



***HARRIS COUNTY
APPRAISAL DISTRICT***

***HARRIS COUNTY
HOUSTON, TEXAS***

**2014
Comprehensive
Annual Financial
Report**

***COMPREHENSIVE
ANNUAL FINANCIAL REPORT***

of the

**HARRIS COUNTY
APPRAISAL DISTRICT, TEXAS**

**For the Year Ended
December 31, 2014**

Report Issued By:

Budget and Finance Division

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HARRIS COUNTY APPRAISAL DISTRICT

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HARRIS COUNTY APPRAISAL DISTRICT

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INTRODUCTORY SECTION

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Harris County Appraisal District

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Houston TX 77292-0975
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Board of Directors

Ed Heathcott, *Chairman*
Ray Holtzapple, *Secretary*
Mike Sullivan, *Assistant Secretary*
Glenn E. Peters
Toni Trumbull
Michael Lunceford

Office of Chief Appraiser

May 11, 2015

Chief Appraiser

Sands L. Stiefer
Deputy Chief Appraiser
Roland Altinger
Taxpayer Liaison Officer
Teresa S. Terry

Presiding Officers of Harris County Taxing Units
Members of the Board of Directors,
Harris County Appraisal District
Citizens of Harris County

Section 6.063, Texas Tax Code, requires an audit of the financial affairs of an appraisal district by an independent certified public accountant. This report is published to fulfill that requirement for the fiscal year ended December 31, 2014.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements.

Belt Harris Pechacek, LLLP, Certified Public Accountants, have issued an unmodified (“clean”) opinion on the Harris County Appraisal District’s financial statements for the year ended December 31, 2014. The independent auditors’ report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditors’ report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the District

The Harris County Appraisal District is a political subdivision of the State of Texas established in 1980, following the codification of property tax laws by the 66th Texas Legislature in 1979. The 1979 codification established one appraisal district in each of the state’s 254 counties for the purpose of discovering and appraising property for *ad valorem* tax purposes for each taxing unit within the boundaries of that appraisal district. The district, the largest in the state, serves 501 taxing units.

Texas appraisal districts are permitted to contract with their taxing units to perform tax collection functions. The Harris County Appraisal District has not contracted with any of its taxing units to provide these services through 2014 and does not anticipate any collection contracts in the foreseeable future.

A six-member board of directors, appointed by the taxing units within the boundaries of the district, constitutes the governing body. The board members are appointed as follows: Harris County Commissioners' Court appoints one member; the City of Houston City Council appoints one member; the other 33 cities appoint one member; the Houston Independent School District Board of Trustees appoints one member; the other 25 school districts appoint one member; and, all conservation and reclamation districts appoint one member.

The board of directors has general policy-making authority. It appoints the chief appraiser, who is chief administrator of the district. The board appoints the taxpayer liaison officer. The administrative judge of the Harris County Civil District Courts appoints members of the appraisal review board. The board of directors appoints the chairman and secretary of the appraisal review board from among the serving members. The board of directors has primary responsibility for fiscal matters, including approval of major contracts and adoption of the annual budget.

The primary purpose and responsibility of the district is to provide to the taxing units and property owners within its boundaries fair and equitable appraisals of property subject to *ad valorem* taxation.

In Texas, the property tax is the primary source of funding for local governmental units (school districts, cities, counties, junior college districts, and other special districts). Property taxes pay much of the cost of public schools, police and fire protection, courts, health services, streets, water and sewage, parks, and most other local government activities. The Harris County Appraisal District does not determine how much each of these local governments will spend to provide services, nor does it set their tax rates. Each local government adopts its own budget, then sets a tax rate that will generate the amount of money required to pay for its services. The district provides each local government with a list of its taxable property, together with the January 1 value of each property and appropriate exemptions. The appraisals serve to allocate the tax burden among all property owners on an equitable basis, based upon market value.

The Office of the Chief Appraiser is primarily responsible for the overall planning, organizing, staffing, and controlling district operations as required by the Texas Property Tax Code. The district is organized into two departments: Chief Appraiser and Deputy Chief Appraiser. Those divisions reporting directly to the Chief Appraiser are the appraisal divisions consisting of Appraisal Operations, Agricultural Valuation, Business and Industrial Property, Commercial Valuation, Residential Valuation, and Review Appraisal. The Appraisal Divisions are responsible for the valuation of all real and personal property accounts. Human Resources, Audit Support Services, Professional Education & Development, Communications Services, and Legal Services also report directly to the Chief Appraiser.

The Deputy Chief Appraiser is responsible for the support services divisions consisting of ARB Operations, Jurisdiction Communications, and Information & Assistance. These divisions coordinate support functions, including records maintenance, exemptions, customer service to property owners, support for the Appraisal Review Board, and records management. The Information Systems and Budget & Finance Divisions also report to the Deputy Chief Appraiser. The Information Systems

Division maintains the district's data center, local area networks, software applications, and imaging. The Budget & Finance Division is responsible for the business support functions relating to budget, finance, employee benefits, purchasing, capital assets, facilities, security, and postal services.

Local Economy

The district's activities for 2014 led up to the major event of certification of the appraisal roll. The appraisal roll was certified on August 15, 2014 with less than 5.87 percent of the total value in the district remaining under protest. State law requires that not more than 10 percent of the total value remain in unresolved property owner protests at the time the records are approved and certified as the appraisal roll. The sum of the taxable value for each of the 501 taxing unit appraisal rolls was \$2,610,114,825,610, resulting in a 2014 *ad valorem* tax levy of \$8,460,722,166, an increase of 9.45 percent over 2013.

The Houston housing market ended 2014 entering the history books as a year of extremes in the housing market, with home sales volume and prices at record highs while inventory levels at record lows. Housing inventory continued to shrink with only 2.5 months supply and prices rose, with both median and average prices achieving historic highs. The single-family home average price jumped 8.7 percent year-over-year to \$199,000. All housing segments saw gains except for homes priced at \$80,000 and below. Homes priced from \$250,000 and above saw the highest sales volume and registered another hike in prices. The greatest one-month sales volume of 2014 was recorded in July, with 7,613 closings. By contrast, the lightest one-month sales volume was January, with 3,930. Total dollar volume for full-year 2014 hit record high, up 12.7 percent to nearly \$24 billion compared to around \$21 billion in full-year 2013.

Houston has remained one of the steadiest and most productive growing cities in the country for many years. Houston has repeated its success as the national leader in office development primarily due to the strong oil and gas sector. However, concerns of the danger posed by heavy reliance on oil have risen during the energy driven economic and real estate boom. In the last quarter of 2014, oil prices began to steeply decline. With oil prices declining, many developers started reconsidering the timing of future and ongoing projects which may lead to slightly slower real estate growth than previously anticipated. The office market ended the fourth quarter 2014 with a vacancy rate of 11.3 percent, below end-of-year 2013 which closed just shy of 12 percent. Year-end 2014 average capitalization rate for office buildings was 7.35 percent, slightly lower from an average of 8.29 percent at year-end 2013.

Houston's demand for apartments was at an all-time high. According to the CBRE Report, Houston had a positive net absorption of 21,394 multi-family units over the past year. Rental rates increased 8.1 percent in 2014 along with occupancy and absorption rates also increasing, resulting in a decrease in concession offerings. The twelve-month rolling capitalization rate was 7.1 percent, totaling a volume of \$4,815,000, and represents an average price per unit of \$99,374 for all classes of property. Construction activity was on the rise with complexes that came online for 2014; only one is a tax credit property.

Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between years 2014 and 2013 is reflected in the table below.

HARRIS COUNTY APPRAISAL DISTRICT APPRAISED VALUES			
2014		2013	
Number of Accounts	Appraised Value (in thousands)	Number of Accounts	Appraised Value (in thousands)
1,591,653	\$453,988,803	1,576,765	\$413,239,933

Note: Land that is valued using productivity valuation methodology, such as agricultural and timber use, is not included in the total appraised values. All other land is included. Since more than one property parcel is included on some accounts, the actual number of parcels appraised by the district is more than the number of accounts listed above.

Taxable Values

The following table compares the taxable values (appraised values less exemptions and special valuations) for the government of Harris County. The information presented here has been updated through March 6, 2015. The change in the appraised and taxable values from 2013 to 2014 varied among taxing units, reflecting the mix of property types, exemptions, and market conditions within each unit.

HARRIS COUNTY TAXABLE VALUES (in thousands \$)				
	2014	2013	Change	Percentage Change
Appraised Value	\$453,988,803	\$413,239,933	\$40,748,870	9.86%
Taxable Value	\$351,731,063	\$316,869,124	\$34,861,939	11.00%

Texas Comptroller of Public Accounts Ratio Study and Governance Review

Government Code Section 403.302 requires the Comptroller to conduct a study to determine the degree of uniformity and the median level of appraisals by the appraisal district with each major category of property, as required by Section 5.10, Tax Code. This study is required every other year. If the locally appraised value in a school district is within the statistical margin of error of the state value, the Comptroller's Property Tax Assistance Division (PTAD) certifies a school district's local tax roll value to the Commissioner of Education. A five percent margin of error is used to establish the upper and lower value limit for each school district. If the local value is outside the acceptable range, the PTAD certifies the state value, unless the school district is eligible for a grace period, which is a period when local value is used even though it is determined to be invalid. A property value study will be conducted for 2015.

Section 5.102, Tax Code requires the Comptroller of Public Accounts to review county appraisal district (CAD) governance, taxpayer assistance, operating standards and appraisal standards, procedures and methodology at least once every two years. School districts located in counties that do not receive the Methods and Assistance Program (MAP) reviews in a year will be subject to

property value studies in that year. A MAP review was completed for 2014 and the district received a perfect score of 100, which exceeds the mandatory standard of evaluation established by the Texas Comptroller.

The district's median level of appraisal for 2013 is summarized in the following table:

STATE COMPTROLLER'S STUDY	
<u>Property Category</u>	<u>Median Level of Appraisal</u> <u>2013</u>
Single Family Residential	.97
Multi-Family Residential	.94
Vacant Lots	N/A
Acreage	N/A
Commercial Real Property	1.01
Utilities	.98
Commercial Personal Property	.99
Overall Median Level – All Properties	1.03

The final results of the 2013 study reflect that appraisals within the district are generally uniform, with an average coefficient of dispersion of 5.45 percent. A coefficient of less than 10 percent is considered excellent in the more homogeneous urban areas, while 11 percent to 15 percent is considered excellent in the more rural areas.

Since the statistical median reflects the mid-point of a sample, it is generally desirable to maintain median appraisal levels at or slightly below 1.00 to avoid over-appraisal of properties. The International Association of Assessing Officers (IAAO) guidelines state that the overall level of appraisal for all parcels in the jurisdiction should be within 10 percent of the legal level. Based on these criteria, the district's 1.03 appraisal level is considered to reflect very good appraisal performance.

Property Owner Protests

During 2014, property owners and professional tax consultants filed 356,119 protests, resulting in an increase of 22.15 percent from the 2013 protest volume of 291,531. Generally, property owners may protest appraised values placed on their property before the time the appraisal rolls are approved and certified. The protest period is conducted from May to August each year. Property owners usually resolve disagreements about their appraised value, exemptions, or other issues in an informal meeting with a district appraiser. If no agreement is reached informally, the property owner is heard before a three-member panel of the appraisal review board, an independent body. The panel makes the final determination. The 2014 protest activity data has been updated through April 13, 2015. The table below shows the protest activity for the last 10 years.

PROTEST ACTIVITY (dollars in millions)				
<u>Year</u>	<u>Reappraisal Year</u>	<u>Accounts Protested</u>	<u>Value of Accounts</u>	<u>Avg Percent Reduction</u>
2005	Yes	202,860	\$102,692	8.00%
2006	No	271,226	\$155,457	13.70%
2007	Yes	370,189	\$193,723	12.12%
2008	Yes	386,269	\$219,672	11.55%
2009	No	388,463	\$218,503	10.65%
2010	Yes	317,223	\$186,699	8.19%
2011	Yes	289,663	\$183,669	8.99%
2012	Yes	281,917	\$198,009	9.25%
2013	Yes	291,567	\$230,030	8.04%
2014	Yes	337,093	\$245,496	6.63%

Property owners who are dissatisfied with their protest hearing result may appeal the appraisal review board decision by filing suit in state district court, filing an application for binding arbitration, or filing an application for a hearing with the State Office of Administrative Hearings.

