

CITY OF MCLENDON-CHISHOLM, TEXAS

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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

CITY OF MCLENDON-CHISHOLM, TEXAS
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of 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 activities, business-type activities and each major fund of the City of McLendon-Chisholm, Texas, as of and for the year ended September 30, 2017, 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 activities, business-type activities and each major fund of the City of McLendon-Chisholm, Texas, as of September 30, 2017, 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 5–10 and pages 35-36 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 January 17, 2018, 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
January 17, 2018

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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, 2017. 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 \$11,424,227 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$11,768,349. This includes 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 developer contributed assets to the city now total \$11,237,312.
- Total net assets are comprised of the following:
 - 1) Capital assets, net of related debt, of \$10,797,783.
 - 2) Restricted for debt service funds of \$88,103.
 - 3) Unrestricted net assets of \$538,341 represent the portion available to maintain the City's continuing obligations to citizens.
- The City's general fund reported total ending fund balance of \$346,833 this year. This compares to the prior year ending fund balance of \$462,404, showing a decrease of \$115,571 during the current year.
- The City's liabilities are accounts payable, sewer tap rebates and payroll taxes payable.
- The City previously implemented GASB Statement No. 68 which requires the City to record its Net Pension Liability \$36,666.

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

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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.

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 2017, 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.

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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.

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 35-36 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 \$11,424,227. This is a \$344,122 decrease from last year's net assets of \$11,768,349.

A large portion of the City's net assets (94.52%) 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 all of these funds were spent during 2015 and 2016 with the remaining balance of ~\$60k to be applied against the outstanding bond debt in 2018.

The remaining balance of unrestricted net assets of \$538,341 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, 2017

	Governmental Activities		Business-Type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 470,433	\$ 590,458	\$ 236,994	\$ 174,417	\$ 707,427	\$ 764,875
Capital & other assets	7,994,466	8,376,184	4,882,040	4,984,607	12,876,506	13,360,791
Total assets	<u>8,464,899</u>	<u>8,966,642</u>	<u>5,119,034</u>	<u>5,159,024</u>	<u>13,583,933</u>	<u>14,125,666</u>
Long-term debt outstanding	1,870,000	1,990,000	-	-	1,870,000	1,990,000
Other liabilities	270,706	283,917	19,000	83,400	289,706	367,317
Total liabilities	<u>2,140,706</u>	<u>2,273,917</u>	<u>19,000</u>	<u>83,400</u>	<u>2,159,706</u>	<u>2,357,317</u>
Net assets						
Invested in capital assets, net of debt	5,915,743	6,204,344	4,882,040	4,984,607	10,797,783	11,188,951
Restricted	88,103	56,430	-	-	88,103	56,430
Unrestricted (deficit)	320,347	431,951	217,994	91,017	538,341	522,968
Total net assets	<u>\$ 6,324,193</u>	<u>\$ 6,692,725</u>	<u>\$ 5,100,034</u>	<u>\$ 5,075,624</u>	<u>\$ 11,424,227</u>	<u>\$ 11,768,349</u>
	Governmental Activities		Business-type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Program revenues						
Charges for services	\$ 378,812	\$ 426,130	\$ 305,697	\$ 225,528	\$ 684,509	\$ 651,658
Ad Valorem Tax	484,499	406,502	-	-	484,499	406,502
Franchise & Sales Tax	266,981	226,493	-	-	266,981	226,493
Investment Income	2,198	3,293	1,570	-	3,768	3,293
Other Sources	-	1,395	-	-	-	1,395
Total revenues	<u>1,132,490</u>	<u>1,063,813</u>	<u>307,267</u>	<u>225,528</u>	<u>1,439,757</u>	<u>1,289,341</u>
Program expenses						
General government	1,105,921	931,805	-	-	1,105,921	931,805
Cultural & Recreation	1,306	6,681	-	-	1,306	6,681
Infrastructure	14,362	40,117	-	-	14,362	40,117
Public Safety	336,410	233,718	-	-	336,410	233,718
Debt Service	55,738	56,543	-	-	55,738	56,543
Utilities	-	-	270,142	213,080	270,142	213,080
Total expenses	<u>1,513,737</u>	<u>1,268,864</u>	<u>270,142</u>	<u>213,080</u>	<u>1,783,879</u>	<u>1,481,944</u>
Excess (deficiency) before transfers	(381,247)	(205,051)	37,125	12,448	(344,122)	(192,603)
Transfers	12,715	2,523	(12,715)	(2,523)	-	-
Increase (decrease) in net assets	(368,532)	(202,528)	24,410	9,925	(344,122)	(192,603)
Prior Period Adjustment	-	(35,513)	-	-	-	(35,513)
Plus Developer Contribution	-	2,438,829	-	1,180,043	-	3,618,872
Total Change in Net Assets	<u>\$ (368,532)</u>	<u>\$ 2,200,788</u>	<u>\$ 24,410</u>	<u>\$ 1,189,968</u>	<u>\$ (344,122)</u>	<u>\$ 3,390,756</u>

