CITY OF MCLENDON-CHISHOLM, TEXAS

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

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

CITY OF MCLENDON-CHISHOLM, TEXAS
TABLE OF CONTENTS
SEPTEMBER 30, 2023

Independent Auditor's Report	Page 3
Management's Discussion and Analysis	Page 5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	Page 12
Statement of Activities	Page 13
Fund Financial Statements	
Balance Sheet – Governmental Funds	Page 14
Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets	Page 15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	Page 16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	Page 17
Statement of Net Assets - Proprietary Fund	Page 18
Statement of Revenues, Expenses, and Changes in Fund Balance - Proprietary Funds	Page 19
Statement of Cash Flows – Proprietary Fund	Page 20
Notes to Financial Statements	Page 21
Required Supplementary Information	
Statement of Revenue, Expenditures, and Changes in the Fund Balances-Budget and Actual – Governmental Funds	Page 40
Statement of Revenue, Expenses, and Changes in the Fund Balance-Budget and Actual – Proprietary Fund	Page 41
Schedule of Changes in Net Pension Liability and Related Ratios	Page 42
Schedule of Contributions	Page 43
Schedule of Changes in OPEB Liability and Related Ratios	Page 45

Murrey Paschall & Caperton PC
Certified Public Accountants

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 AUDIT OF THE FINANCIAL STATEMENTS

OPINIONS

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 (City), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2023, 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.

BASIS FOR OPINIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of McLendon-Chisholm, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always

detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of McLendon-Chisholm, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of McLendon-Chisholm, Texas' ability to continue as a going concern for a reasonable period of time.

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

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the required GASB 68 Pension Schedules on pages 5–11 and pages 40-45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Murrey Paschall & Caperton, PC

Murrey, Paschall & Caperton, P.C.
Certified Public Accountants
Forney, Texas

January 8, 2024

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, 2023. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the City's primary government.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities by $26,568,737 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by $26,443,020. This includes contributed assets received as part of the Phase 1 and 2 agreement with the developer of the Sonoma Verde planned community, MC 550 Investors, L.P. Total developer contributed assets to the city now total $19,798,320.

- Total net assets are comprised of the following:
  1) Capital assets, net of related debt, of $20,605,259.
  2) Restricted for various funds of $1,460,063 (including ARPA Grants).
  3) Unrestricted net assets of $4,503,415 represent the portion available to maintain the City's continuing obligations to citizens.

- The City's general fund reported total ending fund balance of $4,478,935 this year. This compares to the prior year ending fund balance of $3,690,795, showing an increase of $788,140 during the current year. Note this is primarily the result of continued growth and development within the City.

- The City's liabilities are accounts payable, sewer tap rebates and long-term debt.

- The City has implemented GASB Statement No. 68 which requires the City to record its Net Pension Asset $10,752. The City also implemented GASB Statement No. 75 which requires the City to record its OPEB Liability ($16,871). Both of these also require related deferred outflows and inflows of resources per TMRS reporting guides.

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.

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 2023, 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 12-13 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 governmental funds, proprietary funds, and fiduciary funds.

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.

They City maintains several individual governmental funds organized according to their type (general fund, public safety, grant funds, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds as all of which are considered to be major funds.

The basic governmental fund financial statements are presented on pages 14-17 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 18-20.

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 theses 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 40-41 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 21 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 $26,568,737. This is a $125,717 increase from last year's net assets of $26,443,020.

A large portion of the City's net assets (77.55%) 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 which was completed in 2016. During 2018 the city voted to establish an escrow account for an early bond redemption. As of September 30, 2023, the funds in this escrow account were $238,546 and are expected to be applied against debt principal.

The remaining balance of unrestricted net assets of $4,503,415 may be used to meet the government's ongoing obligation to citizens and creditors.

	Governmental Activities		Business-Type Activities		Total Government	
	2023	2022	2023	2022	2023	2022
Current assets	$ 6,228,110	$ 5,509,335	$ 1,024,878	$ 777,152	$ 7,252,988	$ 6,286,487
Capital and deferred outflows	14,945,017	15,904,297	7,197,897	7,346,815	22,142,914	23,251,112
Total assets and def. outflows	21,173,127	21,413,632	8,222,775	8,123,967	29,395,902	29,537,599
Long-term bonds outstanding	1,320,000	1,415,000	-	-	1,320,000	1,415,000
Other liabilities and def. inflows	1,361,237	1,539,402	145,928	140,177	1,507,165	1,679,579
Total liabilities and def. inflows	2,681,237	2,954,402	145,928	140,177	2,827,165	3,094,579
Net assets						
Invested in capital assets, net of debt	13,407,362	14,232,508	7,197,897	7,346,815	20,605,259	21,579,323
Restricted	1,460,063	1,441,084	-	-	1,460,063	1,441,084
Unrestricted (deficit)	3,624,465	2,785,638	878,950	636,975	4,503,415	3,422,613
Total net assets	$ 18,491,890	$ 18,459,230	$ 8,076,847	$ 7,983,790	$ 26,568,737	$ 26,443,020