The volume of litigation for the last 10 years is summarized in the table below:

LITIGATION VOLUME					
<u>Year</u>	<u>Total Lawsuits</u>	<u>Number of Accounts</u>	<u>Value of Accounts</u>	<u>Number Resolved</u>	<u>Value Loss %</u>
2005	1,233	2,454	\$ 6,507,706,655	2,454	10.46%
2006	2,172	3,912	\$17,446,885,543	3,907	11.82%
2007	3,530	6,094	\$21,444,067,224	6,094	11.76%
2008	2,730	6,208	\$29,042,542,084	5,874	13.72%
2009	2,713	8,645	\$31,605,691,200	8,567	13.58%
2010	2,196	5,439	\$17,689,573,361	5,347	11.15%
2011	2,940	6,612	\$23,500,337,398	6,376	10.94%
2012	2,866	6,963	\$29,009,655,655	6,680	10.50%
2013	3,563	14,813	\$56,009,709,559	6,288	9.28%
2014	3,994	9,369	\$55,820,088,313	507	9.69%

Rather than filing suit in state district court, property owners may appeal the appraisal review board decision through binding arbitration. Arbitration is available for properties valued at \$1,000,000 or less. Arbitration volume for the last 10 years (first available in 2005) is summarized in the table below:

ARBITRATION VOLUME				
<u>Year</u>	<u>Number of Accounts</u>	<u>Determined</u>	<u>Dismissed/ Withdrawn</u>	<u>Pending</u>
2005	31	23	8	0
2006	100	73	27	0
2007	263	206	58	0
2008	344	269	75	0
2009	363	310	53	0
2010	397	369	28	0
2011	520	473	47	0
2012	783	712	71	0
2013	773	726	47	0
2014	690	183	43	464

Financial Information

The general fund's total fund balance was \$11,401,463 with an unassigned balance of \$7,665,983 at year-end, which is 55.35 percent below the district's financial policy recommendation for budgetary and planning purposes. Following the lease-purchase of the district's building, \$151,277 was restricted for building improvements. Other assignments include \$978,282 for special projects, \$1,500,000 for future capital improvements of facilities, and \$750,000 for the appropriation of fund balance in the subsequent year's budget. The restricted amount for future litigation has been appropriated in the 2014 budget. The district maintains a limited risk management program for health benefits through a separate fund to account for the district's self-insurance activities and the accumulation of resources to satisfy potential claims of subsequent periods.

The district uses a detailed line item budget developed in a modified zero-based budgeting system. The emphasis of the budget process is to identify the activities requiring resources and to rank those administratively according to the needs of the particular department. Division directors submit their budget recommendations to the chief appraiser in early April during internal workshops. Section 6.06 of the Texas Property Tax Code requires the chief appraiser to formulate his proposed budget and submit it to the board of directors and presiding officers of the taxing units before June 15. The statute also provides that the board of directors must conduct a public hearing after giving notice in a quarter page advertisement and, finally, adopt a budget before September 15. Texas law also provides that each of the 501 taxing units entitled to vote on the appointment of board members is required to maintain a copy of the proposed budget for public inspection at its principal administrative office.

The taxing units participating in the appraisal district fund the district. The annual allocation to the taxing units is based upon the proportion that each taxing unit's property tax levy bears to the sum of the tax levies of all participating taxing units. Taxing units pay their share quarterly with the first quarter due on December 31 of the year before the budget takes effect. The taxing units pay approximately 0.84 percent of their property tax levy for appraisal district services.

The appropriated budget is prepared by fund and by divisions (unit of a department). An annual budget is legally adopted for the General Fund only. The chief appraiser may transfer budgeted amounts among divisions or line items; however, transfers which increase or decrease the district's totals for the object line items (legal level of budgetary control) by more than \$25,000 must be approved by the board of directors. In addition, supplemental appropriations require the approval of the board of directors.

The board of directors adopted a 2014 expenditure budget of \$68,676,380 on August 21, 2013. This amount represented a \$4,179,518 increase over the 2013 budget. Taxing unit funding increased from \$61,566,862 in 2013 to \$64,367,413 for 2014, an increase of \$2,800,551. The district budgeted a decrease of \$2,000,000 in the overall fund balance for 2014.

Major Initiatives

The Harris County Appraisal District continues its online iFile program that allows property owners and agents to protest their noticed values through the district's website. During 2014, nearly 97,000 property owners and agents participated in iFile.

The iSettle program was developed to provide a way for property owners to resolve protests on-line through the district's website rather than appear in person to meet with a district appraiser. Residential property owners not represented by agents, who participate in iFile may use iSettle. Participation requires the property owner to give an opinion of value and a reason for the change requested. A district appraiser reviews the information and decides whether to offer the property owner relief. Acceptance of the appraiser's offer binds the property owner for the tax year. If the appraiser determines that an offer is not warranted, the protest is scheduled for an informal meeting with an appraiser. Rejection of the appraiser's offer or failure to respond, automatically schedules the property owner to appear for a formal hearing.

iFile and iSettle programs have reduced the number of property owners needing to appear in person at the district's office. There were 13,920 iSettle offers accepted in 2014. Also, much of the paper handling, data entry, scanning, and filing tasks were eliminated due to the increased use of iFile and iSettle. Of the 356,119 protests files for tax year 2014, 96,345 or 27 percent were filed electronically. In 2010, the district introduced the iReschedule program allowing property owners already scheduled for appraiser conferences or hearings to reschedule their appointments online. The iFile program also allows personal property renditions to be submitted on line and 31,258 electronically processed renditions and 21,202 rendition extension requests were submitted in 2014 using iFile.

In 2013, the district implemented an Owners web site that allowed property owners to voluntarily elect to receive value and scheduling notices as well as Appraisal Review Board (ARB) hearing orders electronically, further reducing the costs of mailing communications between the district, the ARB and the property owners. As of December 31, 2014, there were more than 90,000 accounts enrolled in the Owners web site and 8,061 accounts were serviced during 2014 using the new electronic document delivery options.

As a result of legislation requiring re-inspection of each taxable property once every three years, the district initiated a pilot project in 2006 which involved combining high-resolution digital images from the front of a parcel with oblique images taken from all four sides by low-flying aircraft. The

resulting photographic array permits detailed viewing of properties and accurate measurement of the improvements located on each parcel. The 2006 pilot project was successful and led to contracts to image the entire county in 2007. In addition to the street level imagery, the district procured updated imagery to assist in the valuation process in 2008. The resulting product has been used to assist in updating property characteristics, defining neighborhoods, and defend values in hearings.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Harris County Appraisal District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2013. This was the twenty-seventh consecutive year that the district has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been accomplished without the efficient and dedicated service of the entire staff of the budget and finance division. We wish to express our appreciation to all members of the division who assisted and contributed to the preparation of this report. Credit must also be given to the board of directors for their unfailing support for maintaining the highest standards of professionalism in the management of the district's finances.

Respectfully submitted,



Sands Stiefer
Chief Appraiser



Roland Altinger
Deputy Chief Appraiser



Theresa Paul
Chief Financial Officer



Tracey Dang
Assistant Chief Financial Officer

HARRIS COUNTY APPRAISAL DISTRICT

APPRAISAL PROCESS

December 31, 2014

RECORDS MAINTENANCE

Maintain the accuracy of the appraisal records concerning: REAL PROPERTY: 1) Update ownership based on property transfers; 2) Update legal descriptions as a result of a replat or combinations of property; 3) Maintain proper taxing jurisdiction listed on each account. PERSONAL PROPERTY: 1) Update ownership records; 2) Add and delete accounts based on existence of business.

DATA COLLECTION

REAL PROPERTY: 1) Capture and list the construction of all new improvements built each year; 2) Periodically review and update existing property characteristics. PERSONAL PROPERTY: 1) Assign Standard Industrial Codes; 2) Properly classify all property characteristics such as quality and quantity of inventory.

DATA ENTRY

Enter all property characteristics to the appraisal database after data collection.

MARKET ANALYSIS

Collect and analyze market information such as: 1) Sales of residential and commercial property and vacant land; 2) Occupancy and rental rates associated with commercial properties; and 3) Current construction costs associated with residential and commercial properties. Update cost schedules and market and income models associated with the mass appraisal model of all property.

APPRAISE ALL REAL AND PERSONAL PROPERTY

Determine appraisals for all properties using schedules and models tailored to specific property in defined neighborhoods.

REVIEW AND MAKE A FINAL APPRAISAL

Review all computer-generated values using automated and manual techniques, and select the most appropriate value for each property.

REVIEW REQUESTS FOR SPECIAL VALUATION AND DETERMINE VALUES

PROCESS EXEMPTION APPLICATIONS AND APPLICATIONS FOR DEFERRAL AND TAX ABATEMENTS

NOTIFY PROPERTY OWNERS

Submit appraisal records to the Appraisal Review Board
by May 15 or as soon thereafter as practical

PROCESS HEARINGS ASSOCIATED WITH PROPERTY OWNER PROTESTS

May - August

PRODUCE AND DELIVER CERTIFIED ROLLS TO TAXING UNITS

By July 20 or when 95 percent of the total appraisal roll value is ready to be certified

PROCESS CHANGES TO CERTIFIED ACCOUNTS AND ADDITION OF NEW ACCOUNTS

1) Failure of notice 2) Late protests 3) Correction motions 4) Litigation 5) Omitted property

PERIODICALLY PRODUCE CORRECTION AND SUPPLEMENT APPRAISAL ROLLS FOR EACH YEAR

HARRIS COUNTY APPRAISAL DISTRICT

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

December 31, 2014



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Harris County Appraisal District
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013



