this liability given that it was the first year the plan was in existence.

Each of these items were discussed with management at it was indicated that policies are being implemented to address these issues.

This information is intended solely for the use of the Honorable Mayor and City Council and management of the City of McLendon-Chisholm, Texas and is not intended to be and should not be used by anyone other than these parties.

Very truly yours,

Murrey Paschall & Caperton, P.C.

CITY OF MCLENDON-CHISHOLM, TEXAS

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

CITY OF MCLENDON-CHISHOLM, TEXAS
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M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of McLendon-Chisholm, Texas
McLendon-Chisholm, Texas

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental and business activities and the general fund of the City of McLendon-Chisholm, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business activities and the general fund of the City of McLendon-Chisholm, Texas, as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5–11 and page 30-31 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 March 31, 2016, on our consideration of the City of McLendon-Chisholm, Texas' 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 the City of McLendon-Chisholm, Texas' internal control over financial reporting and compliance.



Murrey Paschall & Caperton, P.C.
Forney, Texas
March 31, 2016

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

Within this section of the City of McLendon-Chisholm, Texas' annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities by \$8,377,593 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$757,334. This includes \$7,620,259 of contributed assets received as part of the Phase 1 agreement with the developer of the Sonoma Verde planned community, MC 550 Investors, L.P.
- Total net assets are comprised of the following:
 - 1) Capital assets, net of related debt, of \$6,433,183.
 - 2) Restricted for debt service funds of \$1,400,900.
 - 3) Unrestricted net assets of \$542,860 represent the portion available to maintain the City's continuing obligations to citizens.
- The City's general fund reported total ending fund balance of \$549,585 this year. This compares to the prior year ending fund balance of \$333,036, showing an increase of \$216,549 during the current year.
- The City's liabilities are accounts payable, sewer tap rebates and payroll taxes payable.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the financial statements.

Government-Wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the citywide statement of financial position presenting information that includes all the City's assets and liabilities, with the difference reported as *net assets*. Over time, the increases or decreases of net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and fees and on occasion grants from state and federal sources. Governmental activities include general government, public safety, public services, and culture and recreation. Business-type activities include airports, water utilities, solid waste management, storm water drainage, golf courses, fairgrounds and stadium, ground transportation, and parking. Fiduciary activities such as employee pension plans are not included in government-wide statements since these assets are not available to fund City programs. During 2015, the City continued collecting sewer tap fees which are considered business-type funds. See further discussion in the notes to the financial statements.

The City's financial reporting includes the funds of the City (primary government). There are currently no component units.

The government-wide financial statements are presented on pages 11-12 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City taken as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The City of McLendon-Chisholm, Texas has a governmental fund, the General Fund and a proprietary fund for business type activities, utilities.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of expendable resources during the year and balances of expendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of the expendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between the two perspectives.

The basic governmental fund financial statements are presented on pages 13-16 of this report.

Proprietary funds are used to report the same functions presented as business-type funds to account for its utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. See reporting on pages 17-19

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The statement shows multiple columns: 1) the original and final budget as amended by the Council (if any changes); 2) the actual resources, charges to appropriations, and ending balances in the General Fund and 3) the difference or variance between the final budget and the actual resources and charges.

The budgetary comparison statement can be found on page 30-31 of this report.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements on page 20 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As year-to year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

Comparative data is accumulated and presented to assist analysis. The City's net assets at fiscal year-end are \$8,377,593. This is a \$7,620,259 increase over last year's net assets of \$757,334.

A large portion of the City's net assets (76.8%) reflects its investments in capital assets (e.g. contributed capital assets, land, furniture, equipment and leasehold improvements). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The city received Bond proceeds during 2015 in the amount of \$2,150,000 for the primary purpose of constructing a new city hall. Nearly 1/3 of these funds were spent during 2015 with the remaining balance to be paid when construction is completed in early 2016.

The remaining balance of unrestricted net assets of \$542,860 may be used to meet the government's ongoing obligation to citizens and creditors.