	Governmental Activities		Business-type Activities		Total Government	
	2023	2022	2023	2022	2023	2022
Program revenues						
Charges for services	$ 1,270,359	$ 1,315,688	$ 828,858	$ 1,059,837	$ 2,099,217	$ 2,375,525
Ad Valorem Tax	872,573	801,909	-	-	872,573	801,909
Franchise & Sales Tax	1,200,604	1,291,997	-	-	1,200,604	1,291,997
Investment Income	268,302	32,595	41,105	5,669	309,407	38,264
Other Sources	-	-	-	-	-	-
Total revenues	3,611,838	3,442,189	869,963	1,065,506	4,481,801	4,507,695
Program expenses						
General government	2,079,825	1,937,292	-	-	2,079,825	1,937,292
Cultural & Recreation	6,571	2,506	-	-	6,571	2,506
Infrastructure	23,254	100,500	-	-	23,254	100,500
Public Safety	1,425,969	1,166,896	-	-	1,425,969	1,166,896
Debt Service	43,559	45,657	-	-	43,559	45,657
Utilities	-	-	776,906	919,332	776,906	919,332
Total expenses	3,579,178	3,252,851	776,906	919,332	4,356,084	4,172,183
Excess (deficiency) before transfers	32,660	189,338	93,057	146,174	125,717	335,512
Transfers	-	-	-	-	-	-
Increase (decrease) in net assets	32,660	189,338	93,057	146,174	125,717	335,512
Plus Developer Contribution	-	-	-	-	-	-
Total Change in Net Assets	$ 32,660	$ 189,338	$ 93,057	$ 146,174	$ 125,717	$ 335,512

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 $5,938,998. Of this year-end total, $4,478,935 is unassigned indicating availability for continuing City service requirements while the remaining $1,460,063 is restricted to debt service, ARPA Grant regulations, and public safety.

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.

Public Safety Fund – Established the track expenditures related to the MC Fire and Rescue department. Aside from a small contract with the county to provide fire services, a majority of these costs are covered by transfers from the general fund.

Capital Projects Fund – The City established this fund in 2021 to track the construction of the new fire station funded by a TxDOT grant. The project was completed in 2022 and future projects are not yet in the works.

ARPA Grant Fund – The City established this fund to track restricted grant funds. During 2021 and 2022, the City received round 1 and round 2 of the COVID relief funds known as APRA. See further discussion in the notes later in the report.

Debt Service Fund – The City established this fund to track property taxes and debt payments related to the City Hall bonds. See further discussion in the long-term debt notes later in this report.

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 operated at a net gain of $93,057 (after depreciation expense) in 2023.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general, debt service, public safety, ARPA and construction fund budgets for fiscal year 2023 were expected to be a deficit with $500,000 used from reserves primarily for the implementation of law enforcement that ended up not taking place in FY2023. Therefore, the actual was a gain of $807,118 as they saved on expenditures and received over $250,000 of unbudgeted interest income on savings.

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities, net of depreciation and related debt, as of September 30, 2023 is $22,076,988. These include land, furniture, equipment, fire department assets, leasehold improvements and developer contributed assets in Sonoma Verde. There were no major additions during FY2023.

At the end of the current fiscal year, the City had total bond debt outstanding of $1,415,000.

Additional information regarding the City of McLendon-Chisholm's capital assets can be found in Note IV on page 27.

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 2023-2024 fiscal year are budgeted to increase compared to the 2022-2023 budget. The major difference for 2023-2024 will be increases in income and related expenses for property taxes, employee costs, professional fees, road repairs, capital projects and sales tax revenue. For more information see the announcement on the city website.

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, 2023

	PRIMARY GOVERNMENT		
	Government Activities	Business-Type Activities	Total
Assets			
Cash & Equivalents	$ 5,876,194	$ 1,024,878	$ 6,901,072
Miscellaneous Receivables and Prepaids	209,792	-	209,792
Sales Tax Receivable	142,124	-	142,124
Development Revenue Receivable	-	-	-
Total Current Assets	6,228,110	1,024,878	7,252,988
Capital Assets (Note IV)			
Furniture & Equipment - City	327,820	-	327,820
Equipment & Gear - Fire Dept	1,242,380	-	1,242,380
Leasehold Improvements	25,985	-	25,985
Building	2,170,689	-	2,170,689
Building - Fire Dept	3,885,590	-	3,885,590
Infrastructure	11,952,762	8,284,634	20,237,396
Land	322,511	-	322,511
Construction in Progress	-	-	-
Accumulated Depreciation	(5,048,646)	(1,086,737)	(6,135,383)
Total Capital Assets	14,879,091	7,197,897	22,076,988
Other Assets and Deferred Outflows			
Net Pension and OPEB Asset	10,752	-	10,752
Deferred Outflows - Pension and OPEB	55,174	-	55,174
Total Other Assets and Deferred Outflows	65,926	-	65,926
Total Assets and Deferred Outflows	21,173,127	8,222,775	29,395,902
Liabilities			
Account Payable	282,507	145,928	428,435
Sonoma Verde Repairs Reserve	81,039	-	81,039
Net Pension and OPEB Liability	16,871	-	16,871
Deferred Inflows - Pensions and OPEB	8,120	-	8,120
Accrued Bond Interest	6,605	-	6,605
Bond Premium, net amortization	56,729	-	56,729
Current - Notes Payable (Note V)	95,000	-	95,000
Deferred Grant Income (Note XII)	814,366	-	814,366
Long-term - Notes Payable (Note V)	1,320,000	-	1,320,000
Total Liabilities and Deferred Inflows	2,681,237	145,928	2,827,165
Net Assets			
Investment in Capital Assets, net of related debt	13,407,362	7,197,897	20,605,259
Restricted funds	1,460,063	-	1,460,063
Unrestricted	3,624,465	878,950	4,503,415
Total Net Assets	$ 18,491,890	$ 8,076,847	$ 26,568,737