Executive Director/CEO

HARRIS COUNTY APPRAISAL DISTRICT

DISTRICT OFFICIALS

December 31, 2014

ED HEATHCOTT

Chairman

RAY HOLTZAPPLE

Secretary

MIKE SULLIVAN

Assistant Secretary

GLENN PETERS

Member

TONI TRUMBULL

Member

MIKE LUNCEFORD

Member

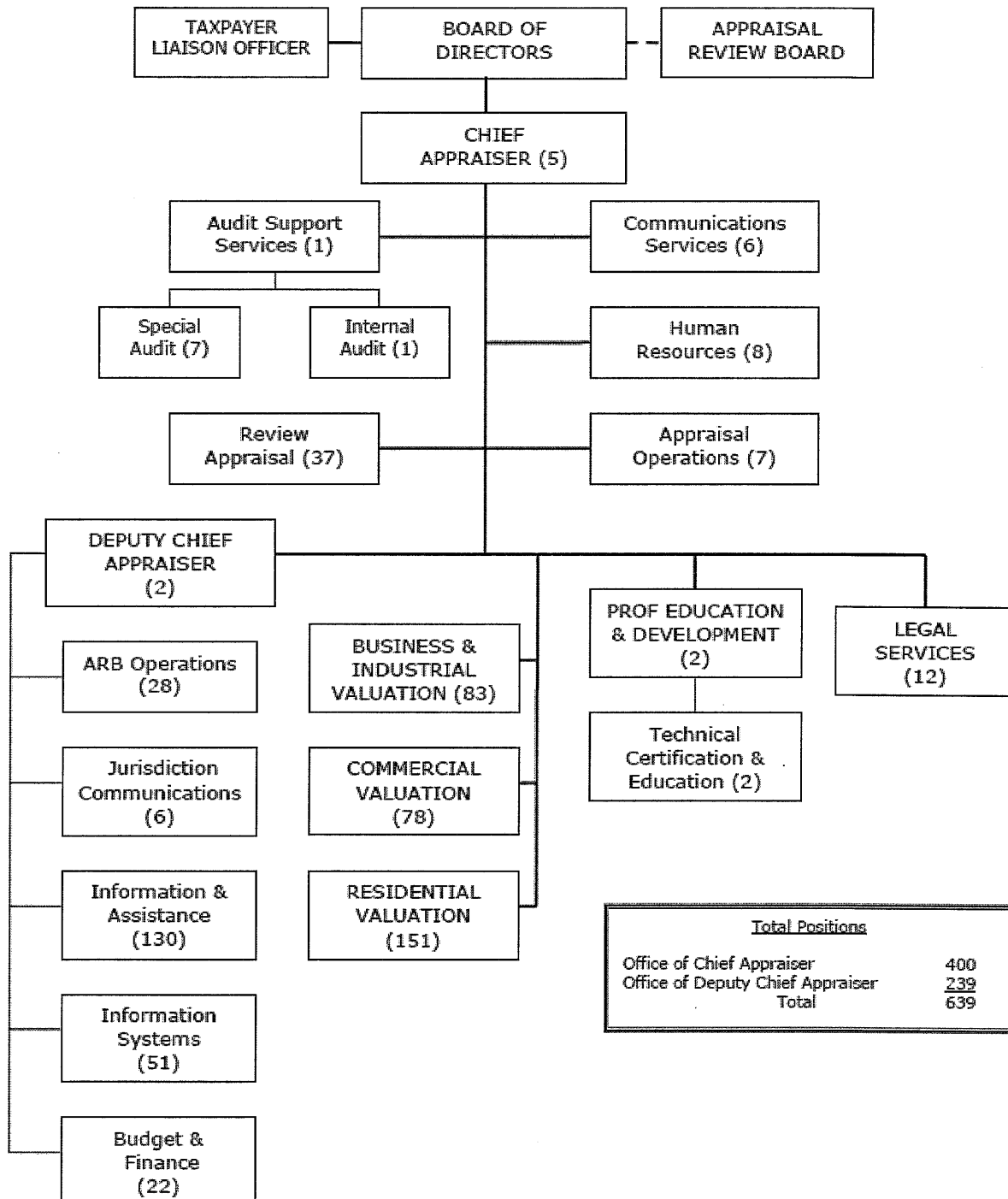
SANDS L. STIEFER

Chief Appraiser

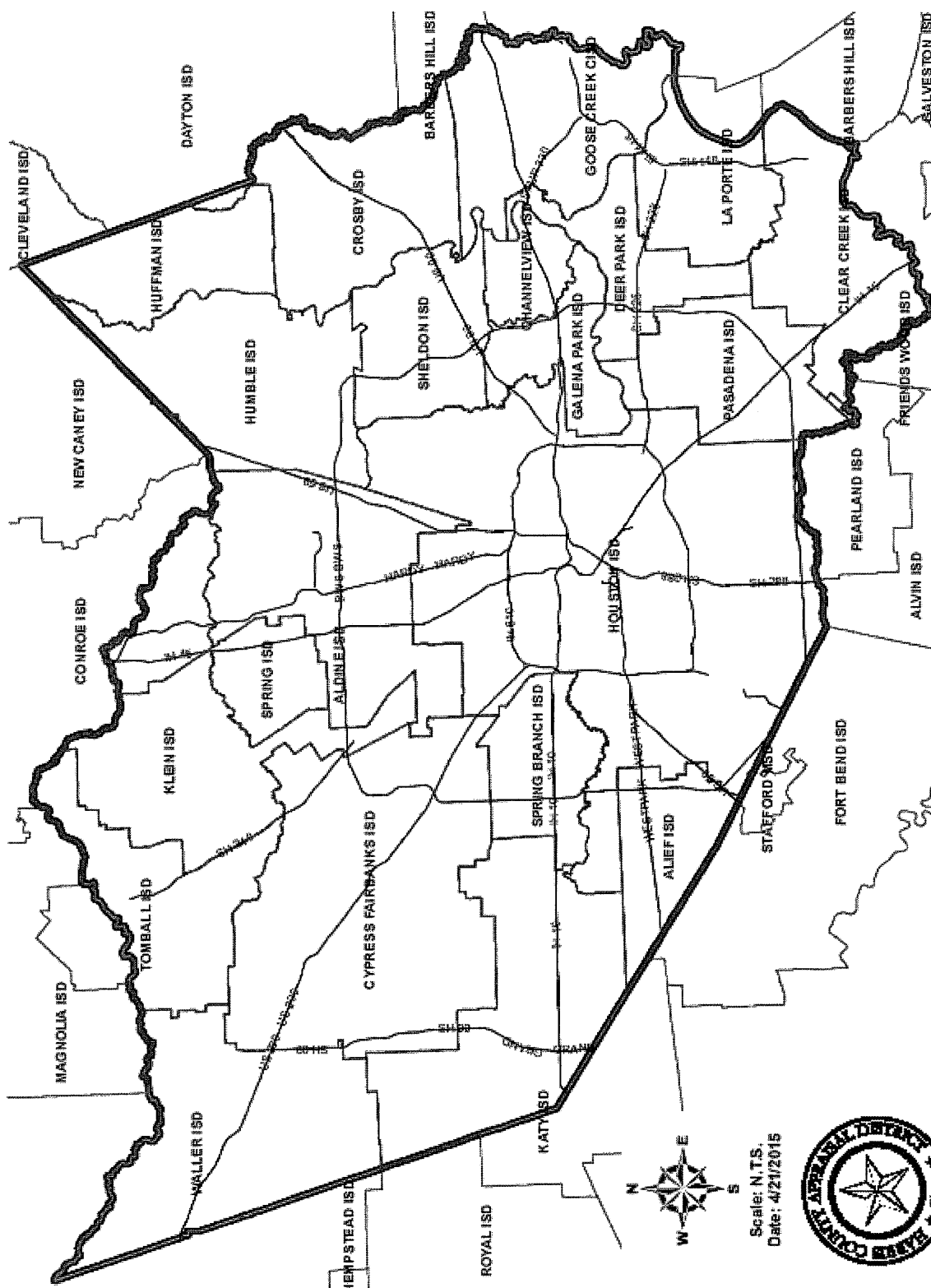
HARRIS COUNTY APPRAISAL DISTRICT

PLAN OF ORGANIZATION

December 31, 2014



December 31, 2014



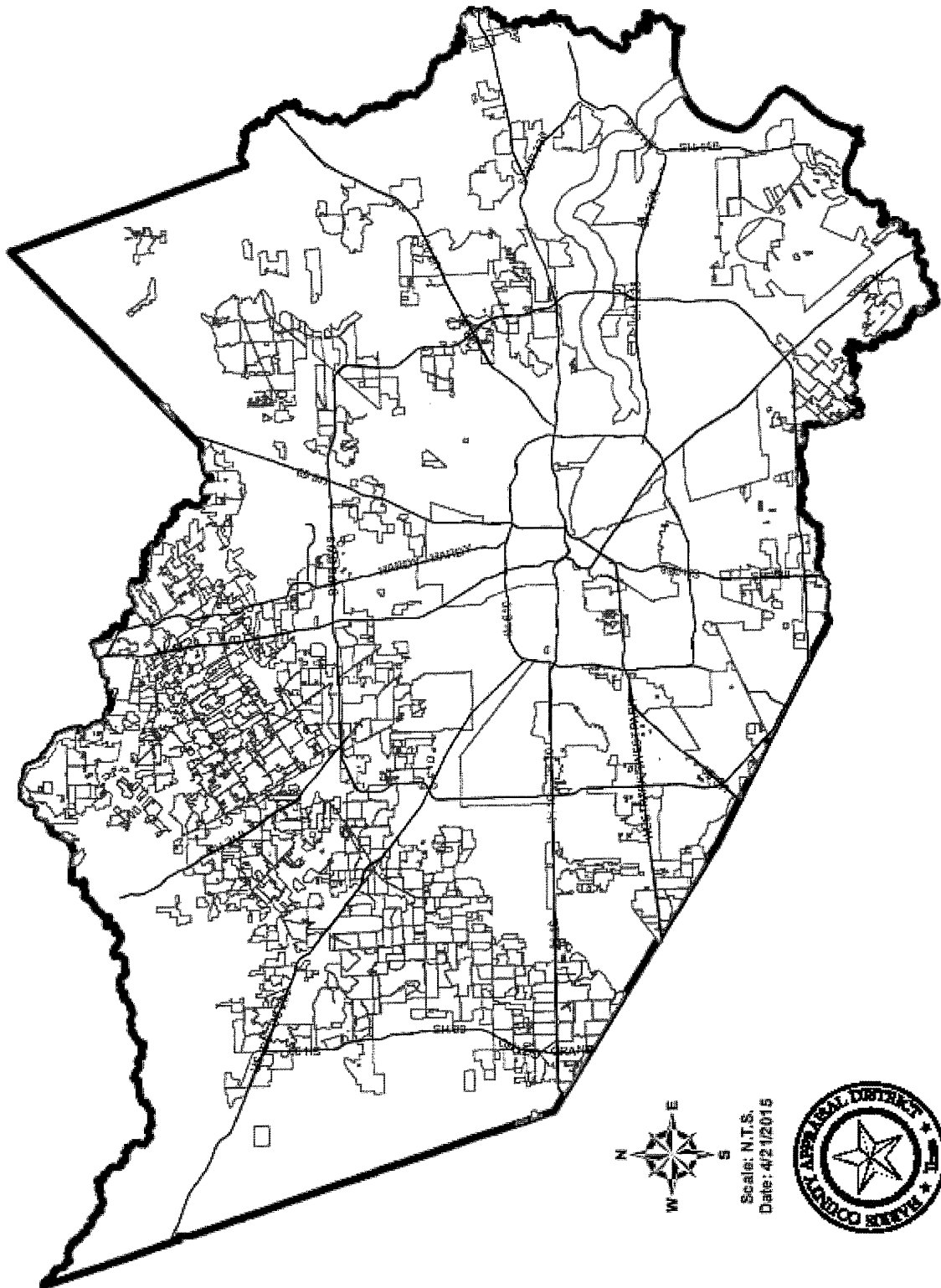
December 31, 2014



HARRIS COUNTY APPRAISAL DISTRICT

HARRIS COUNTY SPECIAL DISTRICTS

December 31, 2014



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Audit Committee
and Board of Directors of the
Harris County Appraisal District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harris County Appraisal District (the "district"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the district as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedules of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the district's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 11, 2015

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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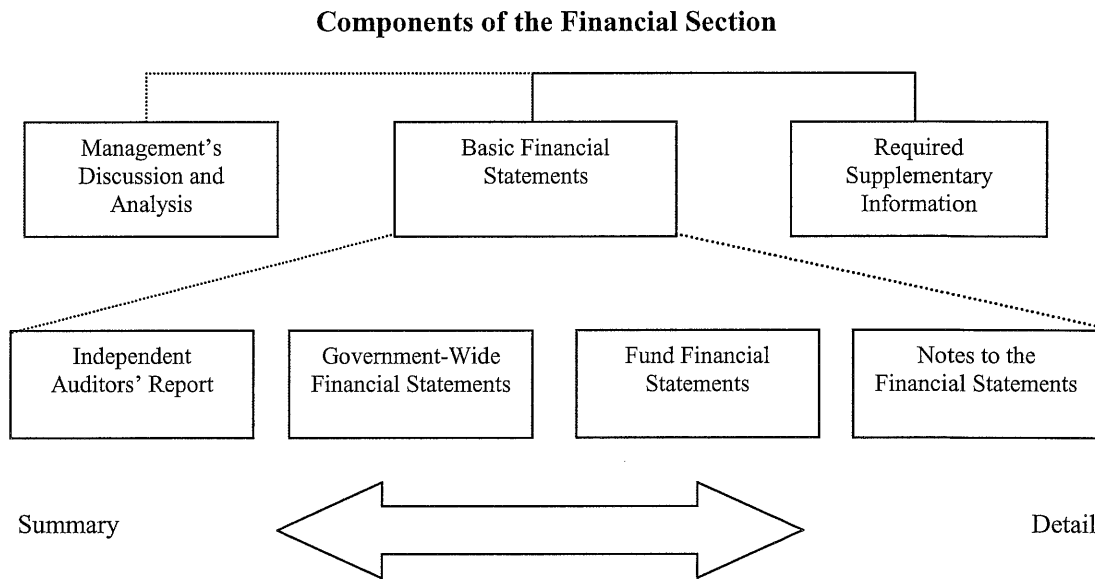
HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the Harris County Appraisal District (the "district"), for the year ended December 31, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the district's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the district's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The district's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the district as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the district as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the district's financial statements, report information on the district's activities that enable the reader to understand the financial condition of the district. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the district's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating. Other non-financial factors, such as the district's assessment tax base and the condition of the district's capital assets, need to be considered in order to assess the overall health of the district.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

The Statement of Activities presents information showing how the district's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The government-wide financial statements should distinguish functions of the district that are principally supported by the district's taxing units and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). All of the district's activities are governmental. The district is the *primary government* and has no component units.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the district. They are usually segregated for specific activities or objectives. The district uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of district funds are governmental and proprietary. The district maintains an internal service fund, which is used for a governmental function and is included within governmental activities in the government-wide financial statements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the district's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the district's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The district maintains one governmental fund, the general fund. This fund is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The general fund is always considered to be a major fund.

The district adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

The district maintains one type of proprietary fund, an internal service fund. An internal service fund is an accounting device used to accumulate revenue and allocate costs. The district's internal service fund is used in the administration of the district's employee benefits self-insurance program. Since this fund benefits governmental activities rather than a business-type function, it has been included with governmental activities in the government-wide financial statements.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of funding progress for the Texas County and District Retirement System and other post employment benefits for healthcare. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the district's financial position. Assets exceed liabilities by \$12,651,491 as of year end. This compares with \$15,798,805 from the prior fiscal year. The largest portion of the district's net position, 75 percent, reflects its investments in capital assets (e.g., the geographical information system, land, building, furniture, equipment, vehicles, and computers and peripherals), less any debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services to the taxing units and the citizens and property owners of Harris County; consequently, these assets are not available for future spending. Although the district's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Percent
	2014	2013	Change
Current and other assets	\$ 35,892,625	\$ 36,617,163	(2)%
Capital assets, net	22,251,550	22,663,358	(2)%
Total Assets	58,144,175	59,280,521	(2)%
Long-term liabilities	24,978,668	25,878,869	(3)%
Other liabilities	2,413,409	2,153,138	12%
Total Liabilities	27,392,077	28,032,007	(2)%
Assessments	18,100,607	15,449,709	17%
Total Deferred Inflows of Resources	18,100,607	15,449,709	17%
Net Position:			
Net investment in capital assets	9,431,301	9,021,196	5%
Restricted	151,277	151,312	0%
Unrestricted	3,068,913	6,626,297	(54)%
Total Net Position	\$ 12,651,491	\$ 15,798,805	-20%

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

A portion of the primary government's net position, \$151,277 or one percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$3,068,913 or 24 percent, may be used to meet the district's ongoing obligation to citizens and creditors.

The district's total net position decreased by \$3,147,314 during the current fiscal year. This primarily was a result of an increase in appraisal hearing expenses for the office of the chief appraiser and board of directors' function and an increase in data processing expenses in the information systems function.