CITY OF MCLENDON-CHISHOLM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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 \$434,936. Of this year-end total, \$346,833 is unassigned indicating availability for continuing City service requirements while the remaining \$88,103 is to be applied to debt service.

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 net gain of \$24,410 in 2017.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget for fiscal year 2017 was expected to be a deficit of \$64,294. The actual expenditures exceeded budget by \$83,898 primarily due to increased legal and professional expenditures. Budgetary comparisons are found on page 35-36 of this report.

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities, net of depreciation and related debt, as of September 30, 2017 is \$10,797,783. 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).

At the end of the current fiscal year, the City had total bond debt outstanding of \$1,955,000.

Additional information regarding the City of McLendon-Chisholm's capital assets can be found in Note IV on page 26.

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 2017-2018 fiscal year are budgeted to increase compared to the 2016-2017 budget. The major difference for 2017-2018 will be increases in income and related expenses for building permits/inspections, septic fees, professional fees, road repairs 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, 2017

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 1371 West FM 550, McLendon-Chisholm, Texas 75032.

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2017

	PRIMARY GOVERNMENT		
	Government Activities	Business-Type Activities	Total
Assets			
Cash & Equivalents	\$ 352,099	\$ 236,994	\$ 589,093
Miscellaneous Receivables and Prepaids	61,966	-	61,966
Sales Tax Receivable	23,738	-	23,738
Development Revenue Receivable	32,630	-	32,630
Total Current Assets	<u>470,433</u>	<u>236,994</u>	<u>707,427</u>
Capital Assets (Note IV)			
Furniture	85,502	-	85,502
Equipment	50,850	-	50,850
Leasehold Improvements	25,985	-	25,985
Building	2,170,689	-	2,170,689
Infrastructure	6,108,954	5,128,358	11,237,312
Land	322,511	-	322,511
Accumulated Depreciation	<u>(832,272)</u>	<u>(246,318)</u>	<u>(1,078,590)</u>
Total Capital Assets	<u>7,932,219</u>	<u>4,882,040</u>	<u>12,814,259</u>
Other Assets			
Bond Cost, net amortization	50,596	-	50,596
Deferred Outflows Related to Pensions	11,651	-	11,651
Total Other Assets	<u>62,247</u>	<u>-</u>	<u>62,247</u>
Total Assets	<u>8,464,899</u>	<u>5,119,034</u>	<u>13,583,933</u>
Liabilities			
Account Payable	23,758	10,000	33,758
Sewer Tap Rebates	-	9,000	9,000
Payroll Taxes Payable	3,702	-	3,702
Net Pension Liability	36,666	-	36,666
Deferred Inflows Related to Pensions	1,471	-	1,471
Accrued Bond Interest	8,037	-	8,037
Bond Premium, net amortization	112,072	-	112,072
Current - Notes Payable (Note V)	85,000	-	85,000
Long-term - Notes Payable (Note V)	<u>1,870,000</u>	<u>-</u>	<u>1,870,000</u>
Total Current Liabilities	<u>2,140,706</u>	<u>19,000</u>	<u>2,159,706</u>
Net Assets			
Investment in Capital Assets, net of related debt	5,915,743	4,882,040	10,797,783
Restricted for Debt Service	88,103	-	88,103
Unrestricted	320,347	217,994	538,341
Total Net Assets	<u>\$ 6,324,193</u>	<u>\$ 5,100,034</u>	<u>\$ 11,424,227</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, 2017