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, 2023

		PROGRAM REVENUE	
	Expenses	Charges for Services	Net Revenue (Expense)
Primary Government			
Government Activities			
Culture and Recreation	$ 6,571	$ -	$ (6,571)
General Government	2,079,825	1,142,046	(937,779)
Infrastructure	23,254	-	(23,254)
Public Safety	1,425,969	128,313	(1,297,656)
Debt Service	43,559	-	(43,559)
	3,579,178	1,270,359	(2,308,819)
Business Type:			
Utility	776,906	828,858	51,952
Total Business-Type Activities	776,906	828,858	51,952

	Governmental Activities	Business-Type Activities	Total
Change in Net Assets:			
Net (Expense) / Revenue	(2,308,819)	51,952	(2,256,867)
Ad Valorem Tax	872,573	-	872,573
Sales Tax	924,019	-	924,019
Franchise	276,585	-	276,585
Investment Income	268,302	41,105	309,407
Change in Net Assets	32,660	93,057	125,717
Net Assets: Beginning	18,459,230	7,983,790	26,443,020
Plus Developer Contribution:	-	-	-
Net Assets: Ending	$ 18,491,890	$ 8,076,847	$ 26,568,737

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

CITY OF MCLENDON-CHISHOLM, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

	General Fund	Public Safety Fund	Capital Projects Fund	ARPA Fund	Debt Service Fund	Total Governmental Funds
Assets						
Cash & Equivalents	$ 4,326,836	$ 397,443	$ -	$ 900,261	$ 251,654	$ 5,876,194
Miscellaneous Receivables and Prepaids	209,792	-	-	-	-	209,792
Sales Tax Receivable	142,124	-	-	-	-	142,124
Development Revenue Receivable	-	-	-	-	-	-
Total Current Assets	4,678,752	397,443	-	900,261	251,654	6,228,110
Total Assets	$ 4,678,752	$ 397,443	$ -	$ 900,261	$ 251,654	$ 6,228,110
Liabilities						
Account Payable	$ 199,817	$ -	$ -	$ 82,690	$ -	$ 282,507
Accrued Liabilities	-	-	-	-	6,605	6,605
Total Current Liabilities	199,817	-	-	82,690	6,605	289,112
Fund Balance						
Restricted Funds	-	397,443	-	817,571	245,049	1,460,063
Unassigned	4,478,935	-	-	-	-	4,478,935
Total Fund Balances	4,478,935	397,443	-	817,571	245,049	5,938,998
Total Liabilities and Fund Balance	$ 4,678,752	$ 397,443	$ -	$ 900,261	$ 251,654	$ 6,228,110

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, 2023

Total Fund Balance - Total Governmental Funds	$	5,938,998
Amounts reported for government assets in the Statement of Net Assets are different because:		
Capital Assets of $19,927,737, net of Depreciation of $5,048,646 are not financial resources and, therefore are not reported in the funds. See note IV for additional detail		14,879,091
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.		40,935
Bond Premiums, net are not due and payable and, therefore are not reported in the funds.		(56,729)
Long-term liabilities including bonds payable, notes payable, total OPEB, and net pension liability, are not due in the current period and therefore, are not reported in the funds.		(2,310,405)
Net Assets of Governmental Activities	$	18,491,890

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 - GOVERMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	General Fund	Public Safety Fund	Capital Projects Fund	ARPA Fund	Debt Service Fund	Total Governmental Funds
Revenues						
Ad Valorem Tax	$ 715,583	$ -	$ -	$ -	$ 156,990	$ 872,573
Sales Tax	924,019	-	-	-	-	924,019
Franchise	276,585	-	-	-	-	276,585
Investment Income	207,273	20,308	-	40,109	612	268,302
Service Revenue	1,046,709	128,313	-	-	-	1,175,022
Deferred Grant Proceeds	-	-	-	-	-	-
	3,170,168	148,621	-	40,109	157,602	3,516,501
Expenditures						
Culture and Recreation	6,571	-	-	-	-	6,571
General Government	1,285,910	-	-	82,690	2,037	1,370,639
Infrastructure	23,254	-	-	-	-	23,254
Public Safety	-	1,162,346	-	-	-	1,162,346
Capital Expenditures	-	-	-	-	-	-
Debt Service: Principal	-	-	-	-	95,000	95,000
Debt Service: Gross Interest	-	-	-	-	51,573	51,573
	1,315,735	1,162,346	-	82,690	148,610	2,709,383
Transfers between funds	(1,066,293)	1,066,293	-	-	-	-
Net Change in Fund Balance	788,140	52,568	-	(42,581)	8,992	807,118
Fund Balance: Beginning	3,690,795	344,875	-	860,152	236,057	5,131,880
Fund Balance: Ending	$ 4,478,935	$ 397,443	$ -	$ 817,571	$ 245,049	$ 5,938,998