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Current assets	\$2,086,897	\$377,916	\$ 40,675	\$113,213	\$2,127,572	\$491,129
Capital & other assets	4,764,114	385,485	3,892,381	-	8,656,495	385,485
Total assets	<u>6,851,011</u>	<u>763,401</u>	<u>3,933,056</u>	<u>113,213</u>	<u>10,784,067</u>	<u>876,614</u>
Long-term debt outstanding	2,040,000	-	-	-	2,040,000	-
Other liabilities	319,074	44,880	47,400	74,400	366,474	119,280
Total liabilities	<u>2,359,074</u>	<u>44,880</u>	<u>47,400</u>	<u>74,400</u>	<u>2,406,474</u>	<u>119,280</u>
Net assets						
Invested in capital assets, net of debt	2,541,452	385,485	3,892,381	-	6,433,833	385,485
Restricted	1,400,900	-	-	-	1,400,900	-
Unrestricted (deficit)	549,585	333,036	(6,725)	38,813	542,860	371,849
Total net assets	<u>\$4,491,937</u>	<u>\$718,521</u>	<u>\$3,885,656</u>	<u>\$38,813</u>	<u>\$8,377,593</u>	<u>\$757,334</u>
	Governmental Activities		Business-type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Program revenues						
Charges for services	\$ 440,232	\$385,214	\$ 210,643	\$114,000	\$ 650,875	\$499,214
Ad Valorem Tax	215,189	190,408	-	-	215,189	190,408
Franchise & Sales Tax	206,596	165,545	-	-	206,596	165,545
Investment Income	1,843	1,080	-	-	1,843	1,080
Other Sources	154,965	-	-	-	154,965	-
Total revenues	<u>1,018,825</u>	<u>742,247</u>	<u>210,643</u>	<u>114,000</u>	<u>1,229,468</u>	<u>856,247</u>
Program expenses						
General government	677,874	478,920	-	-	677,874	478,920
Cultural & Recreation	636	2,000	-	-	636	2,000
Infrastructure	85,791	27,631	-	-	85,791	27,631
Public Safety	125,485	66,397	-	-	125,485	66,397
Debt Service	34,859	-	-	-	34,859	-
Utilities	-	-	303,004	75,187	303,004	75,187
Total expenses	<u>924,645</u>	<u>574,948</u>	<u>303,004</u>	<u>75,187</u>	<u>1,227,649</u>	<u>650,135</u>
Excess (deficiency) before transfers	94,180	167,299	(92,361)	38,813	1,819	206,112
Transfers	9,111	-	(9,111)	-	-	-
Increase (decrease) in net assets	103,291	167,299	(101,472)	38,813	1,819	206,112
Plus Developer Contribution	3,670,125	-	3,948,315	-	7,618,440	-
Total Change in Net Assets	<u>\$3,773,416</u>	<u>\$167,299</u>	<u>\$3,846,843</u>	<u>\$38,813</u>	<u>\$7,620,259</u>	<u>\$206,112</u>

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of expendable resources. Governmental funds reported ending fund balances of \$549,585. Of this year-end total, the entire amount is unassigned indicating availability for continuing City service requirements.

Major Governmental Funds

General Fund – The City does levy property taxes. Other revenues that are received are from such miscellaneous sources as state sales tax sharing, franchise taxes, etc. The basic expenses of a governmental nature involve the maintaining of a city hall and the associated expenses of the city government.

Proprietary Fund - The City has a component utility unit: the sewer system of the Sonoma Verde Development. Although a part of the city, this operates primarily as a business selling the services provided to the public. The business-type activities actually operated at a loss of \$101,472 in 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget for fiscal year 2015 was expected to use \$222,156 of reserves. The general fund budget complied with financial policies approved by the City Council and maintained core services. Budgetary comparisons are found on page 28-29 of this report.

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities, net of depreciation, as of September 30, 2015 is \$6,433,833. These include land, furniture, equipment, leasehold improvements and developer contributed assets in Sonoma Verde. Additions during the year related to further progress on the new City Hall property and Sonoma Verde infrastructure (water lines, sewer lines, roads and drainage improvements).

Additional information regarding the City of McLendon-Chisholm's capital assets can be found in Note IV on page 25.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET CONSIDERATIONS

The rapid growth of Rockwall County will continue to foster additional home starts in the area, thus increasing City income from permits, inspections and filings.

General Fund expenses for the 2015-2016 fiscal year are budgeted to remain relatively consistent to the amended 2014-2015 budget. The major difference for 2016 will be the start of making debt service payments on the new City Hall bonds. In 2016, \$95,179 is expected to be paid in interest expense and another \$50,000 in debt principal. Additionally, income and related expenses for building permits/inspections, septic fees, fire protection and sales tax revenue are all expected to increase. Nearly all other expenses are expected to remain relatively constant.