PROGRAM REVENUE

	Expenses	Charges for Services	Net Revenue (Expense)
Primary Government			
Government Activities			
Culture and Recreation	\$ 1,306	\$ -	\$ (1,306)
General Government	1,105,921	378,812	(727,109)
Infrastructure	14,362	-	(14,362)
Public Safety	336,410	-	(336,410)
Debt Service	55,738	-	(55,738)
	<u>1,513,737</u>	<u>378,812</u>	<u>(1,134,925)</u>
Business Type:			
Utility	270,142	305,697	35,555
Total Business-Type Activities	<u>270,142</u>	<u>305,697</u>	<u>35,555</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Change in Net Assets:			
Net (Expense) / Revenue	(1,134,925)	35,555	(1,099,370)
Ad Valorem Tax	484,499	-	484,499
Sales Tax	126,559	-	126,559
Franchise	140,422	-	140,422
Investment Income	2,198	1,570	3,768
Transfers	12,715	(12,715)	-
Change in Net Assets	<u>(368,532)</u>	<u>24,410</u>	<u>(344,122)</u>
Net Assets: Beginning	6,692,725	5,075,624	11,768,349
Prior Period Adjustment	-	-	-
Plus Developer Contribution:	-	-	-
Net Assets: Ending	<u>\$ 6,324,193</u>	<u>\$ 5,100,034</u>	<u>\$ 11,424,227</u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash & Equivalents	\$ 255,959	\$ 96,140	\$ 352,099
Miscellaneous Receivables and Prepaids	61,966	-	61,966
Sales Tax Receivable	23,738	-	23,738
Development Revenue Receivable	32,630	-	32,630
Total Current Assets	<u>374,293</u>	<u>96,140</u>	<u>470,433</u>
 Total Assets	 <u>\$ 374,293</u>	 <u>\$ 96,140</u>	 <u>\$ 470,433</u>
 Liabilities			
Account Payable	\$ 23,758	\$ -	\$ 23,758
Accrued Liabilities	-	8,037	8,037
Payroll Taxes Payable	3,702	-	3,702
Total Current Liabilities	<u>27,460</u>	<u>8,037</u>	<u>35,497</u>
 Fund Balance			
Restricted for Debt Service	-	88,103	88,103
Unassigned	346,833	-	346,833
Total Liabilities and Fund Balance	<u>\$ 374,293</u>	<u>\$ 96,140</u>	<u>\$ 470,433</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, 2017