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 - GOVERMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Net Change in Fund Balance - Total Governmental Funds	$	807,118
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. $928,161 add asset disposal $ 95,337.)		(832,824)
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)		14,254
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; wheras, these amounts are deferred and amortized in the Statement of Activities.		44,112
Change Net Assets of Governmental Activities	$	32,660

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

CITY OF MCLENDON-CHISHOLM, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2023

	Business-Type Activities (Utility Fund)
Assets	
Cash & Equivalents	$ 1,024,878
Miscellaneous Receivables and Prepaids	-
Total Current Assets	1,024,878
Infrastructure	8,284,634
(less) Accumulated Depreciation	(1,086,737)
Total Capital Assets	7,197,897
Total Assets	$ 8,222,775
Liabilities	
Sewer Tap Rebates	$ 18,000
Payables	127,928
Total Liabilities	145,928
Net Assets	
Investment in Capital Assets, net of related debt	7,197,897
Unrestricted	878,950
Total Net Assets	8,076,847
Total Liabilities and Net Assets	$ 8,222,775

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, 2023

	Business-Type Activities (Utility Operations Fund)
Revenues	
Sewer Connection Fees	$ 165,000
Sewer Customer Service	663,858
Interest Income	41,105
Total Revenues	869,963
Expenses	
Sewer Connection Developer Fee	99,000
Septic Maintenance	495,631
Legal and Professional	16,748
Depreciation	165,527
Total Expenses	776,906
Change in Net Assets	93,057
Net Assets: Beginning	7,983,790
Net Assets: Ending	$ 8,076,847

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, 2023

	Business-type Activities (Utility Operations Fund)
Cash flows from operating activities:	
Receipts from customers and users	$ 869,963
Payments to suppliers	(484,862)
Payments to employees	-
Net cash provided by operating activities	385,101
Cash flows from noncapital financing activities:	
Transfers In (Out) from Other Funds	-
Net cash provided (used) by noncapital financing activities	-
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets paid by City	(16,608)
Net cash provided (used) by capital and related financing activities	(16,608)
Net increase (decrease) in cash and cash equivalents	368,493
Cash and cash equivalents at beginning of year	656,385
Cash and cash equivalents at end of year	$ 1,024,878
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ 93,057
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	165,527
(Increase) decrease in accounts current receivables (due to / due from recon)	120,767
Increase (decrease) in accounts current liabilities (sewer tap fees)	5,750
Total adjustments	292,044
Net cash provided by operating activities	$ 385,101

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

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, 2023.

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.

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.

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general obligation long-term debt paid from taxes levied by the City.

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.

The City has one custodial fund, the Sonoma Verde Public Improvement District (PID), to account for bond proceeds, assessments, and related debt associated with the issuance of bonds issued by the City as an agent for the District.

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.

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 and other miscellaneous balances due to the city.

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. 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, 2023, no impairment of long-lived assets is necessary.

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:

- *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:

Violation	Action Taken
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:

Fund Name	Deficit Amount
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 $6,901,071, 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:

	VALUE	PERCENTAGE
Alliance Bank	$ 2,436,909	35.31%
Logic	4,162,687	60.32%
Bond Early Redemption Escrow	238,546	3.46%
Central Bank	42,759	0.62%
TexPool	20,172	0.29%
Total	$ 6,901,071	100.00%

Pledged Securities through Alliance Bank: market valued at $3,403,001 as of September 30, 2023.

NOTE IV. CAPITAL ASSETS

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

Capital Assets Activity - Governmental

	09/30/22	Increases	Decreases	09/30/23
Capital Assets				
Land	$ 322,511	$ -	$ -	$ 322,511
Buildings	2,170,689	-	-	2,170,689
Furniture & Equipment	327,820	-	-	327,820
Fire & Rescue Equipment	1,349,872	-	(107,492)	1,242,380
Fire & Rescue Building	3,885,590	-	-	3,885,590
Improvements	25,985	-	-	25,985
Infrastructure	11,952,762	-	-	11,952,762
CIP	-	-	-	-
Total Depreciable:	20,035,229	-	(107,492)	19,927,737
Less Accumulated Depreciation	(4,227,977)	(928,161)	107,492	(5,048,646)
Total Capital Assets	$ 15,807,252	$ (928,161)	$ -	$ 14,879,091

Capital Assets Activity - Business Type

	09/30/22	Increases	Decreases	09/30/23
Capital Assets				
Infrastructure	$ 8,268,026	$ 16,608	$ -	$ 8,284,634
Total Depreciable:	8,268,026	16,608	-	8,284,634
Less Accumulated Depreciation	(921,211)	(165,526)	-	(1,086,737)
Total Fixed Assets	$ 7,346,815	$ (148,918)	$ -	$ 7,197,897

During FY2023, there were no significant fixed asset additions. There were several old fire trucks and equipment sold and new trucks put on order for future years.