Statement of Activities:

The following table provides a summary of the district's changes in net position:

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 1,153,984	\$ 1,036,988
General revenues:		
Assessments	64,367,413	61,566,883
Investment income	19,564	24,948
Total Revenues	<u>65,540,961</u>	<u>62,628,819</u>
Expenses		
Office of Chief Appraiser and		
Board of Directors	12,277,502	9,236,747
Appraisal support	11,292,560	10,596,987
Appraisal	26,003,956	25,046,836
Information systems	8,303,305	7,598,860
Administration	6,742,844	6,080,782
Administration/building services	2,944,527	3,683,503
Interest on long-term debt	1,123,581	1,190,711
Total Expenses	<u>68,688,275</u>	<u>63,434,426</u>
Change in Net Position	(3,147,314)	(805,607)
Beginning net position	<u>15,798,805</u>	<u>16,604,412</u>
Ending Net Position	<u>\$ 12,651,491</u>	<u>\$ 15,798,805</u>

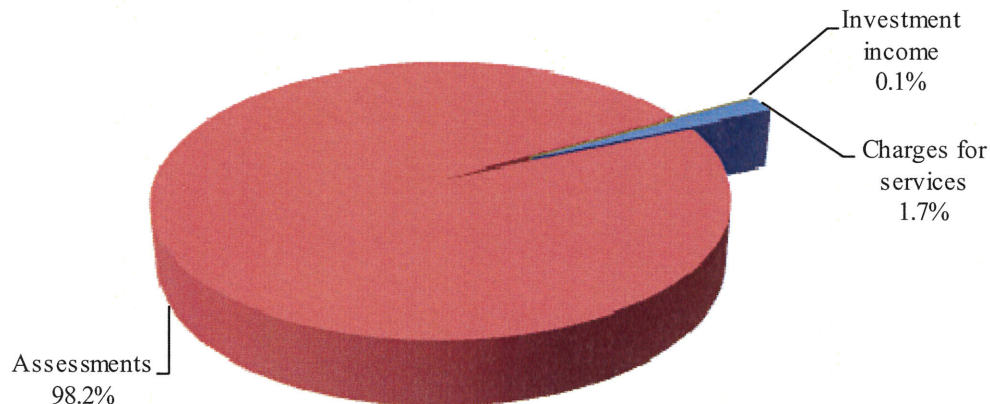
HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

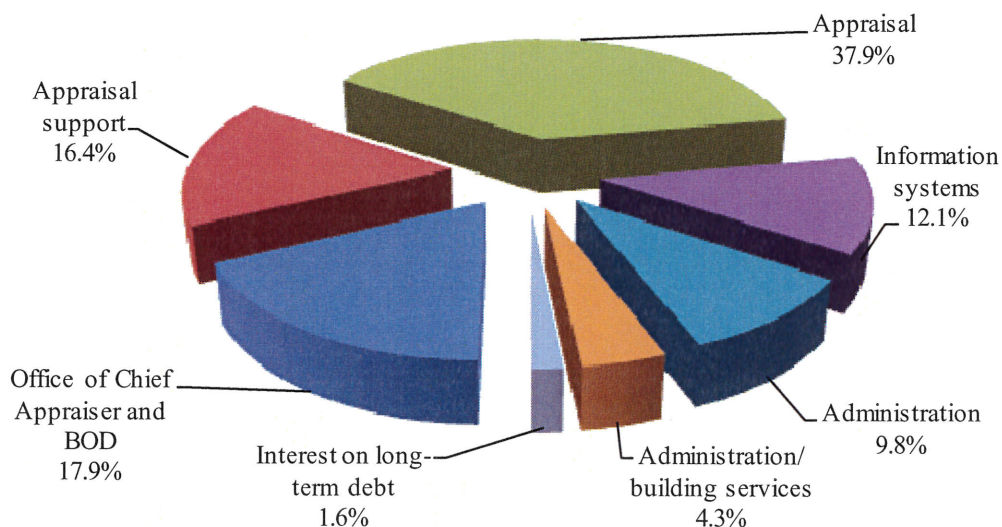
For the Year Ended December 31, 2014

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the district's activities.

Governmental Activities - Revenues



Governmental Activities - Expenses



For the year ended December 31, 2014, revenues from governmental activities totaled \$65,540,961, which was an increase of \$2,912,142 or five percent from the prior year. This increase is primarily due to an increase in assessment revenue.

Total expenses for the district increased in comparison to 2013 by \$5,253,849 or 8.3 percent. This was primarily due to an increase in appraisal hearing expenses and information systems purchases and maintenance.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the district's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the district's net resources available for spending at the end of the year.

The general fund is the district's primary operating fund. At the end of the year, total fund balance was \$11,401,463. Of this, \$355,921 is nonspendable, \$151,277 is restricted for building maintenance and repair, \$978,282 is assigned for special projects, \$1,500,000 is assigned for capital improvements, \$750,000 is assigned for subsequent year's budget appropriation of fund balance, and \$7,665,983 is unassigned. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11 percent of total general fund expenditures, while total fund balance represents 17 percent of that same amount.

There was decrease in fund balance for the general fund of \$3,231,653 due to an increase in appraisal hearing expenses.

Proprietary Funds – The district's internal service fund is used in the administration of the district's employee benefits self-insurance program. This fund is presented as a governmental activity rather than a business-type function. Net position decreased by \$448,177 primarily as a result of increased insurance and prescription claims. This includes the budgeted application of \$300,000 of fund balance to the general fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded final budgeted revenues by \$198,643 during the year. This net positive variance is largely due to greater than expected rendition penalty fees and other revenues from dealer declaration penalties. General fund expenditures were less than the final budget by \$902,062 as a result of the district's effort to keep expenditures at or below budget.

Significant variances between the original budget and final budget occurred for professional services in the office of the chief appraiser and board of directors division. The increase of \$1,321,600 was to fund the increase in appraisal review board hearing legal expenses.

CAPITAL ASSETS

At the end of the year, the district's governmental activities funds had invested \$22,251,550 (net of accumulated depreciation) in a variety of capital assets. During the year, the district added to existing investments in computers and peripherals.

Additional information on the district's capital assets can be found in note III.C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the district had total long-term debt of \$19,424,619, in addition to accrued compensated absences of \$2,661,293 and a net other post employment benefit obligation of \$2,892,756.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2014

More detailed information about the district's long-term debt can be found in note III.E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The district's Board of Directors approved a \$76.5 million budget for the 2015 fiscal year. This was an increase of \$7.9 million or 11.5 percent over the 2014 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the district's finances. Questions concerning this report or requests for additional financial information should be directed to Theresa Paul, Chief Financial Officer, Harris County Appraisal District, 13013 Northwest Freeway, Houston, Texas, 77040-6305. For information about services, property values, the appraisal process, exemptions, and other appraisal information, visit the district's website at www.hcad.org.

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BASIC FINANCIAL STATEMENTS

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION

December 31, 2014

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 33,501,812
Investments	1,733,732
Receivables, net	149,883
Prepaid items	355,921
Cash with fiscal agent - restricted	151,277
	<u>35,892,625</u>
Capital assets - non-depreciable	8,365,075
Capital assets - depreciable, net of accumulated depreciation	13,886,475
	<u>22,251,550</u>
Total Assets	<u>58,144,175</u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	2,413,409
	<u>2,413,409</u>
Due within one year	3,445,376
Due in more than one year	21,533,292
	<u>24,978,668</u>
Total Liabilities	<u>27,392,077</u>
<u>Deferred Inflows of Resources</u>	
Assessments	<u>18,100,607</u>
<u>Net Position</u>	
Net investment in capital assets	9,431,301
Restricted for:	
Building maintenance and repair	151,277
Unrestricted	3,068,913
Total Net Position	<u><u>\$ 12,651,491</u></u>

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Change in Net Position
			Primary Government Governmental Activities
Primary Government			
Governmental Activities			
Office of Chief Appraiser and Board of Directors	\$ 12,277,502	\$ -	\$ (12,277,502)
Appraisal support	11,292,560	-	(11,292,560)
Appraisal	26,003,956	1,153,984	(24,849,972)
Information systems	8,303,305	-	(8,303,305)
Administration	6,742,844	-	(6,742,844)
Administration/building services	2,944,527	-	(2,944,527)
Interest on long-term debt	1,123,581	-	(1,123,581)
Total Governmental Activities	<u>\$ 68,688,275</u>	<u>\$ 1,153,984</u>	<u>(67,534,291)</u>
Total Primary Government	<u>\$ 68,688,275</u>	<u>\$ 1,153,984</u>	<u>(67,534,291)</u>
General Revenues:			
Assessments			64,367,413
Investment income			19,564
Total General Revenues			<u>64,386,977</u>
Change in Net Position			<u>(3,147,314)</u>
Beginning net position			15,798,805
Ending Net Position			<u>\$ 12,651,491</u>

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

BALANCE SHEET GOVERNMENTAL FUND

December 31, 2014

	General
<u>Assets</u>	
Cash and cash equivalents	\$ 29,781,911
Investments	1,733,732
Receivables, net	149,883
Prepaid items	355,921
Cash with fiscal agent - restricted	151,277
Total Assets	\$ 32,172,724
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 1,984,330
Total Liabilities	1,984,330
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - assessments	18,100,607
Unavailable revenue - rendition penalty, net	686,324
Total Deferred Inflows of Resources	18,786,931
<u>Fund Balance</u>	
Nonspendable:	
Prepaid items	355,921
Restricted for:	
Building maintenance and repair	151,277
Assigned for:	
Special projects	978,282
Capital improvements	1,500,000
Subsequent year's budget: appropriation of fund balance	750,000
Unassigned	7,665,983
Total Fund Balance	11,401,463
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the fund:	
Rendition penalty receivable, net	686,324
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund:	
Capital assets - non-depreciable	8,365,075
Capital assets - depreciable, net of accumulated depreciation	13,886,475
Internal service funds are used by management to charge the costs of certain activities such as insurance; therefore, the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	3,290,822
Some liabilities are not reported as liabilities in the governmental funds:	
Non-current liabilities due within one year	(3,445,376)
Non-current liabilities due in more than one year	(21,533,292)
Net Position of Governmental Activities	\$ 12,651,491

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended December 31, 2014

	<u>General</u>
<u>Revenues</u>	
Assessments	\$ 64,367,413
Investment income	18,934
Other revenue	760,459
Rendition penalty fee	349,402
Total Revenues	<u>65,496,208</u>
<u>Expenditures</u>	
Current:	
Office of Chief Appraiser and	
Board of Directors	12,195,547
Appraisal support	11,119,331
Appraisal	25,595,462
Information systems	7,851,749
Administration	6,551,032
Administration/building services	2,826,193
Capital outlay	219,642
Debt service:	
Principal	1,245,324
Interest and fiscal charges	1,123,581
Total Expenditures	<u>68,727,861</u>
Net Change in Fund Balance	<u>(3,231,653)</u>
Beginning fund balance	14,633,116
Ending Fund Balance	<u><u>\$ 11,401,463</u></u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Net change in fund balance - governmental fund \$ (3,231,653)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	219,642
Depreciation expense	(631,450)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Change in rendition penalty receivable	44,123
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The issuance of long-term debt (e.g., leases, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Principal paid	1,245,324
Change in accrued compensated absences	(177,628)
Change in net other post employment benefits obligation	(167,495)

Internal service funds are used by management to charge the costs of certain activities, such as employee health and dental benefits, to individual funds.

The net revenue of certain internal service funds is reported with governmental activities.	(448,177)
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Change in Net Position of Governmental Activities	\$ (3,147,314)
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See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

December 31, 2014

		<u>Governmental Activities</u>
		<u>Internal Service</u>
<u>Assets</u>		
Cash and cash equivalents		\$ 3,719,901
	Total Assets	<u>3,719,901</u>
<u>Liabilities</u>		
Estimated claims payable		429,079
	Total Liabilities	<u>429,079</u>
<u>Net Position</u>		
Unrestricted		3,290,822
	Total Net Position	<u><u>\$ 3,290,822</u></u>

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

For the Year Ended December 31, 2014

	Governmental Activities
	Internal Service
<u>Operating Revenues</u>	
Charges for services	\$ 4,515,699
Claim refunds and other	1,021,828
Total Operating Revenues	5,537,527
<u>Operating Expenses</u>	
Insurance claims	3,636,140
Prescription claims	2,017,285
Dental claims	332,909
Total Operating Expenses	5,986,334
Operating Loss	(448,807)
<u>Nonoperating Revenues</u>	
Investment income	630
Total Nonoperating Revenues	630
Change in Net Position	(448,177)
Beginning net position	3,738,999
Ending Net Position	\$ 3,290,822

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2014

	<u>Governmental Activities Internal Service</u>
<u>Cash Flows from Operating Activities</u>	
Proceeds for charges for services	\$ 5,537,527
Claims paid	(5,985,419)
Net Cash (Used) by Operating Activities	<u>(447,892)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	630
Net Cash Provided by Investing Activities	<u>630</u>
Net Decrease in Cash and Cash Equivalents	(447,262)
Beginning cash and cash equivalents	<u>4,167,163</u>
Ending Cash and Cash Equivalents	<u>\$ 3,719,901</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating (loss)	\$ (448,807)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Increase in estimated claims payable	915
Net Cash (Used) by Operating Activities	<u>\$ (447,892)</u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. District Formation and Reporting Entity

The Harris County Appraisal District (the “district”) was created upon the enactment of the Texas Property Tax Code by the 66th Texas State Legislature in 1979. The district’s first year of full operations was 1984. The district was created to provide various taxing jurisdictions with appraisals of property subject to *ad valorem* taxation in Harris County, Texas. The district’s Board of Directors is appointed by the taxing jurisdictions within its boundaries.

The district is an independent political subdivision of the State of Texas. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the district’s financial reporting entity. No other entities have been included in the district’s reporting entity. Additionally, as the district is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the district’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the district is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the district’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the district as a whole. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. The district only has governmental activities.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the district’s funds. Separate statements for each fund category – governmental and proprietary– are presented. The emphasis of fund financial statements is on the major governmental fund.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

The district reports the following governmental fund:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal source of revenue is assessment fees from the taxing entities located in Harris County and expenditures include related appraisal activities and support. The general fund is always considered a major fund for reporting purposes.

