



***HARRIS COUNTY
APPRAISAL DISTRICT***

***HARRIS COUNTY
HOUSTON, TEXAS***

**2015
Comprehensive
Annual Financial
Report**

***COMPREHENSIVE
ANNUAL FINANCIAL REPORT***

of the

**HARRIS COUNTY
APPRAISAL DISTRICT, TEXAS**

**For the Year Ended
December 31, 2015**

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



Harris County Appraisal District

13013 Northwest Freeway
Houston TX 77040
Telephone: (713) 812-5800

P.O. Box 920975
Houston TX 77292-0975
Information Center: (713) 957-7800



Board of Directors

Ed Heathcott, *Chairman*
Mike Sullivan, *Secretary*
Glenn E. Peters, *Assistant Secretary*
Wanda Adams
Pete Pape

Office of Chief Appraiser

May 16, 2016

Chief Appraiser

Sands L. Stiefer
Chief Appraiser Designate
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, 2015.

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 of 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, 2015. 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 513 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 2015 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 32 cities appoint one member; the Houston Independent School District Board of Trustees appoints one member; the other 24 school districts and 4 junior colleges 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. Beginning in 2010, 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 primary 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 primarily 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 Technology 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 the previous 12 months led up to the major event of certification of the appraisal roll. The appraisal roll was certified on August 14, 2015 with less than 6.21 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 513 taxing unit appraisal rolls was \$2,902,060,037,414, resulting in a 2015 *ad valorem* tax levy of \$9,385,920,743, an increase of 10.96 percent over 2014.

The Houston housing market faced a stiff challenge in 2015. It followed the best year on record for home sales. And with oil prices dropping, along with layoffs and persistently low housing inventory levels, the result was a drop in sales for 2015. Nonetheless, the total number of 2015 single-family home sales, as well as sales of all property types, achieved the second-highest levels of all time, behind 2014. The sales slowdown did allow inventory to grow from a 2.5-months' supply, the lowest level of all time, to 3.2 months. Homes priced between \$150,000 and \$500,000 saw flat year-over-year sales, while homes below \$150,000 and above \$500,500 experienced declines. Single-family home sales fell 2.4 percent for the year and sales of all property types dropped 2.9 percent. On a year-to-date basis, the average price climbed 3.7 percent to \$280,290, while the median price increased 6.5 percent to \$212,000. The greatest one-month sales volume of 2015 was recorded in July with 7,895 single-family homes sold. By contrast, the lightest one-month sales volume took place in January with 4,109 sales. Total dollar volume for full-year 2015 hit record high, but up just 1 percent to \$23.559 billion compared to \$23.553 billion in full-year 2014. While 2015 began at levels comparable to the record-setting 2014, home sales began to falter as plummeting oil prices and energy industry layoffs sparked jitters throughout the Houston market. Even so, there were 73,724 single-family home sales and 88,764 total property sales, with both numbers representing the second most transactions in the history of Houston real estate, behind 2014.

Until 2015, Houston 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 over the years. However, the downturn in oil prices over the last year has affected the capital operations of large oil and gas companies headquartered in the greater Houston area. Some restructured their development and operations plans and/or put capital improvement projects on hold. Houston was able to adjust to the abrupt changes in the supply and demand for oil refining and exploration. Houston survived through this period due to its economic diversity in sectors including distribution, technology, and health care. However, the oil and gas and energy sectors remain the most significant economic drivers. The office market ended the fourth quarter 2015 with a vacancy rate of 13.6 percent, up over end-of-year 2014 which closed at 11.3 percent. Year-end 2015 average capitalization rate for office buildings was 6.93 percent, slightly lower from an average of 7.30 percent at end-of-year 2014.

Houston's demand for apartments continues to be high due to constant significant population growth. According to the CBRE Houston Multifamily Q4 2015 market view, Houston multifamily demand ended 2015 higher than expected, with 13,013 units absorbed, the majority being in newly built Class A product. Rental rates increased 5 percent in 2015, along with total absorption for the

12 months ending in December 2015 was 13,262 units, according to ADS. With near record number of units to be added to the market for 2016, newer multifamily product will be prone to offering concessions. The 12-month rolling capitalization rate was 7.0 percent, totaling a volume of \$5,149,400, which represents an average price per unit of \$89.26 per square foot, for all classes of property. With the downturn in the oil and gas industry, but offset by strong growth in other economic sectors and population, new construction activity for apartments is expected to tighten somewhat for the next 2 years. There were 74 new complexes totaling 21,192 units. Of the 74 complexes that came online for 2015, 3 are tax credit properties.

Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between years 2015 and 2014 is reflected in the table below.

| HARRIS COUNTY APPRAISAL DISTRICT APPRAISED VALUES | | | |
|---|-----------------------------------|-----------------------|-----------------------------------|
| 2015 | | 2014 | |
| Number of Accounts | Appraisal Value (in thousands) | Number of Accounts | Appraisal Value (in thousands) |
| 1,604,903 | \$503,278,759 | 1,593,793 | \$449,206,021 |

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 February 5, 2016. The change in the appraised and taxable values from 2014 to 2015 varied among taxing units, reflecting the mix of property types, exemptions, and market conditions within each unit.

| HARRIS COUNTY TAXABLE VALUES (in thousands \$) | | | | |
|--|---------------|---------------|--------------|----------------------|
| | 2015 | 2014 | Change | Percentage Change |
| Appraised Value | \$503,278,759 | \$449,206,021 | \$54,072,738 | 12.04% |
| Taxable Value | \$393,999,488 | \$346,020,197 | \$47,989,291 | 13.87% |

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 5 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 was completed for 2015 and the district obtained all tested school districts within the margin of error.