During the year, there were no completed infrastructure assets from MC 550 Investors, L.P. who are developing the Sonoma Verde planned community. In the upcoming year, the City expects to receive Improvement Area 3 and 4 additions after approval from the City engineer. Sonoma PID (not the City) is expected to reimburse the developer for these costs while the City continues to pay each lot's sewer tap rebates.

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 bears 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:

	Principal	Interest
2024	$ 95,000	$ 50,544
2025	100,000	48,350
2026	100,000	45,475
2027	105,000	41,887
2028 and subsequent years	1,015,000	170,425
TOTAL	$ 1,415,000	$ 356,681

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 for Phase I improvements. These Phase 1 improvements were also funded by a long-term developer reimbursement note for $3,100,000. Additionally, in 2019, the PID issued $6,225,000 in Certificate of Obligation Bonds in the City's name for Phase II Improvements. These Phase II improvements were also funded by a long-term developer reimbursement note for $1,290,079. Additionally, in 2021, the PID issued $5,935,000 in Certificate of Obligation Bonds in the City's name for Phase III Improvements. Additionally, in 2022, the PID issued $13,460,000 in Certificate of Obligation Bonds in the City's name for Phase IV Improvements. All PID debt is expected to be paid with additional property assessment fees in the Sonoma Verde planned development with expected payoff by 2049. The City has no obligation to pay the PID Bonds from any other sources.

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. EMPLOYEE PENSION PLAN

A. Plan Description

The City participates as one of 919 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Comprehensive Annual Financial Report (Annual Report) that can be obtained at www.tmrs.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 statues governing TMRS. Plan provisions for the City were as follows:

Deposit Rate:	7%
City's Full Retirement Rate:	2022/7.31%; 2023/7.33%
Matching Ratio (City to Employee):	2 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, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	9
Active employees	14
	25

C. Contributions

Member contribution rates in TMRS are either 5%, 6% or 7% of the Member's total compensation, 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 city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.31% and 7.33% in calendar years 2022 and 2023, respectively. The city's contributions to TMRS for the year ended September 30, 2023 were $67,544 and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2022, 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, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.7%
Core Fixed Income	6.0%	4.9%
Non-Core Fixed Income	20.0%	8.7%
Real Return	12.0%	8.1%
Real Estate	12.0%	5.8%
Absolute Return	5.0%	6.9%
Private Equity	10.0%	11.8%
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.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2021	$ 279,126	$ 334,686	$ (55,560)
Changes for the year:			
Service cost	103,351	-	103,351
Interest	22,003	-	22,003
Change of benefit terms	-	-	-
Difference between expected and actual experience	(3,262)	-	(3,262)
Changes of assumptions	-	-	-
Contributions - employer	-	52,067	(52,067)
Contributions - employee	-	49,859	(49,859)
Net investment income	-	(24,683)	24,683
Benefit payments, including refunds of employee contributions	(9,660)	(9,660)	-
Administrative expense	-	(211)	211
Other changes	-	252	(252)
Net changes	$ 112,432	$ 67,624	$ 45,108
Balance at 12/31/2022	$ 391,558	$ 402,310	$ (10,752)

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	$ 44,302	$ (10,752)	$ (55,261)

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.

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

For the year ended September 30, 2023, the city recognized pension expense of $53,290.

At September 30, 2023, 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	$ -	$ 28,745
Changes in actuarial assumptions	-	703
Difference between projected and actual investment earnings	25,902	-
Contributions subsequent to the measurement date	51,835	-
Total	$ 77,737	$ 29,448

$51,835 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, 2023. 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:	
2023	$ (1,345)
2024	889
2025	1250
2026	4,236
2027	(4,430)
Thereafter	(4,146)
Total	$ (3,546)

F. Other Post Employment Benefit (SDBF)

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). This is a single employer defined benefit plan.

The member 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.

Employees covered by benefit terms.
At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms established by City Ordinance:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	1
Active employees	14
	17

Changes in OPEB	Total OPEB Liability
Balance at 12/31/2021	$ 15,859
Changes for the year:	
Service cost	4,060
Interest on Total OPEB	325
Change of benefit terms	-
Difference between expected and actual experience	4,190
Changes of assumptions or other inputs	(7,136)
Benefit payments, including refunds of employee contributions	(427)
Net changes	$ 1,012
Balance at 12/31/2022	$ 16,871

Summary of Actuarial Assumptions:

Inflation	2.5%
Salary Increases	3.50% to 11.5% including inflation
Discount Rate *	4.05%
Retirees' share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.*
***Note: The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.*

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB liability of the City, calculated using the discount rate of 1.84%, as well as what the City's Total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