Additionally, the district reports the following fund type:

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. Goods and services provided by the district's internal service fund include employee health and dental benefits. The internal service fund is included in governmental activities for government-wide reporting purposes.

During the course of operations, the district has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the district.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The district'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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the district reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

For district investments, both the statutes of the State of Texas and policies mandated by the district's Board of Directors, where more restrictive, authorize the district to invest only in (1) certificates of deposit issued by federally insured banks or savings and loan associations in Harris County, Texas; (2) obligations of the United States or its agencies and instrumentalities; (3) repurchase agreements; and (4) TexPool, which is a public funds investment pool.

3. Receivables and Payables

The district's primary revenue source is from assessments to taxing jurisdictions for services provided by the district. Assessments are imposed annually based on the amount approved by the Board of Directors in the annual budget. As required by law, the assessment is allocated in four equal payments due on the last day of each quarter, with the first quarterly payment due before January 1 of the year in which the budget takes effect. Such assessments become delinquent if unpaid on the due date. Assessments that are applicable to the district's subsequent fiscal year are recorded as deferred inflows of resources.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

4. Inventories and Prepaid Items

Supplies inventories are recognized as an expenditure as soon as the corresponding liability is incurred, i.e., the purchase method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items, except for photo imaging which would result in inconsistencies in amounts reported. The district obtains photographic images county-wide using a combination of direct overhead aerials, oblique aerials (from an overhead angle), as well as street-level imagery. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased. In certain instances, the district is licensed to use the images for a period greater than one year but the district does not recognize these licenses as a prepaid item to keep the recording of these expenditures consistent with other photographic services hired directly by the district.

5. Restricted Assets

Restricted cash represents unexpended debt proceeds held in escrow accounts at year end and is restricted to be used for the acquisition of goods and services per the contracts related to the borrowed funds.

6. Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and vehicles, are reported in the governmental activities column in the government-wide financial statements. The district defines capital assets as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the district are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Computers and peripherals	5 years
Vehicles	5 years
Furniture and equipment	5 years
Buildings and improvements	5 to 50 years

7. 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 that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The district has no items that qualify for reporting in this category.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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 that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The district has two resources which arise under a modified accrual basis of accounting, that qualify for reporting in this category. The governmental funds report unavailable revenues from assessments and rendition penalties. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. At the government-wide level, the district reports a deferred inflow of resources for that portion of assessments that was collected for use in the subsequent period.

8. Compensated Employee Absences

All full-time employees are granted vacation and sick leave benefits in varying amounts. Exempt employees earn compensatory time for overtime worked. In the event of voluntary termination, an employee is entitled to receive accumulated vacation pay and 50 percent of compensatory benefits up to 80 hours in a lump sum cash payment. In the event of discharge, an employee receives no compensatory time payment. There is no liability for unpaid accumulated sick leave since these benefits are lost in the event of an employee's termination. All vested or accumulated vacation and compensatory time is accrued when incurred in the government-wide financial statements. Vested or accumulated compensatory time that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it has matured. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

9. 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 or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

10. Net Position Flow Assumption

Sometimes the district will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the district's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

11. Fund Balance Flow Assumptions

Sometimes the district will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the district's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The district itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the district's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the district that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the district for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

13. Post Employment Healthcare Benefits

The district provides post employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

employees who elect coverage under COBRA, and the district incurs no direct costs. The district approved the payment of health insurance premiums for eligible retirees. Coverage is offered to those employees who are under 64 years of age. A portion of the retiree cost for health insurance will be covered until the retiree reaches the age of 65 or has participated for five years, whichever is earliest. At age 65, the retiree would then be eligible for the Medicare Part B coverage at their own expense.

14. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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. The principal operating revenues of the internal service fund are charges to customers for services and insurance claim refunds. Operating expenses for the internal service fund include insurance, prescription, and dental claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The district uses the following procedures in establishing the budget reflected in the financial statements:

Prior to June 15, the Board of Directors and taxing units are presented with a proposed budget for the fiscal year beginning on the following January 1. The budget includes proposed expenditures and the means of financing them. The budget also serves as a basis for determining the annual assessments due from the taxing jurisdictions.

Public hearings are conducted to obtain citizens' comments.

The budget must be approved before September 15. The budget for the fiscal year ended December 31, 2014 was legally enacted through passage of Board resolution 2013-02 on August 21, 2013.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

The budget is considered a management control and planning tool and, as such, is incorporated into the accounting system of the district. Appropriations lapse at fiscal year end, except that portion related to encumbered amounts. An annual budget is legally adopted for the general fund only.

The chief appraiser is authorized to transfer budgeted amounts between divisions or line items (legal level of budgetary control), for example, a budget transfer from the salaries and wages account in the information and assistance division to the contract labor account in the field operations division. However, the Board of Directors must approve transfers of more than \$25,000. Supplemental appropriations in excess of the total budget require budget amendments in the manner provided by law. No supplemental appropriations were made during 2014.

Encumbrance accounting is employed in the general fund. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve the applicable portion of appropriations. Open encumbrances are reported as an assignment of fund balance since the related appropriations do not lapse at year end. Encumbrances do not constitute expenditures or liabilities.

B. Budget/Generally Accepted Accounting Principles Reconciliation

The district prepares its annual budget on a basis which differs from generally accepted accounting principles (GAAP basis). Therefore, the actual column presented in the budget to actual comparison has been adjusted to the district's budget basis of accounting to provide a meaningful comparison of actual results with the budget. The district's budget basis of accounting differs from GAAP basis because of timing and perspective differences. Timing differences result from the recognition of encumbrances (i.e., purchase orders outstanding at year end) as expenditures that have not been recognized as expenditures for GAAP purposes. Perspective differences result from the district's use of sub-funds that are combined for GAAP reporting purposes with the district's general fund, but budgets are not adopted for these sub-funds. Sub-funds are used by the district to account for the proceeds of notes payable and the related use of funds, which are not budgeted but are approved by the Board of Directors. Adjustments necessary to convert results of operations for the general fund for the year ended December 31, 2014 from the budget basis to GAAP basis are presented in the notes to RSI.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

As of December 31, 2014, the district had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. treasuries	\$ 151,218	0.04
Municipal bonds	1,733,732	0.22
State pool (TexPool)	24,652,192	0.00
Total fair value	<u>\$ 26,537,142</u>	
Portfolio weighted average maturity		0.02

Credit risk. The district's investment policy limits investments in money market mutual funds rated as to investment quality not less than "AAA" by Standard & Poor's. As of December 31, 2014, the district's investment in TexPool was rated "AAAm" by Standard & Poor's. All other investments are

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

guaranteed (either express or implied) by the full faith and credit of the United States government or the issuer U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the district's deposits may not be returned to it. The district's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 100 percent. As of December 31, 2014, market values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district's investment policy requires that all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the district's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized costs rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of the TexPool shares.

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line on the face of the financial statements. Below is the detail of receivables for the general fund:

Jurisdiction assessments	\$ 118,860
Accounts receivable	12,703
Interest receivable	18,320
	<u>\$ 149,883</u>

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Beginning Balance	Additions	Deletions/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,335,000	\$ -	\$ -	\$ 2,335,000
GIS database	6,030,075	-	-	6,030,075
Total capital assets, not being depreciated	8,365,075	-	-	8,365,075
Capital assets being depreciated:				
Building	16,602,032	-	-	16,602,032
Furniture and equipment	746,195	-	(79,257)	666,938
Computers and peripherals	6,437,827	219,642	(1,688,257)	4,969,212
Vehicles and other	154,989	-	-	154,989
Total capital assets being depreciated	23,941,043	219,642	(1,767,514)	22,393,171
Less accumulated depreciation:				
Building	(2,988,367)	(332,041)	-	(3,320,408)
Furniture and equipment	(491,913)	(56,929)	79,257	(469,585)
Computers and peripherals	(6,066,173)	(227,249)	1,688,257	(4,605,165)
Vehicles and other	(96,307)	(15,231)	-	(111,538)
Total accumulated depreciation	(9,642,760)	(631,450)	1,767,514	(8,506,696)
Total capital assets, being depreciated, net	14,298,283	(411,808)	-	13,886,475
Governmental Activities Capital Assets, Net	\$ 22,663,358	\$ (411,808)	\$ -	22,251,550
			Less associated debt	(12,820,249)
			Net Investment in Capital Assets	\$ 9,431,301

Depreciation expense was charged to functions/programs of the district as follows:

Governmental Activities:	
Office of chief appraiser and board of directors	\$ 3,915
Appraisal support	12,755
Appraisal	22,290
Information systems	347,298
Administration	126,858
Administration/ building services	118,334
Total Governmental Activities Depreciation Expense	\$ 631,450

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

D. Leases

Capital Lease – Building

In 2004, the district entered into a series of agreements to finance the purchase and renovation of a building to house its operations. In addition, commitments remaining under an existing operating lease were also included in the financing package to reduce the cash flow requirements over the remainder of the operating lease. The agreements provided for the establishment of draw and capital reserve accounts to be maintained by the lender for monies restricted to making renovations to the building and to the payment of operating lease payments. Included in the agreement are provisions for use of these monies if a reduction in the remaining lease payments could be negotiated. To preserve the tax-exempt status of a portion of the financing, thereby resulting in a lower interest rate to the district, a new entity, 13013 NWF, Inc. (the “Lessor”), was created to serve as the lessor and secure financing from the lender, Bank of America. This entity is not a component unit of the district.

On April 14, 2004, the Board of Directors approved Resolution 2004-4 authorizing the district to enter into a lease and purchase option agreement as lessee with the Lessor for financing a new administrative office facility and other costs for a total of \$28,500,000 meeting the criteria of a capital lease. At the conclusion of the 20 year agreement, there is an option to purchase the facility for \$100. This agreement was signed on April 30, 2004, and the district thereby became obligated for making interest only payments with scheduled lease payments commencing on January 1, 2006.

Included in the lease and purchase agreements, the Lessor entered into a loan agreement with Bank of America, N.A. The agreements were structured in two parts, the initial financing of the building and renovations to be made for a total of \$21,000,000 (nontaxable) at an interest rate of 5.15 percent and funds to finance the termination payments by the district for their existing noncancelable operating lease not to exceed \$7,500,000 (taxable) at an interest rate of 6.76 percent as a lease inducement.

In the event that the district was able to negotiate with its previous landlord payment(s) for the district’s previous facilities for an amount less than \$7,500,000, remaining payments would be transferred into a capital reserve account.

The agreements called for the creation of a capital reserve account (the “Reserve Fund”) to be maintained by Bank of America, N.A. for the benefit of both the Lessor and the district. Deposits in the Reserve Fund will include any excess funds remaining from the design or relocation allowance included in the \$21,000,000, as well as any excess funds used for the termination payments for the existing noncancelable operating lease from the \$7,500,000. All interest earned from investment of the funds deposited in the Reserve Fund shall be credited to the Reserve Fund. Disbursements shall be made from the Reserve Fund to reimburse the district only for the costs of alterations to the building or garage and replacement of or other maintenance and repair expenditures related to the building systems. As of December 31, 2014, there is a balance of \$151,277 in the Reserve Fund.

As a part of the agreements, any monies held as part of the draw and or capital reserve account will be invested or reinvested by the lender, at the written direction of the Lessor and the district, in permitted investments. If not otherwise directed, the lender shall invest cash balances in the money market fund of the lender, or if such fund is not available, in a comparable cash management fund. The interest accruing and any profit realized from such investments will be credited pro rata to the draw account from which such investments were made, and any loss resulting from such investment

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

shall be charged pro rata to the draw account, as well. In addition, the lender shall have no responsibility or liability for the amount of interest earned on the reserve fund.

As of year end, the balance of the Reserve Fund was split between an operating or demand deposit account with a financial institution and a U.S. Treasury investment held by a separate financial institution, both in the name of the Lessor.

Activity in the Reserve Fund for the year was as follows:

Beginning balance	\$ 151,312
Interest earnings	152
Bank fees	(187)
Ending balance	<u>\$ 151,277</u>

Future combined minimum capital lease payments for this lease as of December 31, 2014 are as follows:

Year Ending Dec. 31	Capital Lease				Total	
	\$21 M		\$7.5 M			
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 979,778	\$ 704,262	\$ 336,564	\$ 348,298	\$ 1,316,342	\$ 1,052,560
2016	1,031,445	652,595	360,035	324,828	1,391,480	977,423
2017	1,085,837	598,204	385,141	299,722	1,470,978	897,926
2018	1,143,096	540,944	411,999	272,864	1,555,095	813,808
2019	1,203,375	480,665	440,729	244,134	1,644,104	724,799
2020-2024	7,038,374	1,381,830	2,709,825	714,489	9,748,199	2,096,319
2025	1,637,990	46,052	660,431	24,432	2,298,421	70,484
Total	\$ 14,119,895	\$ 4,404,552	\$ 5,304,724	\$ 2,228,767	\$ 19,424,619	\$ 6,633,319

Capital assets acquired under capital lease obligations and the accumulated depreciation as December 31, 2014 are as follows:

Land	\$ 2,335,000
Building	16,602,032
Less accumulated depreciation	(3,320,408)
Total	<u>\$ 15,616,624</u>

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

E. Long-Term Debt

The following is a summary of changes in the district's total long-term liabilities for the year end. In general, the district uses the general fund to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the district's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Notes and other payables:					
Capital leases	\$ 20,669,943	\$ -	\$ 1,245,324	\$ 19,424,619	* \$ 1,316,342
Other liabilities:					
Net OPEB obligation	2,725,261	900,694	733,199	2,892,756	-
Compensated absences	2,483,665	1,654,326	1,476,698	2,661,293	2,129,034
Total Governmental Activities	<u>\$ 25,878,869</u>	<u>\$ 2,555,020</u>	<u>\$ 3,455,221</u>	<u>\$ 24,978,668</u>	<u>\$ 3,445,376</u>
Long-term debt due in more than one year				<u>\$ 21,533,292</u>	
* Capital Leases				\$ 19,424,619	
Lease portion expended on noncapital costs				(6,604,370)	
Debt associated with capital assets				<u>\$ 12,820,249</u>	

IV. OTHER INFORMATION

A. Risk Management

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation claims for which the district participates in the Texas Municipal League's General Liability and Workers' Compensation Funds (the "Funds"). Insurance provided by the Funds is similar to commercial insurance and the district has no additional responsibilities as a result of its participation.