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 will be conducted for 2016.

The district's median level of appraisal for 2015 is summarized in the following table:

| STATE COMPTROLLER'S STUDY | |
|---------------------------------------|---------------------------------------|
| <u>Property Category</u> | <u>Median Level of Appraisal 2015</u> |
| Single Family Residential | .99 |
| Multi-Family Residential | .97 |
| Vacant Lots | N/A |
| Acreage | N/A |
| Commercial Real Property | 1.00 |
| Utilities | .96 |
| Commercial Personal Property | 1.00 |
| Overall Median Level – All Properties | .99 |

The preliminary results of the 2015 study reflect that appraisals within the district are generally uniform, with an average coefficient of dispersion of 8.05 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 .99 percent appraisal level is considered to reflect very good appraisal performance.

Property Owner Protests

During 2015, property owners and professional tax consultants filed 369,355 protests, resulting in an increase of 7.04 percent from the 2014 protest volume of 345,056. 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 3-member panel of the appraisal review board, an independent body. The panel makes the final determination. The 2015 protest activity data has been updated through March 22, 2016.

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> |
| 2006 | No | 271,226 | \$155,457 | 13.70% |
| 2007 | Yes | 363,238 | \$192,361 | 12.12% |
| 2008 | Yes | 394,467 | \$219,643 | 11.55% |
| 2009 | No | 393,050 | \$218,485 | 10.67% |
| 2010 | Yes | 322,238 | \$186,744 | 8.20% |
| 2011 | Yes | 305,395 | \$183,707 | 9.00% |
| 2012 | Yes | 295,905 | \$198,142 | 9.29% |
| 2013 | Yes | 301,803 | \$230,060 | 8.75% |
| 2014 | Yes | 345,056 | \$246,503 | 8.52% |
| 2015 | Yes | 369,355 | \$281,500 | 6.29% |

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> |
| 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 | 6,203 | 13.71% |
| 2009 | 2,713 | 8,645 | \$31,605,691,200 | 8,580 | 13.65% |
| 2010 | 2,196 | 5,435 | \$17,707,586,961 | 5,393 | 11.17% |
| 2011 | 2,940 | 6,604 | \$23,499,481,923 | 6,475 | 10.92% |
| 2012 | 2,866 | 6,980 | \$29,360,329,928 | 6,891 | 10.52% |
| 2013 | 3,568 | 11,025 | \$55,280,102,559 | 10,548 | 9.43% |
| 2014 | 4,028 | 9,676 | \$62,324,795,571 | 7,670 | 7.80% |
| 2015 | 4,080 | 9,202 | \$58,866,224,729 | 759 | 8.40% |

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 2006) 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> |
| 2006 | 100 | 73 | 27 | 0 |
| 2007 | 263 | 205 | 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 | 712 | 639 | 73 | 0 |
| 2015 | 1,209 | 158 | 356 | 695 |

Financial Information

The general fund's total fund balance was \$13,777,977 with an unassigned balance of \$9,972,422 at year-end, which is 47.91 percent below the district's financial policy recommendation for budgetary and planning purposes. Following the lease-purchase of the district's new building, \$151,549 was restricted for building improvements. Other assignments include \$1,082,434 for special projects, \$2,000,000 for future capital improvements of facilities, and \$250,000 for refund to the taxing jurisdictions. 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 513 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 2015 expenditure budget of \$76,577,504 on August 20, 2014. This amount represented a \$7,901,124 increase over the 2014 budget. Taxing unit funding increased from \$64,367,413 in 2014 to \$75,147,504 for 2015, an increase of \$10,780,091. The district budgeted a decrease of \$800,000 in the overall fund balance for 2015.

Major Initiatives

The Harris County Appraisal District's residence homestead exemption mobile application was developed in 2015 and was made available to property owners in December of 2015. It provides property owners the ability to submit residence homestead exemption application quickly and easily on their smartphones, tablets, or iPads by providing images of the front and back of their driver's license. It also allows property owners to view the status of their applications once submitted. The mobile application brings simple, convenient, easy, and secure electronic filing.

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 2015, nearly 109,300 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 13,140 iSettle offers accepted in 2015. Also, much of the paper handling, data entry, scanning, and filing tasks were eliminated due to the increased use of iFile and iSettle. 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 online and 29,669 electronically processed renditions and 20,928 rendition extension requests were submitted in 2015 using iFile.

In 2013, the district implemented an Owners website 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, 2015, there were more than 152,390 accounts enrolled in the Owners website and 12,307 accounts were serviced during 2015 using the new electronic document delivery options.

The Harris County Appraisal District's outreach program educates property owners on assessment and taxation issues. In 2015, the district conducted 50 presentations to property owners and real estate professionals in communities and companies throughout Harris County. The district did the presentations with the Harris County Tax Assessor-Collector's office to provide a complete picture of the tax process. The goal was to go to the property owners with helpful information rather than make them come to the appraisal district with questions. The district researched and identified communities in the county that underutilized the exemption and protest resources available and then scheduled presentations in those areas. The workshops promoted district resources available and provided individualized and immediate answers to property owner account questions.