	1% Decrease (3.05%)	Discount Rate (4.05%)	1% Increase (5.05%)
Total OPEB liability	$ 19,701	$ 16,871	$ 14,579

OPEB Expense	Total OPEB Expense
Service Cost	$ 4,060
Interest on Total OPEB	325
Change of benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources	
Differences between expected and actual expense	467
Changes in assumptions or other inputs	(539)
Total OPEB Expense	$ 4,313

Deferred (Inflows) / Outflows of Resources	Deferred (INFLOWS) of resources	Deferred OUTFLOWS of resources
Differences between expected and actual experience	$ -	$ 3,429
Changes in assumptions and other inputs	(3,932)	-
Net Total	(3,932)	3,429
Contributions made subsequent to measurement date	-	-

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

Year ended Dec 31:	NET deferred out/(in)
2023	$ (57)
2024	(57)
2025	(57)
2026	(57)
2027	(57)
Thereafter	218
Total	$ (503)

Schedule of Contributions - (Retiree-only portion of the rate, for OPEB): Plan / Calendar Year	Total SBD Contribution Rate	Retiree portion SBD Contribution Rate
2023	0.31%	0.07%
2022	0.15%	0.06%
2021	0.12%	0.06%
2020	0.08%	0.02%
2019	0.79%	0.01%
2018	0.81%	0.00%
2017	0.77%	0.00%

Note 1: Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.
*Note 2: In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation: Total covered payroll * Retiree Portion of SDB Contribution (Rate)*

NOTE VIII. 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 IX. LITIGATION

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

NOTE X. COMMITTMENTS

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 with $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: Previously this was provided by the McLendon-Chisholm Volunteer Fire Department through a contract with the City. In October of 2018, the City merged the VFD into the City to form the McLendon-Chisholm Fire & Rescue 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 CWD for trash pickup for the city residents and businesses.

NOTE XI. PID CUSTODIAL FUND

The City has one custodial fund, the Sonoma Verde Public Improvement District (PID), to account for bond proceeds, assessments, and related debt associated with the issuance of bonds by the City as an agent for the District. The PID was created for the acquisition, construction, and development of public improvements to include roads, drainage, water distribution, sanitary sewer system and other costs associated with the development and financing of these improvements. All special assessments are collected by the Rockwall CAD with funds held in various Wilmington Trust accounts. As of September 30, 2023, the PID reported an unaudited balance of $11,229,188 cash on hand at Wilmington Trust and total outstanding long-term debt of $33,515,000. The City does not have any direct or contingent liability or moral obligation for the payment of this debt. The table below shows the breakdown between Phase 1 and Phase 2 and Phase 3 and Phase 4 PID assets and debt:

	Phase 1	**Phase 2 (IA#2)**	**Phase 3 (IA#3)**	**Phase 4 (IA#4)**	**Total**
Cash	$ 271,219	$ 766,590	$ 1,049,391	$ 9,141,988	$ 11,229,188
Debt	$ 8,510,000	$ 5,880,000	$ 5,700,000	$ 13,425,000	$ 33,515,000

NOTE XII. FEDERAL, STATE AND LOCAL GRANT REVENUE

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Under the American Rescue Plan Act (ARPA) of 2021, the Coronavirus Local Fiscal Recovery Fund (CLFRF) provides emergency funding for eligible local governments. The U.S. Treasury manages the distribution of these funds to Texas counties and cities with populations above 50,000. Cities, villages, towns, and townships serving populations of less than 50,000 are classified as non-entitlement units of local government (NEUs) and will receive funding distributed by TDEM.

The City of McLendon-Chisholm was awarded a total of $856,100.45. Half of this balance was released to the City in August 2021 ($428,050.23) and the remaining portion was received in September 2022. These funds earned $42,109 in interest income during FY2023 and the City spent $82,690. As such, these remaining funds ($814,365.69) were included in the financials as a deferred grant revenue liability and should be released to income in future years when the funds are spent.

NOTE XIII. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2023 up through January 8, 2024, 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, 2023