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

Population growth in the City and County has been an important topic for City leaders and citizenry for several decades. The City has seen an increase in retail establishments and single-family homes. The City expects its population to continue to increase and is working to plan for the needs of the citizens and generating revenues to support those needs. This is a primary focus of the City. Additionally, the City sees its ability to balance the need for professional services (such as planning, engineering, legal and, financial) with population growth as a challenge in the future.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrates the City's commitment to public accountability. If you have questions regarding this report or would like to request additional information, you may submit a request to the City Secretary at 1248 Highway 205 South, Rockwall, Texas 75032.

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2015

	PRIMARY GOVERNMENT		
	Government Activities	Business-Type Activities	Total
Assets			
Cash & Equivalents	\$2,052,154	\$ 40,675	\$ 2,092,829
Ad Valorem Tax Receivable	2,241	-	2,241
Sales Tax Receivable	14,202	-	14,202
Development Revenue Receivable	18,300	-	18,300
Total Current Assets	<u>2,086,897</u>	<u>40,675</u>	<u>2,127,572</u>
Capital Assets (Note IV)			
Furniture	14,152	-	14,152
Equipment	20,103	-	20,103
Leasehold Improvements	25,985	-	25,985
Building	815,112	-	815,112
Infrastructure	3,670,125	3,948,315	7,618,440
Land	322,511	-	322,511
Accumulated Depreciation	(160,293)	(55,934)	(216,227)
Total Capital Assets	<u>4,707,695</u>	<u>3,892,381</u>	<u>8,600,076</u>
Other Assets			
Bond Cost, net amortization	56,419	-	56,419
Total Other Assets	<u>56,419</u>	<u>-</u>	<u>56,419</u>
Total Assets	<u>6,851,011</u>	<u>3,933,056</u>	<u>10,784,067</u>
Liabilities			
Account Payable	89,490	-	89,490
Sewer Tap Rebates	-	47,400	47,400
Payroll Taxes Payable	2,917	-	2,917
Unearned Development Revenue	4,575	-	4,575
Accrued Bond Interest	39,430	-	39,430
Bond Premium, net amortization	132,662	-	132,662
Current - Notes Payable (Note V)	50,000	-	50,000
Long-term - Notes Payable (Note V)	2,040,000	-	2,040,000
Total Current Liabilities	<u>2,359,074</u>	<u>47,400</u>	<u>2,406,474</u>
Net Assets			
Investment in Capital Assets, net of related debt Restricted for Debt Service	2,541,452	3,892,381	6,433,833
Unrestricted	1,400,900	-	1,400,900
	549,585	(6,725)	542,860
Total Net Assets	<u>\$ 4,491,937</u>	<u>\$ 3,885,656</u>	<u>\$ 8,377,593</u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

PROGRAM REVENUE

	Expenses	Charges for Services	Net Revenue (Expense)
Primary Government			
Government Activities			
Culture and Recreation	\$ 636	\$ -	\$ (636)
General Government	677,874	440,232	(237,642)
Infrastructure	85,791	-	(85,791)
Public Safety	125,485	-	(125,485)
Debt Service	34,859	-	(34,859)
	<u>\$ 924,645</u>	<u>\$ 440,232</u>	<u>\$ (484,413)</u>
Business Type:			
Utility	303,004	210,643	(92,361)
Total Business-Type Activities	<u>303,004</u>	<u>210,643</u>	<u>(92,361)</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Change in Net Assets:			
Net (Expense) / Revenue	\$ (484,413)	\$ (92,361)	\$ (576,774)
Ad Valorem Tax	215,189	-	215,189
Sales Tax	85,805	-	85,805
Franchise	120,791	-	120,791
PID Bond Admin Fee & Interest	154,965	-	154,965
Investment Income	1,843	-	1,843
Transfers	9,111	(9,111)	-
Change in Net Assets	<u>103,291</u>	<u>(101,472)</u>	<u>1,819</u>
Net Assets: Beginning	718,521	38,813	757,334
Plus Developer Contribution:	3,670,125	3,948,315	7,618,440
Net Assets: Ending	<u>\$ 4,491,937</u>	<u>\$ 3,885,656</u>	<u>\$ 8,377,593</u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash & Equivalents	\$ 611,824	\$ 1,440,330	\$ 2,052,154
Ad Valorem Tax Receivable	2,241	-	2,241
Sales Tax Receivable	14,202	-	14,202
Development Revenue Receivable	18,300	-	18,300
Total Current Assets	<u>646,567</u>	<u>1,440,330</u>	<u>2,086,897</u>
 Total Assets	 <u>\$ 646,567</u>	 <u>\$ 1,440,330</u>	 <u>\$ 2,086,897</u>
 Liabilities			
Account Payable	\$ 89,490	\$ -	\$ 89,490
Accrued Liabilities	4,575	39,430	44,005
Payroll Taxes Payable	2,917	-	2,917
Total Current Liabilities	<u>96,982</u>	<u>39,430</u>	<u>136,412</u>
 Fund Balance			
Restricted for Debt Service	-	1,400,900	1,400,900
Unassigned	549,585	-	549,585
Total Liabilities and Fund Balance	<u>\$ 646,567</u>	<u>\$ 1,440,330</u>	<u>\$ 2,086,897</u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2015