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, 2014. This was the 28th 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, 2015

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, 2015



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, 2014



Executive Director/CEO

HARRIS COUNTY APPRAISAL DISTRICT

DISTRICT OFFICIALS

December 31, 2015

ED HEATHCOTT

Chairman

RAY HOLTZAPPLE

Secretary

MIKE SULLIVAN

Assistant Secretary

GLENN PETERS

Member

TONI TRUMBULL

Member

MIKE LUNCEFORD

Member

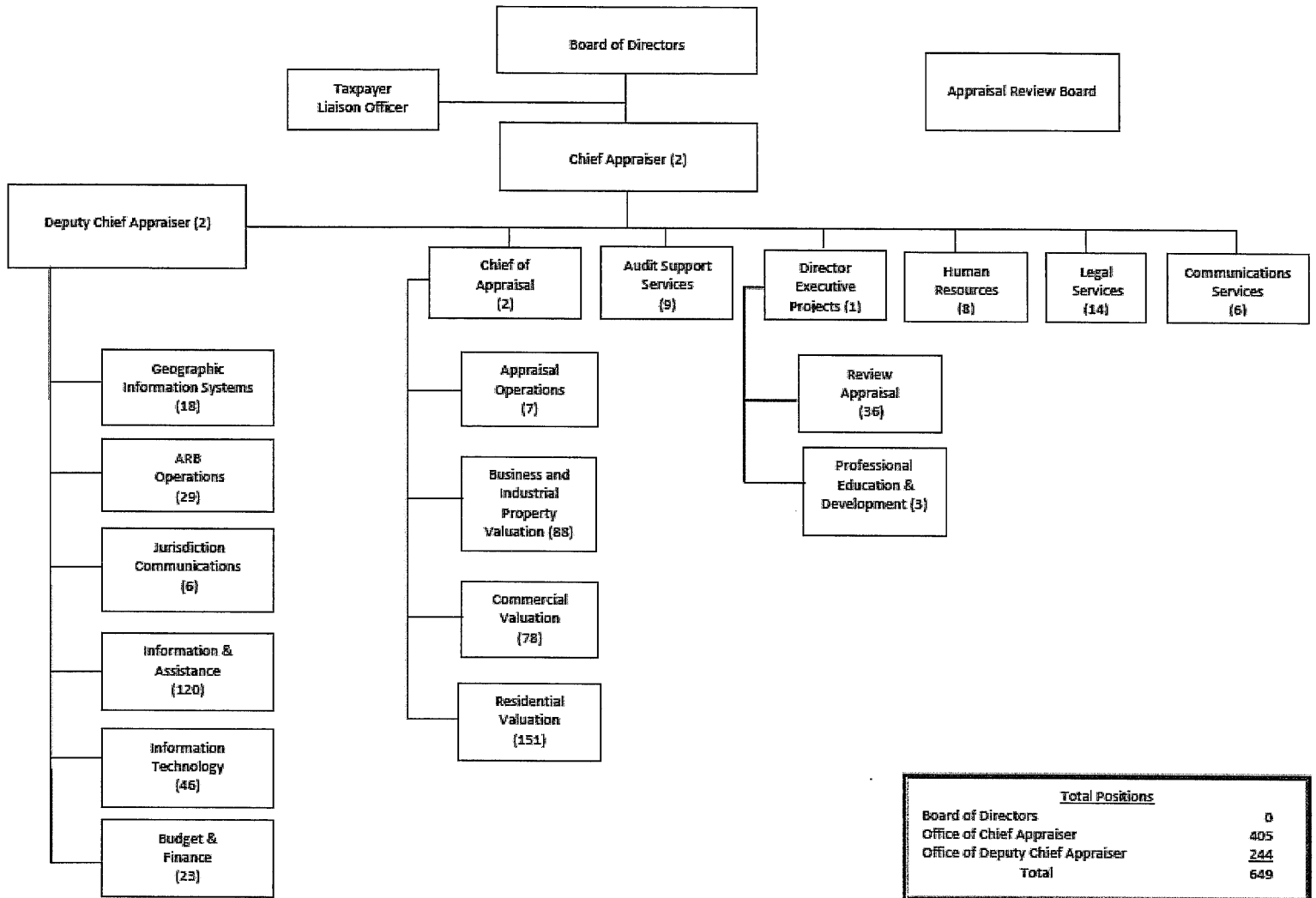
SANDS L. STIEFER

Chief Appraiser

HARRIS COUNTY APPRAISAL DISTRICT

PLAN OF ORGANIZATION

December 31, 2015



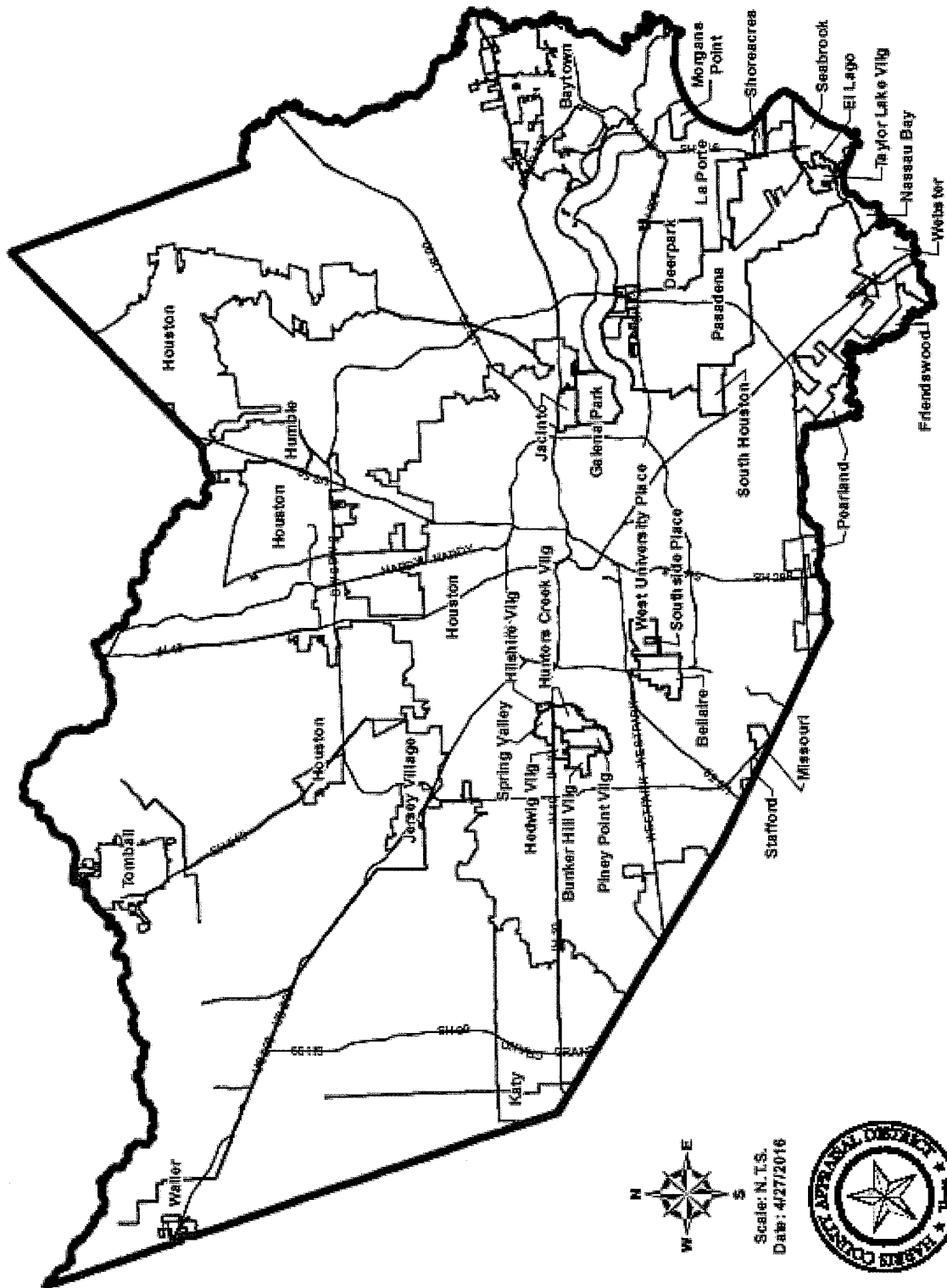
December 31, 2015



HARRIS COUNTY APPRAISAL DISTRICT

HARRIS COUNTY CITIES

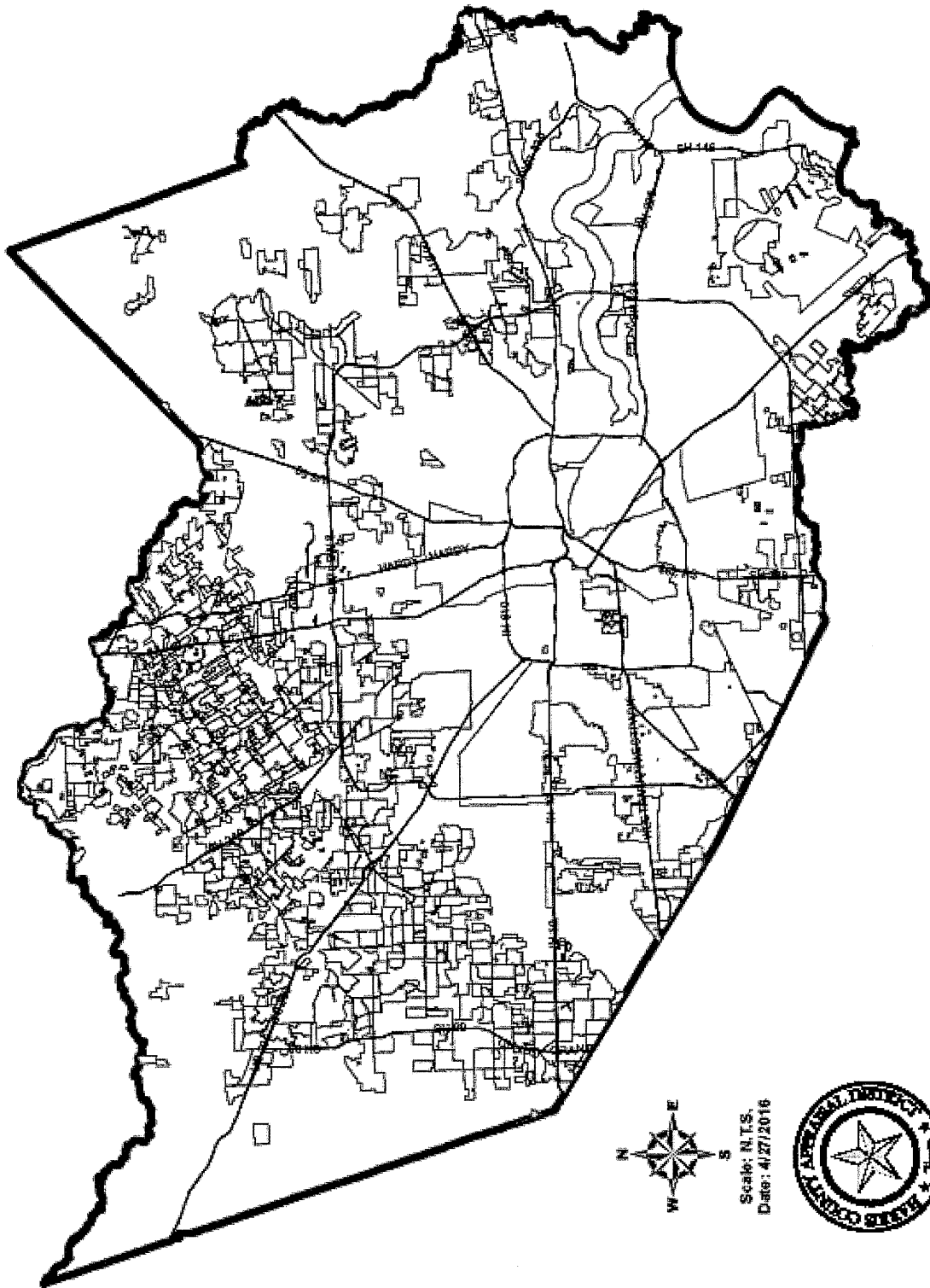
December 31, 2015



HARRIS COUNTY APPRAISAL DISTRICT

HARRIS COUNTY SPECIAL DISTRICTS

December 31, 2015



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, 2015, 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.