	NON-GAAP BUDGETARY BASIS												
	Budget Revised General	Budget Revised Public Safety	Budget Revised Capital Projects	Budget Revised ARPA	Budget Revised Debt Service	Budget Revised Total	Actual General	Actual Public Safety	Actual Capital Projects	Actual ARPA	Actual Debt Service	Actual Total	Total Variance
Revenues													
Ad Valorem Tax	$ 680,000	$ -	$ -	$ -	$ 144,165	$ 824,165	$ 715,583	$ -	$ -	$ -	$ 156,990	$ 872,573	$ 48,408
Sales Tax	975,000	-	-	-	-	975,000	924,019	-	-	-	-	924,019	(50,981)
Franchise	232,000	-	-	-	-	232,000	276,585	-	-	-	-	276,585	44,585
Investment Income	8,800	1,860	-	-	-	10,660	207,273	20,308	-	40,109	612	268,302	257,642
Service Revenue	1,364,700	127,500	-	-	-	1,492,200	1,046,709	128,313	-	-	-	1,175,022	(317,178)
	3,260,500	129,360	-	-	144,165	3,534,025	3,170,168	148,621	-	40,109	157,602	3,516,501	(17,524)
Expenditures													
Culture and Recreation	5,000	-	-	-	-	5,000	6,571	-	-	-	-	6,571	1,571
General Government	1,363,860	-	-	-	1,100	1,364,960	1,285,910	-	-	82,690	2,037	1,370,639	5,679
Infrastructure	25,000	-	-	-	-	25,000	23,254	-	-	-	-	23,254	(1,746)
Public Safety	-	1,696,000	-	-	-	1,696,000	-	1,162,346	-	-	-	1,162,346	(533,654) *
Capital Expenditures	300,000	-	-	-	-	300,000	-	-	-	-	-	-	(300,000) **
Bond Principal	-	-	-	-	95,000	95,000	-	-	-	-	95,000	95,000	-
Bond Interest	-	-	-	-	48,065	48,065	-	-	-	-	51,573	51,573	3,508
	1,693,860	1,696,000	-	-	144,165	3,534,025	1,315,735	1,162,346	-	82,690	148,610	2,709,383	(824,642)
Deferred Grant Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between funds	(1,566,640)	1,566,640	-	-	-	-	(1,066,293)	1,066,293	-	-	-	-	-
Net Change in Fund Balance	-	-	-	-	-	-	788,140	52,568	-	(42,581)	8,992	807,118	807,118
Fund Balance: Beginning	3,690,795	344,875	-	860,152	236,057	5,131,879	3,690,795	344,875	-	860,152	236,057	5,131,880	
Fund Balance: Ending	$3,690,795	$ 344,875	$ -	$860,152	$ 236,057	$5,131,879	$4,478,935	$ 397,443	$ -	$817,571	$ 245,049	$5,938,998	

** Public Safety Budget included $500,000 for Law Enforcement that has been pushed to future years.*

*** No significant capital projects in FY2023.*

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, 2023

NON-GAAP BUDGETARY BASIS

	Budget Original	Budget Amendments	Budget Final	Actual	Variance
Revenues		**			
Sewer Connection Fees & Service	$ 1,108,532	$ -	$ 1,108,532	$ 869,963	$ (238,569) *
	1,108,532	-	1,108,532	869,963	(238,569)
Expenses					
Sewer Connection Developer Fee	291,600	-	291,600	99,000	(192,600) *
Septic Maintenance	567,370	-	567,370	495,631	(71,739)
Office and Admin	16,700	-	16,700	16,748	48
Depreciation	-	-	-	165,527	165,527
	875,670	-	875,670	776,906	(98,764)
Transfers In (Out)	-	-	-	-	-
Net Change in Fund Balance	232,862	-	232,862	93,057	(139,805)
Fund Balance: Beginning	7,983,790	-	7,983,790	7,983,790	
Plus Developer Contribution:	-	-	-	-	
Fund Balance: Ending	$ 8,216,652	$ -	$ 8,216,652	$ 8,076,847	

** Slow down in new homes led to reduced Sewer Tap Fees and related Rebates related to Sonoma Verde developmer*
*** There were no budget amendments for FY2023.*

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*

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
Total Pension Liability								
Service Cost	$ 8,673	$ 11,982	$ 13,095	$ 19,267	$ 31,030	$ 69,707	$ 87,199	$ 103,351
Interest (on the Total Pension Liability)	3,726	4,394	5,520	6,905	8,599	12,713	15,776	22,003
Changes of benefit terms	-	-	-	-	-	9,798	-	-
Difference between expected and actual experience	(4,993)	(64)	(167)	(1,303)	3,072	(34,122)	(7,131)	(3,262)
Change of assumptions	2,804	-	-	-	(1,219)	-	-	-
Benefit payments, including refunds of employee contributions	-	-	(383)	(1,648)	(9,660)	(9,660)	(13,678)	(9,660)
Net Change in Total Pension Liability	10,210	16,312	18,065	23,221	31,822	48,436	82,166	112,432
Total Pension Liability - Beginning	48,894	59,104	75,416	93,481	116,702	148,524	196,960	279,126
Total Pension Liability - Ending (a)	$ 59,104	$ 75,416	$ 93,481	$ 116,702	$ 148,524	$ 196,960	$ 279,126	$ 391,558
Plan Fiduciary Net Position								
Contributions - Employer	$ 9,266	$ 11,521	$ 14,385	$ 52,439	$ 38,136	$ 7,431	$ 42,349	$ 52,067
Contributions - Employee	5,932	6,847	7,457	11,835	22,356	24,441	41,664	49,859
Net Investment Income	7	1,298	5,397	(1,978)	19,692	15,055	30,730	(24,683)
Benefit payments, including refunds of employee contributions	-	-	(383)	(1,648)	(9,660)	(9,660)	(13,678)	(9,660)
Administrative Expense	(4)	(15)	(29)	(38)	(110)	(97)	(141)	(211)
Other	-	(1)	(1)	(2)	(4)	(3)	1	252
Net Change in Plan Fiduciary Net Position	15,201	19,650	26,826	60,608	70,410	37,167	100,925	67,624
Plan Fiduciary Net Position - Beginning	3,899	19,100	38,750	65,576	126,184	196,594	233,761	334,686
Plan Fiduciary Net Position - Ending (b)	$ 19,100	$ 38,750	$ 65,576	$ 126,184	$ 196,594	$ 233,761	$ 334,686	$ 402,310
Net Pension Liability - Ending (a) - (b)	$ 40,004	$ 36,666	$ 27,905	$ (9,482)	$ (48,070)	$ (36,801)	$ (55,560)	$ (10,752)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	32.32%	51.38%	70.15%	108.12%	132.37%	118.68%	119.90%	102.75%
Covered Employee Payroll	$ 118,650	$ 136,938	$ 149,143	$ 236,696	$ 447,115	$ 488,827	$ 600,541	$ 712,277
Net Pension Liability as a Percentage of Covered Employee Payroll	33.72%	26.78%	18.71%	-4.01%	-10.75%	-7.53%	-9.25%	-1.51%