The Texas Municipal League – Intergovernmental Risk Pool Workers' Compensation Self-Insurance Fund (the "Fund") provides medical and indemnity payments as required by law for on-the-job related injuries. Premiums are paid to the Fund based on a percentage of payroll, which are determined by considering such items as employee job descriptions, employer's experience and the Fund's performance.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

The district established a limited risk management program for health benefits claims in 1993. During 1994, a separate fund was established to account for the district's self-insurance activities and the accumulation of resources to satisfy potential claims of subsequent periods. The district's exposure is limited due to stop-loss protection and re-insurance. Changes in the balance of claim liabilities during the past two years are as follows:

	2014	2013
Beginning claims payable	\$ 428,164	\$ 381,200
Claims incurred	3,637,055	2,954,856
Claims paid	(3,636,140)	(2,907,892)
Ending Claims Payable	<u>\$ 429,079</u>	<u>\$ 428,164</u>

Claims payable for year end are estimated based upon prior year actual claims and claims activity at year end. A detailed analysis is not performed.

B. Contingent Liabilities

The district and the appraisal review board are defendants in numerous property owner appeals taken to the District Court pursuant to Chapter 42 of the Texas State Tax Code. Such legal proceedings allege that the appraised values placed on taxpayers' properties are excessive. The potential liability to the district in each of these appeals is for recovery of attorneys' fees, provided such fees may not exceed the greater of \$15,000 or 20 percent of the total amount of taxes in dispute, provided that such fees may not exceed the amount of taxes saved as a result of the appeal, and further provided that the fees may not exceed \$100,000 for each tax year appealed. Neither the district's management nor legal counsel is able to predict the outcome of these legal proceedings. Accordingly, no provision for any liability that might result therefrom has been recorded in the financial statements. However, during 2014, the actual amount paid was \$164,700.

As a result of a legislative change, the number of cases in which the district will be a defendant is expected to increase.

The district has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years. Prescription drug claims are not subject to either the aggregate or the specific stop-loss insurance. The risk of loss to the district in health claims is limited to the total aggregate stop-loss coverage of approximately \$3,702,098.

Section 6.06 of the Texas Property Tax Code provides certain restrictions concerning an appraisal district's assessment to taxing jurisdictions within its district. Generally, this amendment requires any charges assessed to a taxing jurisdiction during a fiscal year over the expenditures made or obligated to be made by the appraisal district during such year be credited against the taxing jurisdiction assessments in the following year or refunded to the taxing jurisdiction in certain circumstances. During 2014, the district's expenditures were approximately \$4,360,448 (GAAP basis) more than assessments to the taxing jurisdictions. Accordingly, no refund or credit is due to the taxing jurisdictions.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

C. Employee Retirement Systems and Plans

Texas County and District Retirement System

Plan Description

The district provides pension, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 641 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the district's Board of Directors, within the options available in the Texas state statutes governing TCDRS (TCDRS Act, Title 8, Texas Government Code). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employees' contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the district's Board of Directors within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employers' commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

	2014	2013
Employee deposit rate	7%	7%
Years required for vesting	8	8
Service requirement eligibility (expressed as age/yrs of service)	60/8, 0/30	60/8, 0/30

Funding Policy

The district has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. The employer's contribution rate was 14.48 percent for calendar year 2014. The contribution rate payable by the employee members is seven percent as adopted by the Board of Directors.

The employee contribution rate and the employer contribution rate may be changed by the Board of Directors within the options available in the TCDRS Act.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

Annual Pension Cost

The required contribution was determined as part of the December 31, 2013 actuarial valuation using entry age actuarial cost method. The actuarial assumptions at December 31, 2013 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 20 years.

For the district's accounting year ending December 31, 2014, the annual pension cost for the TCDRS plan for its employees was \$5,038,460, which was the actual contribution. This includes an additional payment by the district in the amount of \$500,000 for 2014.

	2014	2013	2012
Annual Req. Contrib. (ARC)	\$ 4,538,460	\$ 3,930,888	\$ 3,630,104
Contributions Made	4,538,460	3,930,888	3,630,104
Net Pension Obligation at the End of Period	\$ -	\$ -	\$ -

	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period*	20 Years - Closed	20 Years - Closed	20 Years - Closed
Asset Valuation Method	5-yr Smoothed Value	10-yr Smoothed Value	10-yr Smoothed Value
Investment Rate of Return	8.00%	8.00%	8.00%
Projected Salary Increases	4.90%	5.40%	5.40%
Includes Inflation at	3.00%	3.50%	3.50%
Cost of Living Adjustments	0.00%	0.00%	0.00%

*The remaining amortization period reflects the impact of new layers added each year. Each new layer is amortized over a 20 year period.

Funding Status and Funding Progress

As of December 31, 2013, the most recent valuation date, the plan was 88.8 percent funded. The actuarial accrued liability for benefits was \$136,281,031, and the actuarial value of assets was \$121,023,930, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,257,101. The covered payroll (annual payroll of active employees covered by the plan) was \$30,237,617, and the ratio of the UAAL to the covered payroll was 50.5 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

D. Other Post Employment Benefits

Healthcare Plan

Plan Description

The district provides a defined benefit other post employment benefits (OPEB) plan, the Harris County Appraisal District Retiree Health Care Plan (the "Plan"), that pays a portion of the premium for continuation of the medical and dental insurance coverage of certain retirees. The district's Board of Directors has the authority to establish and amend benefits. The Plan provides medical benefits to eligible retired district employees and their beneficiaries.

The Plan offers the same coverage and options as the health plan for current employees. The Plan is available to retirees age 64 and under and retirees are eligible to participate until the retiree's sixty-fifth birthday or the fifth anniversary of retirement, whichever is earliest. At age 65, retirees are eligible to participate in the Medicare supplemental plan.

Beginning with retirement and ending when the person is eligible for Medicare coverage, the district shall pay a portion of the retiree medical and dental coverage premiums and claims. Rates paid by retirees are slightly higher than rates paid by active employee.

Funding Policy

The contribution requirements of plan members and the district are established and may be amended by the Board of Directors. The district has elected to subsidize premiums and rates for both plans and funding is provided on a pay-as-you-go basis. Reserves for active employees and retirees are set aside in the district's internal service fund.

Annual OPEB Cost

The district's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the district's annual OPEB cost of the year, the amount actually contributed to the Plan, and the district's net OPEB obligation.

Annual required contribution (ARC)	\$ 891,679
Interest on OPEB obligation	122,637
Adjustment to ARC	(113,622)
Annual OPEB costs	900,694
Contributions made	(733,199)
Increase in net OPEB obligation	167,495
Net OPEB obligation - beginning of year	2,725,261
Net OPEB obligation - end of year	<u>\$ 2,892,756</u>

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

The district's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	
			Beginning	Ending
2012	\$ 784,248	29.40%	\$ 1,681,735	\$ 2,235,414
2013	\$ 809,440	39.48%	\$ 2,235,414	\$ 2,725,261
2014	\$ 900,694	81.40%	\$ 2,725,261	\$ 2,892,756

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the Plan was zero percent funded. The actuarial accrued liability for benefits was \$9,294,698, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,294,698. The covered payroll (annual payroll of active employees covered by the Plan) was \$30,237,617, and the ratio of the UAAL to the covered payroll was 30.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected unit credit
Amortization Method	Level % of payroll
Amortization Period	30 years-Open
Asset Valuation Method	Market value
Investment Rate of Return	4.5%
Projected Salary Increases	3%
Inflation Rate	3%
Healthcare Cost Trend Rate (Initial/Ulimate)	
Non-Medicare plans	7.0%/5.0%
Medicare supplement	5.5%/4.5%

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

Life Insurance Plan

Plan Description

The district participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the TCDRS. This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is an OPEB. Retired employees are insured for \$5,000.

The GTLF is a separate trust administered by the TCDRS Board of Trustees. TCDRS issues a publicly available CAFR that includes financial statements and RSI for the GTLF. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County and District Retirement System, P.O. Box 2034, Austin, TX 78768-2034 or by calling 800-823-7782.

Funding Policy

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The district's contributions to the GTLF for the years ended December 31, 2014, 2013, and 2012 were \$97,165, \$87,687 and \$75,565, respectively, which equaled the contractually required contributions each year.

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REQUIRED SUPPLEMENTARY INFORMATION

HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2)
GENERAL FUND (BUDGET BASIS)

For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

	2014				2013
	Budgeted Amounts			Variance Final Budget Positive (Negative)	
	Original Budget	Final Budget	Actual (Budget Basis)		Actual (Budget Basis)
Revenues					
Assessments	\$ 64,367,413	\$ 64,367,413	\$ 64,367,413	\$ -	\$ 61,566,883
Investment income	30,000	30,000	18,782	(11,218)	22,930
Other	650,000	650,000	760,459	110,459	717,721
Rendition penalty fee	250,000	250,000	349,402	99,402	294,934
Total Revenues	65,297,413	65,297,413	65,496,056	198,643	62,602,468
Expenditures					
Current:					
Office of Chief Appraiser and Board of Directors (OCA and BOD)					
Personnel	775,506	919,023	912,798	6,225	847,369
Appraisal review board	2,450,000	2,600,000	2,596,823	3,177	2,128,048
Professional services	7,304,966	8,626,566	8,625,316	1,250	6,103,339
Office supplies and printing	10,900	15,400	13,688	1,712	14,547
Other	46,500	55,550	46,922	8,628	43,741
Total OCA and BOD	10,587,872	12,216,539	12,195,547	20,992	9,137,044
Appraisal Support					
Personnel	10,408,533	10,689,492	10,655,670	33,822	9,887,500
Professional services	402,340	400,265	399,765	500	400,255
Office supplies and printing	49,650	48,410	37,452	10,958	38,645
Data processing	-	-	-	-	9,072
Other	33,900	29,350	26,444	2,906	12,321
Total Appraisal Support	10,894,423	11,167,517	11,119,331	48,186	10,347,793
Appraisal					
Personnel	24,727,408	23,975,249	23,780,005	195,244	22,689,071
Professional services	1,501,677	1,531,079	1,525,848	5,231	1,465,108
Office supplies and printing	246,035	266,808	231,887	34,921	224,736
Other	33,050	62,235	57,722	4,513	94,949
Total Appraisal	26,508,170	25,835,371	25,595,462	239,909	24,473,864
Information Systems					
Personnel	4,751,892	4,217,701	4,198,899	18,802	4,062,311
Professional services	100,000	185,872	185,871	1	217,443
Office supplies and printing	464,417	324,647	275,121	49,526	175,251
Data processing	2,999,419	2,686,419	2,516,539	169,880	3,072,270
Other	31,500	20,500	19,609	891	30,011
Total Information Systems	8,347,228	7,435,139	7,196,039	239,100	7,557,286
Administration					
Personnel	4,308,593	4,443,029	4,376,567	66,462	3,850,455
Professional services	110,300	170,673	113,445	57,228	47,973
Office supplies and printing	81,059	68,211	45,098	23,113	60,649
Data processing	-	-	-	-	24,710
Other	2,192,200	2,082,340	2,016,707	65,633	1,889,670
Total Administration	6,692,152	6,764,253	6,551,817	212,436	5,873,457

For the Year Ended December 31, 2014
With Comparative Totals for the Year Ended December 31, 2013

		2014				2013
		Budgeted Amounts		Actual	Variance	
		Original Budget	Final Budget	(Budget Basis)	Final Budget Positive (Negative)	Actual (Budget Basis)
Administration Services						
Personnel		\$ 884,130	\$ 612,513	\$ 601,407	\$ 11,106	\$ 1,590,946
Professional services		154,750	134,750	128,168	6,582	124,957
Office supplies and printing		148,700	144,000	117,703	26,297	308
Data processing		-	-	-	-	122,101
Rent and utilities		768,000	540,000	494,095	45,905	480,160
Other		1,172,050	1,394,750	1,343,201	51,549	1,401,552
Total Administration Services		3,127,630	2,826,013	2,684,574	141,439	3,720,024
Debt Service:						
Principal retirement and interest charges		2,368,905	2,368,905	2,368,905	-	2,368,904
Capital Outlay		150,000	62,643	62,643	-	189,058
Total Expenditures		68,676,380	68,676,380	67,774,318	902,062	63,667,430
-						
Excess (Deficiency) of Revenues Over (Under) Expenditures		\$ (3,378,967)	\$ (3,378,967)	(2,278,262)	\$ 1,100,705	\$ (1,064,962)

Notes to Required Supplementary Information:

1. Reconciliation to Net Change in Fund Balance (GAAP Basis)

Timing differences:	
Encumbrances at the end of the year	978,282
Encumbrances at the beginning of the year that were incurred	(1,931,825)
Perspective differences:	
Interest income (cash with fiscal agent-restricted)	<u>152</u>
(Deficiency) of Revenues (Under) Expenditures	\$ (3,231,653)

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HARRIS COUNTY APPRAISAL DISTRICT

SCHEDULE OF FUNDING PROGRESS

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll ¹ (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/09	\$ 83,767,571	\$ 99,429,918	\$ 15,662,347	84.3%	\$ 30,612,473	51.2%
12/31/10	\$ 92,821,671	\$ 108,131,426	\$ 15,309,755	85.8%	\$ 30,012,450	51.0%
12/31/11	\$ 102,569,931	\$ 118,665,302	\$ 16,095,371	86.4%	\$ 29,632,980	54.3%
12/31/12	\$ 110,364,604	\$ 128,815,523	\$ 18,450,919	85.7%	\$ 29,064,070	63.5%
12/31/13	\$ 121,023,930	\$ 136,281,031	\$ 15,257,101	88.8%	\$ 30,237,617	50.5%

¹ The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

EMPLOYER PENSION LIABILITY AT TRANSITION AND PREVIOUSLY REPORTED PENSION LIABILITY

December 31, 2014

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/10	\$ 4,958,641 ¹	100%	\$ -
12/31/11	\$ 5,115,219 ²	100%	\$ -
12/31/12	\$ 5,130,104 ³	100%	\$ -
12/31/13	\$ 5,430,888 ⁴	100%	\$ -
12/31/14	\$ 5,038,460 ⁵	100%	\$ -

¹ The annual pension cost (APC) for 2010 includes \$1,000,000 used to reduce the district's unfunded liability.