Total Fund Balance - Total Governmental Funds	\$	434,936
<p>Amounts reported for government assets in the Statement of Net Assets are different because:</p>		
<p>Capital Assets of \$8,764,491, net of Depreciation of \$832,272 are not financial resources and, therefore are not reported in the funds. See note IV for additional detail</p>		7,932,219
<p>Net other post employment benefit obligation in governmental activities does not require current financial resources and therefore is not reported in the governmental funds balance sheet.</p>		(26,486)
<p>Bond Cost, net are not financial resources and, therefore are not reported in the funds.</p>		50,596
<p>Bond Premiums, net are not due and payable and, therefore are not reported in the funds.</p>		(112,072)
<p>Long-term liabilities are not due and payable in the current period and therefore, are no reported in the funds.</p>		<u>(1,955,000)</u>
Net Assets of Governmental Activities	\$	<u><u>6,324,193</u></u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Ad Valorem Tax	\$ 304,564	\$ 179,936	\$ 484,499
Sales Tax	126,559	-	126,559
Franchise	140,422	-	140,422
Investment Income	2,198	-	2,198
Service Revenue	378,812	-	378,812
	<u>952,555</u>	<u>179,936</u>	<u>1,132,490</u>
Expenditures			
Culture and Recreation	1,306	-	1,306
General Government	727,864	-	727,864
Infrastructure	14,362	-	14,362
Public Safety	336,410	-	336,410
Capital Expenditures	899	-	899
Debt Service: Principal	-	85,000	85,000
Debt Service: Gross Interest	-	63,263	63,263
	<u>1,080,841</u>	<u>148,263</u>	<u>1,229,103</u>
Internal Transfer	-	-	-
Fund Transfers In (Out)	<u>12,715</u>	<u>-</u>	<u>12,715</u>
Net Change in Fund Balance	(115,571)	31,673	(83,898)
Fund Balance: Beginning	<u>462,404</u>	<u>56,430</u>	<u>518,834</u>
Fund Balance: Ending	<u><u>\$ 346,833</u></u>	<u><u>\$ 88,103</u></u>	<u><u>\$ 434,936</u></u>

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

CITY OF MCLENDON-CHISHOLM, TEXAS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net Change in Fund Balance - Total Governmental Funds \$ (83,898)

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. \$381,806 add purchase of \$899) (380,907)

Governmental funds report all payments to pension
benefits as expenditures. However in the government-wide
statement of activities the pension expense is actuarially
determined. (Paid to TMRS - Actuary Expense) 3,749

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. 92,525

Change Net Assets of Governmental Activities \$ (368,532)

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2017

	Business-Type Activities (Utility Fund)
Assets	
Cash & Equivalents	\$ 236,994
Total Current Assets	236,994
Infrastructure	5,128,358
(less) Accumulated Depreciation	(246,318)
Total Capital Assets	4,882,040
Total Assets	\$ 5,119,034
Liabilities	
Sewer Tap Rebates	\$ 9,000
Payable - transfer to general fund	10,000
Total Liabilities	19,000
Net Assets	
Investment in Capital Assets, net of related debt	4,882,040
Unrestricted	217,994
Total Net Assets	5,100,034
Total Liabilities and Net Assets	\$ 5,119,034

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE PROPRIETARY
FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities (Utility Operations Fund)
Revenues	
Sewer Connection Fees	\$ 192,000
Sewer Customer Service	113,697
Interest Income	1,570
Total Revenues	307,267
Expenses	
Sewer Connection Developer Fee	115,200
Septic Maintenance	52,375
Depreciation	102,567
Total Expenses	270,142
Transfers In / (Out)	(12,715)
Total Other	(12,715)
Change in Net Assets	24,410
Net Assets: Beginning	5,075,624
Plus Developer Contribution:	-
Net Assets: Ending	\$ 5,100,034

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, 2017

	Business-type Activities (Utility Operations Fund)
Cash flows from operating activities:	
Receipts from customers and users	\$ 307,267
Payments to suppliers	(231,975)
Payments to employees	-
Net cash provided by operating activities	75,292
Cash flows from noncapital financing activities:	
Transfers In (Out) from Other Funds	(12,715)
Net cash provided (used) by noncapital financing activities	(12,715)
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	62,577
Cash and cash equivalents at beginning of year	174,417
Cash and cash equivalents at end of year	\$ 236,994
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 37,125
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	102,567
Increase (decrease) in accounts current liabilities	(64,400)
Total adjustments	38,167
Net cash provided by operating activities	\$ 75,292

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

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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, 2017.

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
SEPTEMBER 30, 2017

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
SEPTEMBER 30, 2017

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 and the Debt Service fund are the only two operating funds of the City.

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.