* 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,	2015	2016	2017	2018	2019
Actuarially Determined Contribution	$ 10,809	$ 11,647	$ 14,268	$ 15,347	$ 22,060
Contributions in relation to the actuarially determined contribution	$ (10,809)	$ (11,647)	$ (14,268)	$ (15,347)	$ (22,060)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 114,086	$ 132,555	$ 136,938	$ 149,143	$ 236,696
Contributions as a percentage of covered employee payroll	9.47%	8.78%	10.42%	10.29%	9.32%

Fiscal year ending September 30,	2020	2021	2022	2023	2024
Actuarially Determined Contribution	$ 16,170	$ 32,264	$ 51,805	$ 65,692	
Contributions in relation to the actuarially determined contribution	$ (16,170)	$ (32,264)	$ (51,805)	$ (65,692)	
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	
Covered employee payroll	$ 447,115	$ 488,827	$ 721,244	$ 901,381	
Contributions as a percentage of covered employee payroll	3.62%	6.6%	7.18%	7.29%	

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

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	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014 – 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information	1) There were no benefit changes during the year.

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

LAST 10 FISCAL YEARS*

	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022
Total OPEB Liability							
Service Cost	$ -	$ 761	$ 1,325	$ 626	$ 929	$ 2,582	$ 4,060
Interest on total OPEB	-	236	266	313	300	295	325
Changes of benefit terms	-	-	-	-	-	-	-
Benefit payments / refunds of employee contributions	-	-	-	(45)	(98)	(360)	(427)
Recognition of deferred outflows/inflows	-	-	-	-	-	-	-
Differences between expected and actual	-	509	(270)	79	355	(710)	4,190
Changes in assumptions or other inputs	-	-	(533)	1,358	1,682	402	(7,136)
Net Changes	-	1,506	788	2,331	3,168	2,209	1,012
Total OPEB Liability - Beginning	-	5,857	7,363	8,151	10,482	13,650	15,859
Total OPEB Liability - Ending	$ 5,857	$ 7,363	$ 8,151	$ 10,482	$ 13,650	$ 15,859	$ 16,871
Covered Employee Payroll	$ 136,938	$ 149,143	$ 236,696	$ 447,115	$ 488,827	$ 600,541	$ 712,277
Total OPEB Liability as a Percentage of Covered Employee Payroll	4.28%	4.94%	3.44%	2.34%	2.79%	2.64%	2.37%

NOTE: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits

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

Murrey Paschall & Caperton PC
Certified Public Accountants

January 8, 2024

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of McLendon-Chisholm, Texas, for the year ended September 30, 2023, and have issued our report thereon dated January 8, 2024. Professional standards require that we advise you of the following matters relating to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter dated October 9, 2023, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

PLANNED SCOPE AND TIMING OF THE AUDIT

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

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team has complied with all relevant ethical requirements regarding independence.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of the City's Significant 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 A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

> 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.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgement and are particularly sensitive because of their significance to financial statement users. There was no long-term debt or any other sensitive disclosures to note.

> The disclosure of Long-term Obligations in Note V to the financial statements as these represent significant future debt payments in the form of interest and principal.

The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no unusual transactions noted.

Significant 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 clearly 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 and corrected by management 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, a disagreement with management is 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 January 8, 2024.

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 City of McLendon-Chisholm, Texas'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 City of McLendon-Chisholm, Texas's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- *Under the American Rescue Plan Act (ARPA) of 2021, the Coronavirus Local Fiscal Recovery Fund (CLFRF) provides emergency funding for eligible local governments. The City has $814,365.69 remaining in ARPA funds that requires recipients to obligate the funds by Dec. 31, 2024, and spend them by Dec. 31, 2026.*

OTHER MATTERS

We applied certain limited procedures to the MD&A, Budget and Actual schedules by fund type, as well as the GASB 68 and GASB 75 Pension/OPEB Liability schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

RESTRICTION ON USE

This information is intended solely for the information and 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 specified parties.

Very truly yours,

Murrey Paschall & Caperton, PC

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