Total Fund Balance - Total Governmental Funds	\$ 1,950,485
<p>Amounts reported for government assets in the Statement of Net Assets are different because:</p>	
<p>Capital Assets of \$4,867,988, net of Depreciation of \$160,293 are not financial resources and, therefore are not reported in the funds. See note III.A.2 for additional detail</p>	4,707,695
<p>Bond Cost, net are not financial resources and, therefore are not reported in the funds.</p>	56,419
<p>Bond Premiums, net are not due and payable and, therefore are not reported in the funds.</p>	(132,662)
<p>Long-term liabilities are not due and payable in the current period and therefore, are no reported in the funds.</p>	<u>(2,090,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 4,491,937</u></u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Ad Valorem Tax	\$ 215,189	\$ -	\$ 215,189
Sales Tax	85,805	-	85,805
Franchise	120,791	-	120,791
Investment Income	1,843	-	1,843
PID Bond Admin Fee & Interest	152,000	2,965	154,965
Service Revenue	440,232	-	440,232
Bond Proceeds	-	2,170,815	2,170,815
	<u>1,015,860</u>	<u>2,173,780</u>	<u>3,189,640</u>
Expenditures			
Culture and Recreation	636	-	636
General Government	544,359	-	544,359
Infrastructure	85,791	-	85,791
Public Safety	125,485	-	125,485
Capital Expenditures	2,745	782,856	785,601
Debt Service: Principal	-	-	-
Debt Service: Interest	-	39,430	39,430
	<u>759,016</u>	<u>822,286</u>	<u>1,581,302</u>
Internal Transfer	(49,406)	49,406	-
Fund Transfers In (Out)	<u>9,111</u>	<u>-</u>	<u>9,111</u>
Net Change in Fund Balance	216,549	1,400,900	1,617,449
Fund Balance: Beginning	<u>333,036</u>	<u>-</u>	<u>333,036</u>
Fund Balance: Ending	<u>\$ 549,585</u>	<u>\$ 1,400,900</u>	<u>\$ 1,950,485</u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES

Net Change in Fund Balance - Total Governmental Funds \$ 1,617,449

Amounts reported for government activities
 in the Statement of Activities are
 different because:

Governmental funds report capital outlays as
 expenditures. However, the cost of those
 assets is allocated over their estimated
 useful lives and reported as depreciation
 expense. The amount by which capital outlays
 exceeds depreciation in the current
 period is (less depr. \$133,516 add purchase of \$785,601) 652,085

The issuance of long-term debt (bonds) provides
 current financial resources to governmental funds,
 while the repayment of the principal of long-term
 consumes the current financial resources of government
 funds. Neither transaction however, has any effect on the
 net position. Also, governmental funds report the effect
 of issuance cost, premiums, discounts, and similar items
 when debt is first issued; whereas, these amounts are deferred
 and amortized in the Statement of Activities. (2,166,243)