Impairment of Long-lived Assets – the City reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset’s carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of September 30, 2017, no impairment of long-lived assets is necessary.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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 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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Deferred outflows related to pensions, which arise only under an accrual basis of accounting, is reported only in the government-wide and proprietary statements of net position. This amount is deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under an accrual basis of accounting that qualifies for reporting in this category. This amount is deferred and amortized over the actuarial determined recognition period.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when 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 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:

CITY OF MCLENDON-CHISHOLM, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

- *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:

<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

CITY OF MCLENDON-CHISHOLM, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

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 \$589,093, all of which is covered by federal depository insurance and pledged securities.

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	\$ 298,024	50.59%
Alliance MM	158,102	26.84%
Alliance Bond Proceeds	62,426	10.60%
Alliance Sinking Fund	33,714	5.72%
Logic	18,581	3.15%
TexPool	<u>18,245</u>	<u>3.10%</u>
Total	<u>\$ 589,093</u>	<u>100.00%</u>

Pledged Securities through Alliance Bank: market valued at \$1,187,113 with a 10/1/22 maturity

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE IV. CAPITAL ASSETS

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

Capital Assets Activity - Governmental

	<u>09/30/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/17</u>
Capital Assets				
Land	\$ 322,511	\$ -	\$ -	\$ 322,511
Buildings	2,170,689	-	-	2,170,689
Furniture & Equipment	135,453	899	-	136,352
Improvements	25,985	-	-	25,985
Infrastructure	6,108,954	-	-	6,108,954
Total Depreciable:	<u>8,763,592</u>	<u>899</u>	<u>-</u>	<u>8,764,491</u>
Less Accumulated Depreciation	(450,466)	(381,806)	-	(832,272)
Total Capital Assets	<u>\$ 8,313,126</u>	<u>\$ (380,907)</u>	<u>\$ -</u>	<u>\$ 7,932,219</u>

Capital Assets Activity - Business Type

	<u>09/30/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/17</u>
Capital Assets				
Infrastructure	\$ 5,128,358	\$ -	\$ -	\$ 5,128,358
Total Depreciable:	<u>5,128,358</u>	<u>-</u>	<u>-</u>	<u>5,128,358</u>
Less Accumulated Depreciation	(143,751)	(102,567)	-	(246,318)
Total Fixed Assets	<u>\$ 4,984,607</u>	<u>\$ (102,567)</u>	<u>\$ -</u>	<u>\$ 4,882,040</u>

During 2017, there were no new significant projects added to capital assets.

Also during 2017, the city received no additional infrastructure assets from MC 550 Investors, L.P. who are developing the Sonoma Verde planned community. However, the Phase 2 additions are expected to begin in 2018 with future transfers expected. 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
 SEPTEMBER 30, 2017

NOTE V. LONG-TERM OBLIGATIONS

Government-Type Activities

New City Hall Bond - 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 began in February 2016. Expected payoff 2035.

Principal and interest payments projected for the following five years:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 85,000	\$ 61,563
2019	85,000	59,862
2020	85,000	58,113
2021	90,000	56,313
2022 and subsequent years	<u>1,610,000</u>	<u>463,705</u>
TOTAL	\$ 1,955,000	\$ 699,556

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 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 aware of only one outstanding case. A lawsuit was filed against the City on September 28, 2017 and is set to go to trial beginning August 20, 2018. No estimated liability can be determined as of the date of this report.

CITY OF MCLENDON-CHISHOLM, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

NOTE IX. EMPLOYEE PENSION PLAN

A. Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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:	2016/8.41%; 2017/9.65%
Matching Ratio (City to Employee):	1 to 1
Years Required for Vesting:	5 years
Service Retirement Eligibilities:	5 yrs/age 60; 20 yrs/any age
Employees covered by benefit terms.	

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>2</u>
	3

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.41% and 9.65% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017 were \$14,720 and were equal to the required contributions.

D. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3% per year
Investment Rate of Return inflation	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated

CITY OF MCLENDON-CHISHOLM, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017

December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 59,104	\$ 19,100	\$ 40,004
Changes for the year:			
Service cost	11,982	-	11,982
Interest	4,394	-	4,394
Change of benefit terms	-	-	-
Difference between expected and actual experience	(64)	-	(64)
Changes of assumptions	-	-	-
Contributions - employer	-	11,521	(11,521)
Contributions - employee	-	6,847	(6,847)
Net investment income	-	1,298	(1,298)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(15)	15
Other changes	-	(1)	1
Net changes	\$ 16,312	\$ 19,650	\$ 3,338
Balance at 12/31/2016	\$ 75,416	\$ 38,750	\$ 36,666

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate(5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate(7.75%)
City's net pension liability	\$ 45,357	\$ 36,666	\$ 29,494

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

For the year ended September 30, 2017, the city recognized pension expense of \$10,753.

At September 30, 2017, the city 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	\$ -	\$ 3,663
Changes in actuarial assumptions	2,038	-
Difference between projected and actual investment earnings	154	-
Contributions subsequent to the measurement date	11,651	-
Total	\$ 13,843	\$ 3,663

\$10,002 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2017	\$ (278)
2018	\$ (252)
2019	\$ (246)
2020	\$ (300)
2021	\$ (299)
Thereafter	\$ (96)
Total	\$ (1,471)

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$1,153, \$1,074 and \$878, respectively, which equaled the required contributions each year.

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.

CITY OF MCLENDON-CHISHOLM, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

- 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.

NOTE XI. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2017 up through January 17, 2018, 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 FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NON-GAAP BUDGETARY BASIS

	Budget Original & Final General	Budget Original & Final Debt Service	Budget Original & Final Total	Actual	Variance
Revenues					
Ad Valorem Tax	\$ 326,951	\$ 148,471	\$ 475,422	\$ 484,499	\$ 9,077
Sales Tax	100,000	-	100,000	126,559	26,559
Franchise	143,289	-	143,289	140,422	(2,867)
Investment Income	3,178	-	3,178	2,198	(980)
Service Revenue	405,143	-	405,143	378,812	(26,331)
	<u>978,561</u>	<u>148,471</u>	<u>1,127,032</u>	<u>1,132,490</u>	<u>5,458</u>
Expenditures					
Culture and Recreation	57	-	57	1,306	1,249
General Government	679,766	-	679,766	727,864	48,098
Infrastructure	50,000	-	50,000	14,362	(35,638)
Public Safety	323,032	-	323,032	336,410	13,378
Capital Expenditures	-	-	-	899	899
Bond Principal	-	85,000	85,000	85,000	-
Bond Interest	-	63,262	63,262	63,263	1
	<u>1,052,855</u>	<u>148,262</u>	<u>1,201,117</u>	<u>1,229,103</u>	<u>27,986</u>
Transfers In (Out)	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>12,715</u>	<u>2,715</u>
Net Change in Fund Balance	<u>(64,294)</u>	<u>209</u>	<u>(64,085)</u>	<u>(83,898)</u>	<u>(19,813)</u>
Fund Balance: Beginning	<u>462,404</u>	<u>56,430</u>	<u>518,834</u>	<u>518,834</u>	
Fund Balance: Ending	<u>\$ 398,110</u>	<u>\$ 56,639</u>	<u>\$ 454,749</u>	<u>\$ 434,936</u>	

* Allocation between M&O and Debt Service in 2016-2017 led to overage which will be paid against principal in 2018.

See independent auditor's report.