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

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Governmental
Audit Quality Center

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

In 2015, the district adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule 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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
May 16, 2016

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

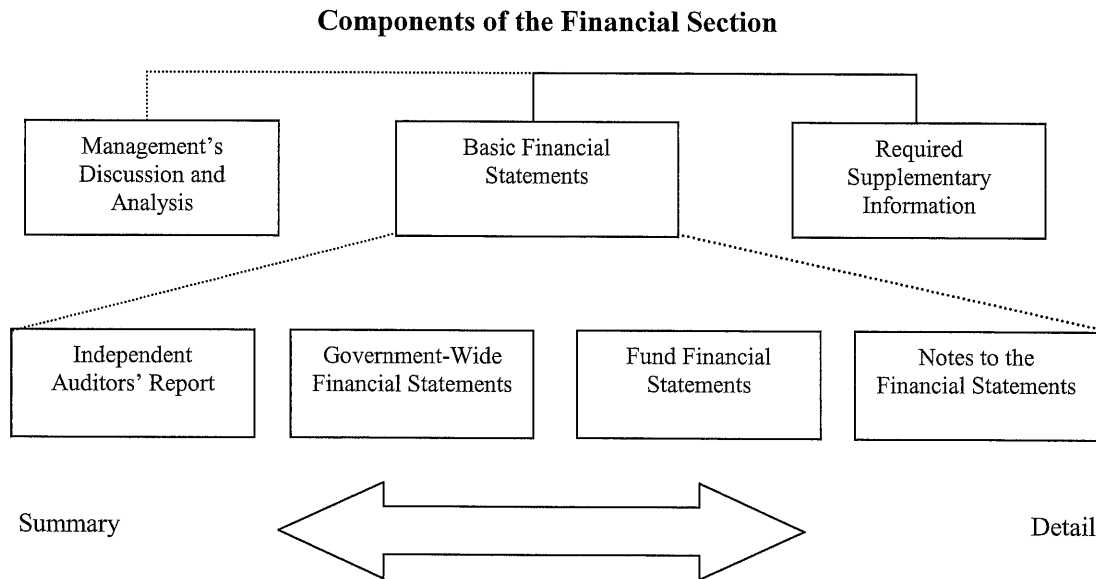
HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2015

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, 2015. 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, 2015

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 balance 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 for reporting purposes.

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, 2015

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, schedule of changes in net pension liability and related ratios and schedule of contributions for the Texas County and District Retirement System, and schedule of funding progress for the 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 and deferred outflows exceed liabilities and deferred inflows by \$27,916,446 as of year end. This compares with \$21,911,541 from the prior fiscal year. A portion of the district's net position, 36 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.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | | Percentage |
|---|-------------------------|----------------------|-------------|
| | 2015 | 2014 | Change |
| Current and other assets | \$ 42,827,752 | \$ 40,583,435 | 6% |
| Capital assets, net | 22,049,337 | 22,468,654 | (2)% |
| Total Assets | 64,877,089 | 63,052,089 | 3% |
| Deferred outflows - pension | 9,645,093 | 5,038,460 | 91% |
| Total Deferred Outflows of Resources | 9,645,093 | 5,038,460 | 91% |
| Long-term liabilities | 23,939,403 | 24,978,668 | (4)% |
| Other liabilities | 3,239,677 | 2,413,409 | 34% |
| Total Liabilities | 27,179,080 | 27,392,077 | (2)% |
| Assessments | 19,426,656 | 18,786,931 | 3% |
| Total Deferred Inflows of Resources | 19,426,656 | 18,786,931 | 3% |
| Net Position: | | | |
| Net investment in capital assets | 10,097,874 | 9,648,405 | 5% |
| Restricted | 151,549 | 151,277 | - |
| Unrestricted | 17,667,023 | 12,111,859 | 46% |
| Total Net Position | \$ 27,916,446 | \$ 21,911,541 | 27% |

A portion of the primary government's net position, \$151,549 or one percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$17,667,023 or 63 percent, may be used to meet the district's ongoing obligation to taxing units and citizens and creditors.

The district's total net position increased by \$6,004,905 during the current fiscal year. This primarily was a result of an increase in assessment revenue.

There was an increase in the beginning net position of \$9,042,946 for governmental activities due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.F. to the financial statements.