Change Net Assets of Governmental Activities \$ 103,291

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2015

	<u>Business-Type Activities (Utility Fund)</u>
Assets	
Cash & Equivalents	\$ 40,675
Total Current Assets	<u>40,675</u>
Infrastructure	3,948,315
(less) Accumulated Depreciation	<u>(55,934)</u>
Total Capital Assets	<u>3,892,381</u>
Total Assets	<u><u>\$ 3,933,056</u></u>
 Liabilities	
Sewer Tap Rebates	\$ 47,400
Total Liabilities	<u>47,400</u>
 Net Assets	
Unrestricted	(6,725)
Investment in Capital Assets, net of related debt	<u>3,892,381</u>
Total Net Assets	<u>3,885,656</u>
Total Liabilities and Net Assets	<u><u>\$ 3,933,056</u></u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

		Business-Type Activities (Utility Operations Fund)
Revenues		
Sewer Connection Fees	\$	183,000
Sewer Customer Service		27,643
Total Revenues		210,643
Expenses		
Sewer Connection Developer Fee		109,800
Septic Maintenance		137,270
Depreciation		55,934
Total Expenses		303,004
Transfers In / (Out)		(9,111)
Total Other		(9,111)
Change in Net Assets		(101,472)
Net Assets: Beginning		38,813
Plus Developer Contribution:		3,948,315
Net Assets: Ending	\$	3,885,656

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-type Activities (Utility Operations Fund)
Cash flows from operating activities:	
Receipts from customers and users	\$ 210,643
Payments to suppliers	(274,070)
Payments to employees	-
Net cash provided by operating activities	(63,427)
 Cash flows from noncapital financing activities:	
Transfers In (Out) from Other Funds	(9,111)
Net cash provided (used) by noncapital financing activities	(9,111)
 Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	-
Net cash provided (used) by capital and related financing activities	-
 Net increase (decrease) in cash and cash equivalents	(72,538)
 Cash and cash equivalents at beginning of year	113,213
 Cash and cash equivalents at end of year	\$ 40,675
 Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (92,361)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	55,934
(Increase) decrease in accounts receivable	-
Increase (decrease) in accounts current liabilities	(27,000)
Total adjustments	28,934
Net cash provided by operating activities	\$ (63,427)

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

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the City of McLendon-Chisholm, Texas (City) are discussed in subsequent sections of this Note. The remaining notes are organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended September 30, 2015.

B. Financial Reporting Entity

Incorporated in 1969, the City of McLendon-Chisholm, Texas is a General Law Municipality in which citizens elect the mayor at large and five council members at large. The accompanying financial statements present the City's primary government.

Based on the primary accountability for fiscal matter, authority to make decisions, appoint administrators and managers, and significantly influence operations, the City meets the definition of a "Financial Reporting Entity" as defined by GASB statement 14.

The accompanying financial statements present the City's primary government.

C. Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the individual fund of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Government-Wide Financial Statements

The government-wide financial statements include the statements of net assets and the statement of activities. These statements report financial information of the City as a whole. The government has a Proprietary Fund other than the General Fund and no component units. Therefore, the statements distinguish between governmental and business type activities, one being generally supported by taxes and City general revenues, while the other is generally financed with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities that capture the expenses and program revenues associated with a distinct functional activity. Program revenue includes charges for services, which report fees and other charges to users of the City's services (specifically permit fees). Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Fund Financial Statements

Fund financial statements are provided for governmental funds and proprietary funds.

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in the other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting thus relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statement uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred. However, expenditures related to claims and judgments are recorded only when payment is due and payable shortly after year end as required by GASB Interpretations No. 6.

Program revenues as reported in the Statement of Activities include 1) charges to customers for goods, services, or privileges provided and 2) capital grants. Other revenues received by the City that are internally dedicated by their purpose are reported as general revenues rather than program revenues. In this respect, all tax revenues are included in general revenues.

Sales tax and franchise tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. License and permits, charges for services, and miscellaneous revenues are recorded as revenues when received in cash, as the related receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements are used as guidance.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Allocation of indirect expenses: The City currently has no indirect expenses.

Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

The General Fund is the only operating fund of the City. Other funds typically would be used to account for debt service, grants management, general obligation bonds, internal service fund, pension trust fund, etc. Currently there is no activity that would require such funds but these are expected in the upcoming years based on the city's growth.