² The annual pension cost (APC) for 2011 includes \$1,500,000 used to reduce the district's unfunded liability.

³ The annual pension cost (APC) for 2012 includes \$1,500,000 used to reduce the district's unfunded liability.

⁴ The annual pension cost (APC) for 2013 includes \$1,500,000 used to reduce the district's unfunded liability.

⁵ The annual pension cost (APC) for 2014 includes \$500,000 used to reduce the district's unfunded liability.

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HARRIS COUNTY APPRAISAL DISTRICT

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT HEALTHCARE BENEFITS

December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/10	\$ -	\$ 7,310,861	\$ 7,310,861	0.0%	\$ 30,612,473	23.9%
07/01/12	\$ -	\$ 7,740,931	\$ 7,740,931	0.0%	\$ 29,632,980	26.1%
07/01/14	\$ -	\$ 9,294,698	\$ 9,294,698	0.0%	\$ 30,237,617	30.7%

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STATISTICAL SECTION

This part of the district's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and Required Supplementary Information says about the district's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	76
<i>These schedules contain trend information to help the reader understand how the district's financial performance and well-being have changed over time.</i>	
Revenue Capacity	84
<i>These schedules contain information to help the reader assess the district's most significant local revenue source, the property tax.</i>	
Debt Capacity	88
<i>These schedules present information to help the reader assess the affordability of the district's current level of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	91
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.</i>	
Operating Information	94
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the district's financial report relates to the services the district provides and the activities it performs.</i>	

HARRIS COUNTY APPRAISAL DISTRICT

NET POSITION BY COMPONENT

Last Ten Years
(accrual basis of accounting)

	Year			
	2005	2006	2007	2008
Governmental Activities				
Net investment in capital assets	\$ 5,797,917	\$ 6,731,571	\$ 7,207,791	\$ 7,517,575
Restricted	6,568,731	3,447,102	3,316,820	3,249,079
Unrestricted	5,875,682	5,941,966	4,698,792	1,998,921
Total Governmental Activities Net Position	<u>\$ 18,242,330</u>	<u>\$ 16,120,639</u>	<u>\$ 15,223,403</u>	<u>\$ 12,765,575</u>

Year

2009	2010	2011	2012	2013	2014
\$ 8,229,698	\$ 9,219,871	\$ 9,732,611	\$ 8,438,593	\$ 9,021,196	\$ 9,431,301
3,203,151	2,923,838	150,929	151,013	151,312	151,277
2,444,621	3,329,336	4,494,025	8,014,806	6,626,297	3,068,913
<u>\$ 13,877,470</u>	<u>\$ 15,473,045</u>	<u>\$ 14,377,565</u>	<u>\$ 16,604,412</u>	<u>\$ 15,798,805</u>	<u>\$ 12,651,491</u>

HARRIS COUNTY APPRAISAL DISTRICT

CHANGES IN NET POSITION

Last Ten Years
(accrual basis of accounting)

	Year			
	2005	2006	2007	2008
Expenses				
Governmental activities				
Office of Chief Appraiser and				
Board of Directors	\$ 4,990,225	\$ 5,205,700	\$ 7,164,294	\$ 9,755,491
Appraisal support	6,532,122	7,018,490	7,686,395	9,802,213
Appraisal	16,091,866	16,115,462	17,424,858	21,464,205
Information systems	4,512,215	6,338,746	6,409,167	6,929,962
Administration	3,488,042	3,914,964	4,337,829	4,623,874
Administration/building services	5,651,629	7,724,416	4,610,783	3,759,466
Interest and fiscal agent fees on long-term debt	1,140,864	1,573,617	1,519,234	1,477,038
Total Governmental Activities Expenses	42,406,963	47,891,395	49,152,560	57,812,249
Program Revenues				
Governmental activities				
Charges for services				
Administration/building services	\$ 23,898	\$ 588,288	\$ -	\$ -
Appraisal	1,976,538	703,170	1,117,207	722,871
Total Governmental Activities Program Revenues	2,000,436	1,291,458	1,117,207	722,871
Net (Expense)				
Governmental activities	\$ (40,406,527)	\$ (46,599,937)	\$ (48,035,353)	\$ (57,089,378)
General Revenues and Other Changes in				
Net Position				
Governmental activities				
Assessments	\$ 40,561,015	\$ 42,294,633	\$ 45,662,193	\$ 53,997,326
Investment income	708,248	1,474,414	1,475,924	634,224
Total Governmental Activities	\$ 41,269,263	\$ 43,769,047	\$ 47,138,117	\$ 54,631,550
Change in Net Position				
Governmental activities	\$ 862,736	\$ (2,830,890)	\$ (897,236)	\$ (2,457,828)

Year

2009	2010	2011	2012	2013	2014
\$ 9,256,665	\$ 8,179,031	\$ 6,964,757	\$ 7,144,120	\$ 9,236,747	\$ 12,277,502
10,311,720	10,566,860	10,210,883	10,325,083	10,596,987	11,292,560
24,157,193	24,831,948	24,092,912	24,162,142	25,046,836	26,003,956
6,663,816	7,343,823	8,389,895	6,476,683	7,598,860	8,303,305
5,670,303	5,437,350	5,526,701	5,755,421	6,080,782	6,742,844
3,442,034	2,745,811	6,229,802	3,016,395	3,683,503	2,944,527
1,425,811	1,255,167	1,314,157	1,254,168	1,190,711	1,123,581
<u>60,927,542</u>	<u>60,359,990</u>	<u>62,729,107</u>	<u>58,134,012</u>	<u>63,434,426</u>	<u>68,688,275</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
789,310	743,712	549,947	856,611	1,036,988	1,153,984
<u>789,310</u>	<u>743,712</u>	<u>549,947</u>	<u>856,611</u>	<u>1,036,988</u>	<u>1,153,984</u>
<u>\$ (60,138,232)</u>	<u>\$ (59,616,278)</u>	<u>\$ (62,179,160)</u>	<u>\$ (57,277,401)</u>	<u>\$ (62,397,438)</u>	<u>\$ (67,534,291)</u>
\$ 61,190,821	\$ 61,171,142	\$ 61,060,911	\$ 59,473,306	\$ 61,566,883	\$ 64,367,413
59,306	40,711	22,769	30,942	24,948	19,564
<u>\$ 61,250,127</u>	<u>\$ 61,211,853</u>	<u>\$ 61,083,680</u>	<u>\$ 59,504,248</u>	<u>\$ 61,591,831</u>	<u>\$ 64,386,977</u>
<u>\$ 1,111,895</u>	<u>\$ 1,595,575</u>	<u>\$ (1,095,480)</u>	<u>\$ 2,226,847</u>	<u>\$ (805,607)</u>	<u>\$ (3,147,314)</u>

HARRIS COUNTY APPRAISAL DISTRICT

FUND BALANCE, GOVERNMENTAL FUND

Last Ten Years

(modified accrual basis of accounting)

		Year			
		2005	2006	2007	2008
General Fund					
Nonspendable	\$	482,064	\$ 216,691	\$ 263,953	\$ 286,906
Restricted		6,568,731	3,447,102	3,316,820	3,249,079
Assigned		2,336,942	1,786,597	1,963,770	724,499
Unassigned		10,354,500	11,319,012	11,188,636	10,611,680
Total General Fund	\$	19,742,237	\$ 16,769,402	\$ 16,733,179	\$ 14,872,164

Year					
2009	2010	2011	2012	2013	2014
\$ 274,612	\$ 224,819	\$ 220,867	\$ 229,011	\$ 278,690	\$ 355,921
3,203,151	2,923,838	150,929	151,013	151,312	151,277
1,082,429	3,250,513	2,495,471	3,720,970	6,316,077	3,228,282
11,032,679	9,576,127	11,670,886	11,247,535	7,887,037	7,665,983
<u>\$ 15,592,871</u>	<u>\$ 15,975,297</u>	<u>\$ 14,538,153</u>	<u>\$ 15,348,529</u>	<u>\$ 14,633,116</u>	<u>\$ 11,401,463</u>

HARRIS COUNTY APPRAISAL DISTRICT

CHANGES IN FUND BALANCE, GOVERNMENTAL FUND

Last Ten Years

(modified accrual basis of accounting)

	Year			
	2005	2006	2007	2008
Revenues				
Assessments	\$ 40,561,015	\$ 42,294,633	\$ 45,662,193	\$ 53,997,326
Investment income	625,967	1,306,743	1,326,703	592,534
Other revenues	550,676	415,013	418,762	480,123
Escalation settlement	-	588,288	-	-
Rendition penalty fee	930,164	376,155	557,545	269,397
Total Revenues	42,667,822	44,980,832	47,965,203	55,339,380
Expenditures				
Office of Chief Appraiser and Board of Directors	4,970,652	5,206,976	7,151,961	9,699,915
Appraisal support	6,444,757	6,963,236	7,603,298	9,624,462
Appraisal	16,013,549	16,067,803	17,296,546	21,080,167
Information systems	4,704,992	5,846,988	5,888,562	6,480,479
Administration	3,518,432	3,753,254	4,059,326	4,399,795
Administration services/building services	5,220,686	6,904,973	3,117,793	3,704,450
Capital outlay	4,117,373	161,635	515,036	65,118
Debt service				
Principal	490,875	1,308,473	845,776	984,579
Interest	1,058,880	1,581,698	1,523,128	1,481,155
Total Expenditures	46,540,196	47,795,036	48,001,426	57,520,120
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,872,374)	(2,814,204)	(36,223)	(2,180,740)
Other Financing Sources (Uses)				
Capital lease proceeds	7,500,000	-	-	319,725
Total Other Financing Sources	7,500,000	-	-	319,725
Net Change in Fund Balance	\$ 3,627,626	\$ (2,814,204)	\$ (36,223)	\$ (1,861,015)
Debt service as a percentage of noncapital expenditures	3.65%	6.07%	4.99%	4.29%

Year

2009	2010	2011	2012	2013	2014
\$ 61,190,821	\$ 61,171,142	\$ 61,060,911	\$ 59,473,306	\$ 61,566,883	\$ 64,367,413
55,296	39,065	20,993	28,462	23,229	18,934
405,486	354,446	269,021	507,054	717,721	760,459
-	-	-	-	-	-
353,101	396,148	283,546	274,860	294,934	349,402
<u>62,004,704</u>	<u>61,960,801</u>	<u>61,634,471</u>	<u>60,283,682</u>	<u>62,602,767</u>	<u>65,496,208</u>
9,217,871	8,099,641	6,931,647	7,097,353	9,137,044	12,195,547
10,218,855	10,463,681	10,091,490	10,192,816	10,350,238	11,119,331
23,948,617	24,703,329	23,843,834	23,870,266	24,474,901	25,595,462
6,291,016	7,114,740	8,052,079	6,141,940	7,257,810	7,851,749
5,520,413	5,302,049	5,368,780	5,605,428	5,877,296	6,551,032
3,331,736	3,277,849	6,389,220	3,600,301	3,577,236	2,826,193
220,591	179,018	25,661	596,298	274,751	219,642
1,104,733	1,066,572	1,054,747	1,114,736	1,178,193	1,245,324
<u>1,430,165</u>	<u>1,371,496</u>	<u>1,314,157</u>	<u>1,254,168</u>	<u>1,190,711</u>	<u>1,123,581</u>
<u>61,283,997</u>	<u>61,578,375</u>	<u>63,071,615</u>	<u>59,473,306</u>	<u>63,318,180</u>	<u>68,727,861</u>
720,707	382,426	(1,437,144)	810,376	(715,413)	(3,231,653)
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 720,707</u>	<u>\$ 382,426</u>	<u>\$ (1,437,144)</u>	<u>\$ 810,376</u>	<u>\$ (715,413)</u>	<u>\$ (3,231,653)</u>
4.15%	3.97%	3.76%	4.02%	3.76%	3.46%

HARRIS COUNTY APPRAISAL DISTRICT
ADJUSTED LEVY FOR ASSESSMENTS AND ASSESSMENTS COLLECTED
Last Ten Years

	Year			
	2005	2006	2007	2008
Total adjusted levy for calculation of taxing unit assessments ^{(1) (2)}	\$ 5,598,434,724	\$ 6,003,582,726	\$ 6,278,466,241	\$ 6,586,789,240
Direct rate	100%	100%	100%	100%
Assessments	\$ 40,561,015	\$ 42,294,558	\$ 45,662,191	\$ 53,997,326

- (1) According to Section 6.06 of the Texas Tax Code, each taxing unit participating in the district is allocated a portion of the amount of the budget equal to the proportion that the total dollar amount of property taxes imposed in the district by the unit for the tax year in which the budget proposal is prepared bears to the sum of the total dollar amount of property taxes imposed in the district by each participating unit for that year.
- (2) Adjusted levy reported is for the fourth quarter billing at year end.
- (3) The district owed a refund to the taxing jurisdictions for 2012. The amount shown here does not include the adjustment for the refund.