In the current fiscal year, GASB Statement Nos. 68 and 71 require the district to recognize a net pension asset and deferred outflows of resources as discussed in note IV.C. to the financial statements. The net pension asset decreased by \$1,057,928 for an ending net pension asset of \$2,946,558 for governmental activities. The net change in deferred outflows increased net position by \$4,606,633 for governmental activities.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

Statement of Activities:

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

| | Governmental Activities | |
|----------------------------------|-------------------------|----------------------|
| | 2015 | 2014 |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 1,041,448 | \$ 1,153,984 |
| General revenues: | | |
| Assessments | 74,902,803 | 64,367,413 |
| Investment income | 19,499 | 19,564 |
| Total Revenues | 75,963,750 | 65,540,961 |
| Expenses | | |
| Office of Chief Appraiser and | | |
| Board of Directors | 13,459,605 | 12,277,502 |
| Appraisal support | 12,123,489 | 11,292,560 |
| Appraisal | 25,781,516 | 26,003,956 |
| Information systems | 7,968,093 | 8,303,305 |
| Administration | 6,521,949 | 6,742,844 |
| Administration/building services | 3,051,631 | 2,944,527 |
| Interest on long-term debt | 1,052,562 | 1,123,581 |
| Total Expenses | 69,958,845 | 68,688,275 |
| Change in Net Position | 6,004,905 | (3,147,314) |
| Beginning net position | 21,911,541 | 25,058,855 |
| Ending Net Position | \$ 27,916,446 | \$ 21,911,541 |

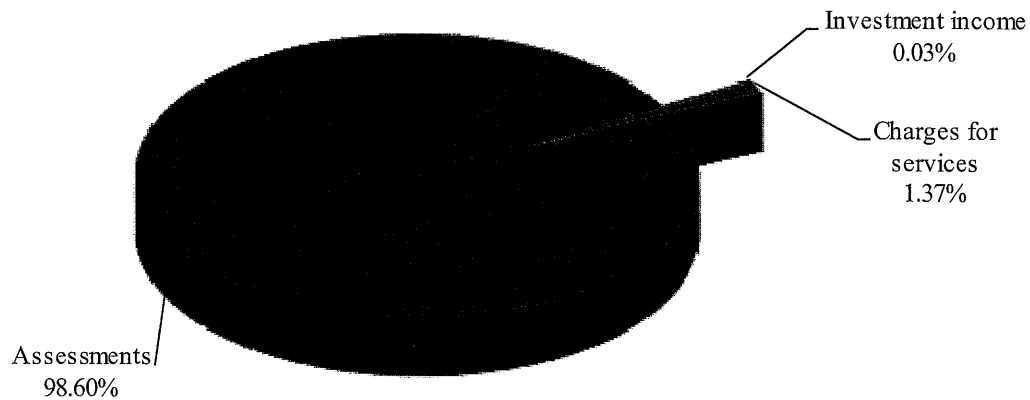
HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

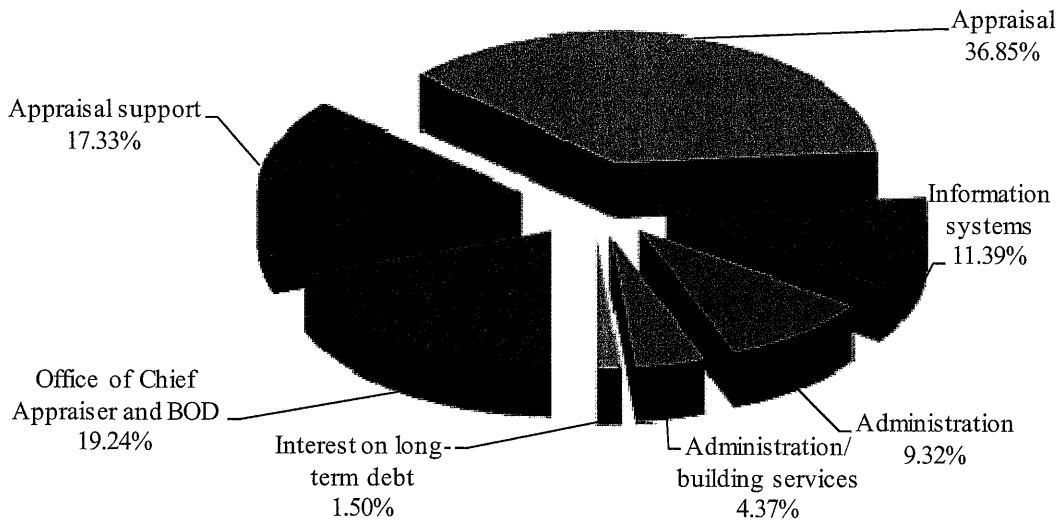
For the Year Ended December 31, 2015

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, 2015, revenues from governmental activities totaled \$75,963,750, which was an increase of \$10,422,789 or 16 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 2014 by \$1,270,570 or 2 percent. This was primarily due to an increase in legal services in the office of chief appraiser and Board of Directors expenses due to an increase in legal services.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

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 \$13,777,977. Of this, \$321,572 is nonspendable, \$151,549 is restricted for building maintenance and repair, \$1,082,434 is assigned for special projects, \$2,000,000 is assigned for capital improvements, \$250,000 is assigned for jurisdiction refunds, and \$9,972,422 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 14 percent of total general fund expenditures, while total fund balance represents 19 percent of that same amount.

There was an increase in fund balance for the general fund of \$2,376,514 due to the current year activity related to investment income, other revenue and rendition penalty fees received and an increase in assessment revenue.

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 \$577,305 primarily as a result of increased health and dental insurance claims. This includes the budgeted application of \$50,000 of fund balance to the general fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded final budgeted revenues by \$97,389 during the year. This net positive variance is largely due to greater than expected other revenues from dealer declaration penalties. General fund expenditures were less than the final budget by \$2,924,701 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, data processing in the appraisal support division, and personnel in the administration services division. The decrease of \$2,154,762 for professional services in the office of the chief appraiser and board of directors was due to less appraisal review board hearing legal expenses than originally budgeted. The increase of \$1,070,722 for data processing was due to the geographic information systems being moved from information systems to appraisal support. The increase of \$1,412,732 for personnel within administration services was due to a lump sum retirement contribution.