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NON-GAAP BUDGETARY BASIS

	Budget Original & Final	Actual	Variance
Revenues			
Sewer Connection Fees & Service	\$ 215,145	\$ 307,267	\$ 92,122
	<u>215,145</u>	<u>307,267</u>	<u>92,122</u>
Expenses			
Sewer Connection Developer Fee	81,000	115,200	34,200
Septic Maintenance	20,939	52,375	31,436
Depreciation	-	102,567	102,567
	<u>101,939</u>	<u>270,142</u>	<u>168,203</u>
Transfers In (Out)	<u>(10,000)</u>	<u>(12,715)</u>	<u>(2,715)</u>
Net Change in Fund Balance	<u>103,206</u>	<u>24,410</u>	<u>(78,796)</u>
Fund Balance: Beginning	5,075,624	5,075,624	
Plus Developer Contribution:	<u>-</u>	<u>-</u>	
Fund Balance: Ending	<u>\$ 5,178,830</u>	<u>\$ 5,100,034</u>	

See independent auditor's report.

CITY OF MCLENDON-CHISHOLM, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

LAST 10 FISCAL YEARS*

	<u>12/31/2015</u>	<u>12/31/2016</u>
Total Pension Liability		
Service Cost	\$ 8,673	\$ 11,982
Interest (on the Total Pension Liability)	3,726	4,394
Changes of benefit terms	-	-
Difference between expected and actual experience	(4,993)	(64)
Change of assumptions	2,804	-
Benefit payments, including refunds of employee contributions	-	-
Net Change in Total Pension Liability	<u>10,210</u>	<u>16,312</u>
Total Pension Liability - Beginning	<u>48,894</u>	<u>59,104</u>
Total Pension Liability - Ending (a)	<u>\$ 59,104</u>	<u>\$ 75,416</u>
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 9,266	\$ 11,521
Contributions - Employee	5,932	6,847
Net Investment Income	7	1,298
Benefit payments, including refunds of employee contributions	-	-
Administrative Expense	(4)	(15)
Other	-	(1)
Net Change in Plan Fiduciary Net Position	<u>15,201</u>	<u>19,650</u>
Plan Fiduciary Net Position - Beginning	<u>3,899</u>	<u>19,100</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 19,100</u>	<u>\$ 38,750</u>
 Net Pension Liability - Ending (a) - (b)	<u><u>\$ 40,004</u></u>	<u><u>\$ 36,666</u></u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	32.32%	51.38%
Covered Employee Payroll	\$ 118,650	\$ 136,938
Net Pension Liability as a Percentage of Covered Employee Payroll	33.72%	26.78%

* Schedule is intended to show information for 10 years.
 Additional years will be displayed as they become available.

CITY OF MCLENDON-CHISHOLM, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CONTRIBUTIONS

REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of Changes in the City’s Net Pension Liability and Related Ratios shows the changes in Total Pension Liability less the changes in Fiduciary Net Position, resulting in the net pension liability calculation for the city. Note that this is a 10-year schedule, to be created by the city prospectively, over the next 10-year period. This schedule is provided in the GRS Reporting Package (for the current period).

The Schedule of Employer Contributions shows the city’s required annual contributions from the actuarial valuation, compared with the actual contributions remitted. This schedule is based on the city’s respective fiscal year-end, and should be created by the city, and built over the next 10-year period. The city should also provide the Notes to Schedule of Contributions, including the methods and assumptions used to determine the contribution rates and information about benefit changes during the year, if any. Information to complete the Notes to Schedule of Contributions is provided in the GRS Reporting Package.

LAST 10 FISCAL YEARS WILL ULTIMATELY BE DISPLAYED

Fiscal year ending September 30,	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 10,809	\$ 11,647	\$ 15,340
Contributions in relation to the actuarially determined contribution	<u>\$ (10,809)</u>	<u>\$ (11,647)</u>	<u>\$ (15,340)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 114,086	\$ 132,555	\$ 136,938
Contributions as a percentage of covered employee payroll	9.47%	8.78%	11.2%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	7 years

CITY OF MCLENDON-CHISHOLM, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CONTRIBUTIONS

Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information	1) There were no benefit changes during the year.

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of McLendon-Chisholm, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of McLendon-Chisholm, Texas' basic financial statements as listed in the table of contents, and have issued our report thereon dated January 17, 2018.

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
January 17, 2018