Year					
2009	2010	2011	2012	2013	2014
\$ 7,349,553,692	\$ 7,467,082,380	\$ 7,228,564,513	\$ 7,390,428,021	\$ 7,728,886,310	\$ 8,458,886,001
100%	100%	100%	100%	100%	100%
\$ 61,189,143	\$ 61,171,141	\$ 61,060,911	\$ 60,429,430 ⁽³⁾	\$ 61,566,862	\$ 64,367,413

HARRIS COUNTY APPRAISAL DISTRICT

PRINCIPAL TAXING JURISDICTIONS

Current Year and Nine Years Ago

Taxing Jurisdictions	2014			2005		
	Tax Levy	Rank	% of Taxable Assessed Value	Tax Levy	Rank	% of Taxable Assessed Value
Houston ISD	\$ 1,430,196,122	1	16.91%	\$ 1,092,942,827	1	19.52%
Harris County	1,307,217,623	2	15.45%	774,237,094	2	13.83%
City of Houston	1,061,383,509	3	12.55%	688,354,481	3	12.30%
Cypress-Fairbanks ISD	517,636,715	4	6.12%	345,093,166	4	6.16%
Harris County Hospital Dist.	517,267,555	5	6.12%	368,297,998	5	6.58%
Spring Branch ISD	284,420,766	6	3.36%	219,630,927	6	3.92%
Katy ISD	208,402,435	7	2.46%	n/a	n/a	n/a
Klein ISD	196,954,025	8	2.33%	144,337,378	9	2.58%
Aldine ISD	196,609,530	9	2.32%	151,670,859	7	2.71%
Humble ISD	170,855,103	10	2.02%	n/a	n/a	n/a
Alief ISD	n/a	n/a	n/a	144,444,025	8	2.58%
Pasadena ISD	n/a	n/a	n/a	128,565,930	10	2.30%
Subtotal	5,890,943,383		69.64%	4,057,574,685		72.48%
Other Taxing Jurisdictions	2,567,942,618		30.36%	1,540,860,039		27.52%
Total	\$ 8,458,886,001		100.00%	\$ 5,598,434,724		100.00%

Source: Harris County Appraisal District's departmental records.

HARRIS COUNTY APPRAISAL DISTRICT

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Years

		Year			
		2005	2006	2007	2008
Governmental Activities:					
Notes payable		\$ 508,026	\$ -	\$ -	\$ -
Capital leases		28,500,000	27,699,553	26,853,777	25,960,063
Total		<u>\$ 29,008,026</u>	<u>\$ 27,699,553</u>	<u>\$ 26,853,777</u>	<u>\$ 25,960,063</u>
 Taxing jurisdictions in district					
		419	429	429	477
 Debt per taxing unit ⁽¹⁾					
		\$ 69,232	\$ 64,568	\$ 62,596	\$ 54,424

(1) This does not represent the applicable portion of debt per taxing jurisdiction as the district's budget is allocated among the taxing jurisdictions according to their property taxes levied for the corresponding budget year.

Note: Details regarding the district's outstanding debt can be found in the notes to the financial statements.

Year					
2009	2010	2011	2012	2013	2014
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25,015,651	24,017,619	22,962,872	21,848,136	20,669,943	19,424,619
<u>\$ 25,015,651</u>	<u>\$ 24,017,619</u>	<u>\$ 22,962,872</u>	<u>\$ 21,848,136</u>	<u>\$ 20,669,943</u>	<u>\$ 19,424,619</u>
476	485	488	492	493	501
\$ 52,554	\$ 49,521	\$ 47,055	44,407	41,927	38,772

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HARRIS COUNTY APPRAISAL DISTRICT

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Years

Fiscal Year Ended December 31	(a) Estimated Population (In Thousands)	(a) Personal Income (In Thousands)	(a) Per Capita Personal Income	(a) Unemployment Rate
2005	3,735	\$ 160,710,955	\$ 43,028	5.7%
2006	3,858	\$ 177,998,800	\$ 46,132	5.1%
2007	3,912	\$ 194,177,877	\$ 49,634	4.3%
2008	3,984	\$ 190,226,395	\$ 47,788	4.8%
2009	4,070	\$ 196,779,227	\$ 48,337	7.5%
2010	4,092	\$ 210,508,848	\$ 51,444	8.5%
2011	4,176	\$ 204,352,560	\$ 48,935	8.2%
2012	4,253	\$ 224,617,980	\$ 52,805	6.8%
2013	4,336	\$ 230,462,963	\$ 53,141	6.2%
2014	6,473	not available	not available	4.1%

Data sources:

(a) Source: <http://www.tracer2.com> (Texas Workforce Commission)

Source: <http://www.bea.gov> (Bureau of economic analysis)

Source: <http://www.bls.gov> (Bureau of labor statistics)

HARRIS COUNTY APPRAISAL DISTRICT

PRINCIPAL CORPORATE EMPLOYERS

Current Year and Nine Years Ago

(amounts in thousands)

Employer	2014			2005		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Wal-Mart Stores	30,000	1	1.0466%	25,450	1	1.0889%
UT MD Anderson Cancer Center	19,504	2	0.6804%	14,437	6	0.6177%
H-E-B	19,175	3	0.6689%	-	-	-
Memorial Hermann Health System	18,574	4	0.6480%	16,445	4	-
The Methodist Hospital System	17,011	5	0.5934%	-	-	-
United Airlines	15,550	6	0.5425%	-	-	-
McDonald's Corp.	15,479	7	0.5400%	-	-	-
Kroger Co.	14,197	8	0.4953%	12,287	8	0.5257%
Exxon Mobil Corp.	12,835	9	0.4478%	16,321	5	-
National Oilwell Varco	12,211	10	0.4260%	-	-	-
Continental Airlines	-	-	-	19,627	2	0.8398%
Administaff	-	-	-	16,668	3	0.7132%
Halliburton	-	-	-	12,395	7	0.5303%
Shell Oil Co.	-	-	-	12,200	9	0.5220%
Aramark	-	-	-	10,275	10	0.4396%
Total	174,536			156,105		

Source: Employment numbers were obtained from Houston ISD and the Houston Chronicle.

Percentage of total employment was calculated using total non-agricultural employment for the Houston-Sugarland-Baytown MSA and was obtained directly from the U.S. Bureau of Economic Statistics and via DATAbook Houston. These lists exclude employment numbers for Houston ISD and the City of Houston.

HARRIS COUNTY APPRAISAL DISTRICT

EMPLOYED POSITIONS BY FUNCTION⁽¹⁾

Last Ten Years

Function	Year			
	2005	2006	2007	2008
Office of the Chief Appraiser	6	6	7	7
Support Services	140	143	157	177
Appraisal	303	305	313	363
Information Systems	53	51	47	49
Administration	34	37	37	34
Regular Positions	536	542	561	630

Notes:

(1) Data represents employed positions at year end.

Year					
2009	2010	2011	2012	2013	2014
7	6	6	5	5	5
176	173	173	168	170	172
368	359	357	354	354	360
48	48	46	46	46	51
41	44	48	50	48	51
640	630	630	623	623	639

HARRIS COUNTY APPRAISAL DISTRICT

STATE COMPTROLLER'S STUDY BY MEDIAN LEVEL OF APPRAISAL ⁽¹⁾

Last Ten Years

Property Category	Year			
	2005	2006	2007	2008
Single family residential	0.99	0.98	0.99	0.98
Multi-family residential	0.97	0.93	0.94	0.92
Vacant lots	0.90	9.00	0.94	0.95
Acreage	0.87	0.99	0.90	0.92
Commercial real property	0.95	0.92	0.93	0.94
Utilities	1.00	1.00	1.01	n/a
Commercial personal property	0.97	0.98	0.98	0.99
Overall Median Level	0.98	0.97	0.98	0.98

- (1) The statistical median reflects the mid-point of a sample. It is generally desirable to maintain median appraisal levels at or slightly below 1.00 to avoid over-appraisal of properties. The International Association of Assessing Officers (IAAO) guidelines state that the overall level of appraisal for all parcels in the jurisdiction should be within ten percent of the legal level. Based on these criteria, the district's appraisal level for the current year is considered to reflect very good appraisal performance.
- (2) Prior to 2010, the Texas Comptroller of Public Accounts was required by statute to study appraisal districts in Texas each year to determine the degree of uniformity of property tax appraisals to market value (Property Value Study or PVS). Study results are used by the State of Texas in a complex formula for allocating state funds for education. For 2010, legislation was enacted requiring the annual study to be conducted every two years and established the requirement for a review of appraisal districts.

Data from district's appraisal department.

Year					
2009	2010	2011	2012	2013	2014
0.99	n/a	0.99	n/a	0.97	n/a
0.98	n/a	0.99	n/a	0.94	n/a
0.98	n/a	1.00	n/a	n/a	n/a
1.00	n/a	0.96	n/a	n/a	n/a
0.98	n/a	0.97	n/a	1.01	n/a
0.97	n/a	1.02	n/a	0.98	n/a
0.99	n/a	0.99	n/a	0.99	n/a
0.99	n/a (2)	0.99	n/a (2)	1.03	n/a (2)

HARRIS COUNTY APPRAISAL DISTRICT

PROTEST ACTIVITY AND LITIGATION VOLUME

Last Ten Years

Property Category	Year			
	2005	2006	2007	2008
Reappraisal year	Yes	No	Yes	Yes
Accounts protested	202,860	271,226	370,189	386,269
Value of accounts	\$ 102,692,000,000	\$ 155,457,071,162	\$ 193,722,758,601	\$ 219,671,835,284
Average percentage reduction	8.0%	13.7%	12.1%	11.6%
Total lawsuits	1,233	2,172	3,530	2,730
Number of accounts	2,454	3,912	6,094	6,208
Value of accounts	\$ 6,507,706,655	\$ 17,446,885,543	\$ 21,444,067,224	\$ 29,042,542,084
Number of accounts resolved	2,454	3,907	6,094	5,874
Average percentage reduction	10.46%	11.82%	11.76%	13.72%

Data from district's appraisal department.

Year					
2009	2010	2011	2012	2013	2014
No	Yes	Yes	Yes	Yes	Yes
388,463	317,223	289,663	281,917	291,567	337,093
\$ 218,502,877,375	\$ 186,699,484,998	\$ 183,669,280,245	\$ 198,008,554,030	\$ 230,029,792,550	\$ 245,496,120,166
10.7%	8.2%	9.0%	9.3%	8.0%	6.6%
2,713	2,196	2,940	2,866	3,563	3,994
8,645	5,439	6,612	6,963	14,813	9,369
\$ 31,605,691,200	\$ 17,689,573,361	\$ 23,500,337,398	\$ 29,009,655,655	\$ 56,009,709,559	\$ 55,820,088,313
8,567	5,347	6,376	6,680	6,288	507
13.58%	11.15%	10.94%	10.50%	9.28%	9.69%

HARRIS COUNTY APPRAISAL DISTRICT

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Years

Function / Program	Year			
	2005	2006	2007	2008
Appraisal				
Appraised value	\$ 271,036,688	\$ 293,384,510	\$ 327,590,375	\$ 364,711,001
Number of accounts	1,667,540	1,470,831	1,486,328	1,522,251

Source: Various district departments.

Year					
2009	2010	2011	2012	2013	2014
\$ 372,664,071	\$ 359,326,951	\$ 363,527,388	\$ 380,886,243	\$ 413,239,933	\$ 453,988,803
1,541,287	1,542,759	1,555,477	1,563,992	1,576,765	1,591,653

HARRIS COUNTY APPRAISAL DISTRICT

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Years

Function/Program	Year			
	2005	2006	2007	2008
General Fund				
Office of the Chief Appraiser	5	5	74	73
Support Services	21	21	268	262
Appraisal	570	570	560	525
Information Systems	486	490	1,734	1,711
Administration	8	8	191	187

Source: Various district departments.

Figures represent total capital assets by function.

Year					
2009	2010	2011	2012	2013	2014
72	70	66	66	63	59
257	249	217	211	201	198
516	502	488	487	478	476
1,672	1,635	1,482	1,432	1,263	1,222
180	179	179	176	176	173

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