CAPITAL ASSETS

At the end of the year, the district's governmental activities funds had invested \$22,049,337 (net of accumulated depreciation) in a variety of capital assets. During the year, the district added to existing capital assets in computers and peripherals.

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

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2015

LONG-TERM DEBT

At the end of the current year, the district had total long-term debt of \$18,108,277, in addition to accrued compensated absences of \$2,720,401 and a net other post employment benefit obligation of \$3,110,725.

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 \$77.7 million budget for the 2016 fiscal year. This was an increase of \$1.1 million or 1.5 percent over the 2015 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.

BASIC FINANCIAL STATEMENTS

HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION

December 31, 2015

| | Primary Government - Governmental Activities |
|---|---|
| <u>Assets</u> | |
| Current assets | |
| Cash and cash equivalents | \$ 37,476,081 |
| Investments | 991,767 |
| Receivables, net | 940,225 |
| Prepaid items | 321,572 |
| Cash with fiscal agent - restricted | 151,549 |
| | <u>39,881,194</u> |
| Noncurrent assets | |
| Capital assets - non-depreciable | 8,474,725 |
| Capital assets - depreciable, net of accumulated depreciation | 13,574,612 |
| Net pension asset | 2,946,558 |
| | <u>24,995,895</u> |
| Total Assets | <u>64,877,089</u> |
| <u>Deferred Outflows of Resources</u> | |
| Deferred outflows - pensions | <u>9,645,093</u> |
| <u>Liabilities</u> | |
| Current liabilities | |
| Accounts payable and accrued liabilities | 2,947,942 |
| Due to jurisdictions | 291,735 |
| | <u>3,239,677</u> |
| Noncurrent liabilities | |
| Due within one year | 3,567,801 |
| Due in more than one year | 20,371,602 |
| | <u>23,939,403</u> |
| Total Liabilities | <u>27,179,080</u> |
| <u>Deferred Inflows of Resources</u> | |
| Assessments | <u>19,426,656</u> |
| <u>Net Position</u> | |
| Net investment in capital assets | 10,097,874 |
| Restricted for: | |
| Building maintenance and repair | 151,549 |
| Unrestricted | 17,667,023 |
| Total Net Position | <u>\$ 27,916,446</u> |

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

| Functions/Programs | Expenses | Program Revenues Charges for Services | Net (Expense) Revenue and Change in Net Position |
|---|----------------------|--|---|
| | | | Primary Government Activities |
| Primary Government | | | |
| Governmental Activities | | | |
| Office of Chief Appraiser and Board of Directors | \$ 13,459,605 | \$ - | \$ (13,459,605) |
| Appraisal support | 12,123,489 | - | (12,123,489) |
| Appraisal | 25,781,516 | 1,041,448 | (24,740,068) |
| Information systems | 7,968,093 | - | (7,968,093) |
| Administration | 6,521,949 | - | (6,521,949) |
| Administration/building services | 3,051,631 | - | (3,051,631) |
| Interest on long-term debt | 1,052,562 | - | (1,052,562) |
| Total Governmental Activities | <u>\$ 69,958,845</u> | <u>\$ 1,041,448</u> | <u>(68,917,397)</u> |
| Total Primary Government | <u>\$ 69,958,845</u> | <u>\$ 1,041,448</u> | <u>(68,917,397)</u> |
| General Revenues: | | | |
| Assessments | | | 74,902,803 |
| Investment income | | | 19,499 |
| Total General Revenues | | | <u>74,922,302</u> |
| Change in Net Position | | | 6,004,905 |
| Beginning net position | | | 21,911,541 |
| Ending Net Position | | | <u>\$ 27,916,446</u> |

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUND

December 31, 2015

| | <u>General</u> |
|---|-----------------------------|
| <u>Assets</u> | |
| Cash and cash equivalents | \$ 34,124,594 |
| Investments | 991,767 |
| Receivables, net | 216,858 |
| Prepaid items | 321,572 |
| Cash with fiscal agent - restricted | 151,549 |
| Total Assets | <u>\$ 35,806,340</u> |
| <u>Liabilities</u> | |
| Accounts payable and accrued liabilities | \$ 2,309,972 |
| Due to jurisdictions | 291,735 |
| Total Liabilities | <u>2,601,707</u> |
| <u>Deferred Inflows of Resources</u> | |
| Unavailable revenue - assessments | 19,426,656 |
| Total Deferred Inflows of Resources | <u>19,426,656</u> |
| <u>Fund Balance</u> | |
| Nonspendable: | |
| Prepaid items | 321,572 |
| Restricted for: | |
| Building maintenance and repair | 151,549 |
| Assigned for: | |
| Special projects | 1,082,434 |
| Capital improvements | 2,000,000 |
| Refund to jurisdictions | 250,000 |
| Unassigned | 9,972,422 |
| Total Fund Balance | <u>13,777,977</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | <u>\$ 35,806,340</u> |

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HARRIS COUNTY APPRAISAL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Year Ended December 31, 2015

| | |
|--|----------------------|
| Total fund balance for the governmental fund | \$ 13,777,977 |
| 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 | 723,367 |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund. | |
| Capital assets - non-depreciable | 8,474,725 |
| Capital assets - depreciable, net of accumulated depreciation | 13,574,612 |
| Long-term assets, deferred outflows, and deferred inflows related to the net pension asset are not reported in the governmental fund. | |
| Net pension asset | 2,946,558 |
| Deferred outflows - pensions | 9,645,093 |
| Internal service funds are used by management to charge the costs of certain activities such as insurance. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position. | 2,713,517 |
| Some liabilities are not reported as liabilities in the governmental funds: | |
| Non-current liabilities due within one year | (3,567,801) |
| Non-current liabilities due in more than one year | (20,371,602) |
| Net Position of Governmental Activities | \$ 27,916,446 |