E. Financial Statement Amounts

Cash and Equivalents – The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables – Ad valorem taxes are levied by October 1 on the assessed value listed with and established by Rockwall Central Appraisal District. The Rockwall County Tax Assessor/Collector bills and collects the City's taxes. Taxes are due upon receipt of the bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Other receivables include sales taxes collected within 60 days of year end.

Investments – Accounting pronouncement GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, applied to investments in external investing pools, investments purchased with maturities greater than one year, mutual funds, and certain investment agreements. Generally, governmental entities are required to report the "fair market" changes for these investments at year-end and record these gains and losses on their income statement. Investments with maturities less than one year at the time of purchase are stated at cost or amortized cost. The fair value of the City's position in these investment pools is the same as the value of the pool shares.

Capital Assets – The City's capital assets with useful lives of more than one year are stated at historical cost if purchased or constructed and comprehensively reported in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value at the date of donation. The City generally capitalizes purchases of \$1,000 or more as outlays occur. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. Capital assets are being depreciated using the straight-line method over periods between 5 and 15 years.

Long-Term Obligations – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premium or discount as well as issuance costs are deferred and amortized over the life of the bonds using the effective

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

interest method. Bonds payable are reported net of the related bond premiums or discount. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs during the current period. The face amount of the debt issued is reported as other financing sources. Premium received on debt issuances is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – includes the portion of net resources that cannot be spent because of their forms (i.e., inventory, long-term debt, or prepaid items) or because they must remain intact such as the principle of an endowment.
- *Restricted fund balance* – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e., externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* – includes the portion of net resources on which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* – includes the portion of net resources for which an intended use has been established by the City Council or the City official authorized to do so by the City Council. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal.
- *Unassigned fund balance* – includes the amounts in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first and then unrestricted resources as needed.

NOTE II. COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

- In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

CITY OF MCLENDON-CHISHOLM, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

Deficit Fund Balance or Fund Net Position of Individual Funds

- Following are funds having deficit fund balances or net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	None

Budgets and Budgetary Accounting

- The Texas Uniform Budget Law requires each mayor or city manager to prepare a budget each year to cover all the expenditures of the municipality for the succeeding year. The budget should be prepared at least 30 days prior to the setting of a tax levy by the city. Not less than 15 days prior to the levying of taxes a public hearing should be held, after being duly advertised. After this the Council should adopt the budget. The City complied with state requirements.

NOTE III. DEPOSITS AND INVESTMENTS

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year-end, the City's bank accounts are at a federally insured institution and the balances amounted to \$28,323, all of which is covered by federal depository insurance.

Investments – Public funds of the City of McLendon-Chisholm, Texas may be invested in the following: (1) obligations of the United States Government or its agencies and instrumentalities, (2) fully insured or collateralized certificates of deposit from any bank domiciled in the State of Texas, (3) repurchase agreements not to exceed 180 days to stated maturity, (4) AAA-rated, no-load, SEC registered money market funds, and (5) AAA-rated, constant dollar Texas Local Government.

Deposits and Investments are comprised of the following:

	<u>VALUE</u>	<u>PERCENTAGE</u>
Alliance Bank	\$ 68,998	3.30%
Alliance MM	547,131	26.14%
Alliance Bond Proceeds	1,440,330	68.82%
Logic	18,303	.87%
TexPool	<u>18,067</u>	<u>.86%</u>
Total	<u>\$ 2,092,829</u>	<u>100.00%</u>

Pledged Securities through Alliance Bank were valued at \$2,915,867 with a 10/1/22 maturity.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE IV. CAPITAL ASSETS

The following tables provide a summary of changes in capital assets:

Capital Assets Activity - Governmental

	<u>09/30/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/15</u>
Capital Assets				
Land	\$ 322,511	\$ -	\$ -	\$ 322,511
Buildings	32,256	782,856	-	815,112
Furniture & Equipment	31,509	2,745	-	34,254
Improvements	25,985	-	-	25,985
Infrastructure	-	3,670,125	-	3,670,125
Total Depreciable:	<u>412,261</u>	<u>4,455,726</u>	<u>-</u>	<u>4,867,987</u>
Less Accumulated Depreciation	(26,777)	(133,516)	-	(160,293)
Total Capital Assets	<u><u>\$ 385,484</u></u>	<u><u>\$4,322,210</u></u>	<u><u>\$ -</u></u>	<u><u>\$4,707,695</u></u>

Capital Assets Activity - Business Type

	<u>09/30/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/15</u>
Capital Assets				
Infrastructure	\$ -	\$3,948,315	\$ -	\$3,948,315
Total Depreciable:	<u>-</u>	<u>3,948,315</u>	<u>-</u>	<u>3,948,315</u>
Less Accumulated Depreciation	-	(55,934)	-	(55,934)
Total Fixed Assets	<u><u>\$ -</u></u>	<u><u>\$3,892,381</u></u>	<u><u>\$ -</u></u>	<u><u>\$3,892,381</u></u>

During 2015, there were two significant projects added to capital assets. The new city hall was not completed as of the date of our report but is expected to finished in 2016. The city is financing construction with \$2M in bond proceeds discussed in this report.

The city also received \$7.6M in infrastructure assets per an agreement with MC 550 Investors, L.P. who are developing the Sonoma Verde planned community. These assets are part of the Phase 1 agreement and the Sonoma PID (not the City) is expected to reimburse the developer for these cost while the City continues to pay each lot's sewer tap rebates.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE V. LONG-TERM OBLIGATIONS

Government-Type Activities

The City of McLendon-Chisholm, Texas Combination Tax and Limited Surplus Revenue Certificate of Obligation, Series 2015 were issued January 27, 2015, in the amount of \$2,090,000 and bear interest at the rate of 2% - 4%. Principal payments begin in February 2016. Expected payoff 2035.

Principal and interest payments projected for the following five years:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 50,000	\$ 95,179
2017	85,000	63,262
2018	85,000	61,563
2019	85,000	59,862
2020 and subsequent years	<u>1,785,000</u>	<u>578,132</u>
TOTAL	\$ 2,090,000	\$ 857,998

It is noted that the Sonoma Public Improvement District issued \$7,600,000 in Certificate of Obligation Bonds in April of 2015 in the City of McLendon-Chisholm's name. All debt is expected to be paid with additional property taxes in the Sonoma Verde planned development with expected payoff in 2040.

NOTE VI. DEBT SERVICE FUND

According to generally accepted accounting principles, when taxes are assessed to service the interest and principle payments of a debt obligation, a debt service fund should be established and used for this purpose. The current year's financial statements reflect the Debt Service Fund and the accounting of appropriate activities through it.

NOTE VII. RISK MANAGEMENT COVERAGE

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City continues to carry commercial coinsurance for other risk of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

NOTE VIII. LITIGATION

Currently management is unaware of significant pending litigation against the City.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE IX. EMPLOYEE PENSION PLAN

PLAN DESCRIPTION

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sums of the employee's contribution to the plan, with interest, and the city financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Deposit Rate:	5%
City's Rate:	8.41%
Matching Ration (City to Employee):	1.5 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City (expressed as years of service/age) are:

5 yrs/age 60; 20 yrs/any age

CONTRIBUTIONS

Under the state law governing TMRS, the contribution rate for city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consist of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly, Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF MCLENDON-CHISHOLM, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS

Actuarial Valuation Date	12/31/14
Actuarial Value of Assets	\$3,899
Actuarial Accrued Liability (AAL)	\$48,894
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$44,995
Funded Ratio	8.0%
Annual Covered Payroll	\$30,439
UAAL as a Percentage of Covered Payroll	147.8 %

NOTE X. COMMITMENTS

Developer

- On May 27, 2014, the city entered an agreement with the developer of Sonoma Verde to establish a utility fund to track sewer tap fees \$3,000 per connection. The developer funded the account \$15,000 and the city reimburses the developer 60% of each fee collected. Per the agreement, funds are restricted to utility related operation and maintenance.

Public Safety

- Fire: Provided by the McLendon-Chisholm Volunteer Fire Department. The City enters into a contract with the volunteer fire department to provide fire-fighting and other related emergency services to residents of the city.
- Police: Provided by Rockwall County Sheriff's Department.
- Emergency: Rockwall County EMS provides ambulance service to Rockwall County residents, which includes the residents of the City of McLendon-Chisholm.

Infrastructure

The City has four city streets that it maintains. Since the City does not have a road maintenance department, it contracts with Rockwall County to maintain these roads. The State of Texas maintains the State Highway and Farm to Market Roads. Private roads are maintained by the residents of those roads. Repairs are open to outside bids.

Utilities

- Sewer for all citizens outside of the Sonoma Verde Development is not provided by the City. Septic systems are individually owned by residents.
- Water is provided by RCH Water Supply Corporation and High Point WSC.
- Electric service is provided by Oncor and Farmers Electric.
- Gas service is not provided by the City. Residents may privately own propane tanks.
- Trash collection is not provided by the City. However, the city contracted with IESI for trash pickup for the city residents and businesses.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE IX. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2015 up through March 31, 2016, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring disclosure.

Required Supplementary Information

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NON-GAAP BUDGETARY BASIS

	Budget Original & Final General	Budget Original & Final Debt Service	Budget Original & Final Total	Actual	Variance
Revenues					
Ad Valorem Tax	\$ 212,488	\$ -	\$ 212,488	\$ 215,189	\$ 2,701
Sales Tax	60,000	-	60,000	85,805	25,805
Franchise	95,000	-	95,000	120,791	25,791
Investment Income	1,000	-	1,000	1,843	843
PID Bond Admin Fee & Interest	-	-	-	154,965	154,965
Service Revenue	255,075	-	255,075	440,232	185,157
Bond Proceeds	-	-	-	2,170,815	2,170,815
	<u>623,563</u>	<u>-</u>	<u>623,563</u>	<u>3,189,640</u>	<u>2,566,077</u>
Expenditures					
Culture and Recreation	4,000	-	4,000	636	(3,364)
General Government	484,498	-	484,498	544,359	59,861
Infrastructure	205,000	-	205,000	85,791	(119,209)
Public Safety	118,000	-	118,000	125,485	7,485
Capital Expenditures	34,221	-	34,221	785,601	751,380
Bond Principal	-	-	-	-	-
Bond Interest	-	-	-	39,430	39,430
	<u>845,719</u>	<u>-</u>	<u>845,719</u>	<u>1,581,302</u>	<u>735,583</u>
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,111</u>	<u>9,111</u>
Net Change in Fund Balance	<u>(222,156)</u>	<u>-</u>	<u>(222,156)</u>	<u>1,617,449</u>	<u>1,839,605</u>
Fund Balance: Beginning	<u>333,036</u>	<u>-</u>	<u>333,036</u>	<u>333,036</u>	
Fund Balance: Ending	<u>\$ 110,880</u>	<u>\$ -</u>	<u>\$ 110,880</u>	<u>\$ 1,950,485</u>	

See independent auditor's report.

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NON-GAAP BUDGETARY BASIS

	Budget Original & Final	Actual	Variance
Revenues			
Sewer Connection Fees & Service	\$ 95,700	\$ 210,643	\$ 114,943
	<u>95,700</u>	<u>210,643</u>	<u>114,943</u>
Expenditures			
Sewer Connection Developer Fee	45,000	109,800	64,800
Septic Maintenance	87,370	137,270	49,900
Depreciation	-	55,934	55,934
	<u>132,370</u>	<u>303,004</u>	<u>170,634</u>
Transfers In (Out)	<u>-</u>	<u>(9,111)</u>	<u>(9,111)</u>
Net Change in Fund Balance	<u>(36,670)</u>	<u>(101,472)</u>	<u>(64,802)</u>
Fund Balance: Beginning	38,813	38,813	
Plus Developer Contribution:	<u>-</u>	<u>3,948,315</u>	
Fund Balance: Ending	<u>\$ 2,143</u>	<u>\$ 3,885,656</u>	

See independent auditor's report.

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

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*

To the Honorable Mayor and Members of the City Council
City of McLendon-Chisholm, Texas
McLendon-Chisholm, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental and business activities and the general fund of the City of McLendon-Chisholm, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of McLendon-Chisholm, Texas' basic financial statements, and have issued our report thereon dated March 31, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City of McLendon-Chisholm, Texas' 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 City of McLendon-Chisholm, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of McLendon-Chisholm, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

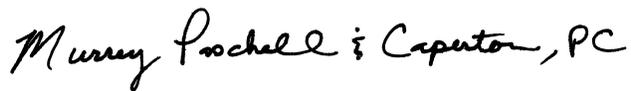
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of McLendon-Chisholm, Texas' 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.



Murrey Paschall & Caperton, P.C.
Forney, Texas
March 31, 2016