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended December 31, 2015

| | <u>General</u> |
|-----------------------------------|-----------------------------|
| <u>Revenues</u> | |
| Assessments | \$ 74,902,803 |
| Investment income | 17,957 |
| Other revenue | 669,741 |
| Rendition penalty fee | 334,664 |
| Total Revenues | <u>75,925,165</u> |
| <u>Expenditures</u> | |
| Current: | |
| Office of Chief Appraiser and | |
| Board of Directors | 13,421,461 |
| Appraisal support | 12,584,529 |
| Appraisal | 26,768,745 |
| Information systems | 7,803,603 |
| Administration | 6,590,564 |
| Administration/building services | 3,932,801 |
| Capital outlay | 78,044 |
| Debt service: | |
| Principal | 1,316,342 |
| Interest and fiscal charges | 1,052,562 |
| Total Expenditures | <u>73,548,651</u> |
| Net Change in Fund Balance | 2,376,514 |
| Beginning fund balance | 11,401,463 |
| Ending Fund Balance | <u><u>\$ 13,777,977</u></u> |

See Notes to Financial Statements.

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, 2015

| | |
|--|--------------|
| Net change in fund balance - governmental fund | \$ 2,376,514 |
|--|--------------|

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 | 187,694 |
| Depreciation expense | (607,011) |

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 | 37,043 |
|--|--------|

Changes in pension activity do not affect the fund balance on the statement of revenues, expenditures, and changes in fund balance for the governmental fund.

These changes in pension activity that affect the district's net position are as follows:

| | |
|------------------------------|-------------|
| Net pension asset | (1,057,928) |
| Deferred outflows - pensions | 4,606,633 |

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 premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

| | |
|---|-----------|
| Principal paid | 1,316,342 |
| Change in accrued compensated absences | (59,108) |
| Change in net other post employment benefits obligation | (217,969) |

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. | (577,305) |
|---|-----------|

| | |
|--|---------------------|
| Change in Net Position of Governmental Activities | \$ 6,004,905 |
|--|---------------------|

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

December 31, 2015

| | | <u>Governmental Activities Internal Service</u> |
|----------------------------|---------------------------|---|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | | \$ 3,351,487 |
| | Total Assets | <u>3,351,487</u> |
| <u>Liabilities</u> | | |
| Current liabilities: | | |
| Estimated claims payable | | 637,970 |
| | Total Liabilities | <u>637,970</u> |
| <u>Net Position</u> | | |
| Unrestricted | | 2,713,517 |
| | Total Net Position | <u>\$ 2,713,517</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, 2015

| | Governmental Activities |
|-------------------------------------|----------------------------|
| | Internal Service |
| <u>Operating Revenues</u> | |
| Charges for services | \$ 5,261,671 |
| Claim refunds and other | 604,219 |
| Total Operating Revenues | 5,865,890 |
| <u>Operating Expenses</u> | |
| Insurance claims | 4,062,340 |
| Prescription claims | 1,982,935 |
| Dental claims | 399,462 |
| Total Operating Expenses | 6,444,737 |
| Operating Loss | (578,847) |
| <u>Nonoperating Revenues</u> | |
| Investment income | 1,542 |
| Total Nonoperating Revenues | 1,542 |
| Change in Net Position | (577,305) |
| Beginning net position | 3,290,822 |
| Ending Net Position | \$ 2,713,517 |

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2015

| | <u>Governmental Activities</u> <u>Internal Service</u> |
|--|---|
| <u>Cash Flows from Operating Activities</u> | |
| Proceeds for charges for services | \$ 5,865,890 |
| Claims paid | (6,235,846) |
| Net Cash (Used) by Operating Activities | <u>(369,956)</u> |
| <u>Cash Flows from Investing Activities</u> | |
| Interest on investments | 1,542 |
| Net Cash Provided by Investing Activities | <u>1,542</u> |
| Net Decrease in Cash and Cash Equivalents | (368,414) |
| Beginning cash and cash equivalents | <u>3,719,901</u> |
| Ending Cash and Cash Equivalents | <u><u>\$ 3,351,487</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating (loss) | \$ (578,847) |
| Adjustments to reconcile operating (loss) to net cash (used) by operating activities: | |
| Increase in estimated claims payable | 208,891 |
| Net Cash (Used) by Operating Activities | <u><u>\$ (369,956)</u></u> |

See Notes to Financial Statements.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

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, 2015

The district reports the following governmental fund:

The *general fund* is used to account for and report all financial resources not accounted for and reported 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, 2015

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.

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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 | 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 three items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience for the district's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. A deferred outflow of resources is recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the district's fiscal year. This

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

amount is deferred and recognized as a reduction to the net pension liability (asset) during the measurement period in which the contributions were made.

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 one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenues from assessments. 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, 2015

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.

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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 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.

15. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas County District Retirement System (TCDRS) and additions to/deductions from TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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, 2015 was legally enacted through passage of Board resolution 2014-02 on August 20, 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 2015.

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, 2015 from the budget basis to GAAP basis are presented in the notes to RSI.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

As of December 31, 2015, the district had the following investments:

| Investment Type | Fair Value | Weighted Average Maturity (Years) |
|-------------------------------------|----------------------|-----------------------------------|
| U.S. treasuries | \$ 151,549 | 0.04 |
| Municipal bonds | 991,767 | 1.45 |
| State pool (TexPool) | 21,819,362 | 0.00 |
| Total fair value | <u>\$ 22,962,678</u> | |
| Portfolio weighted average maturity | | 0.07 |

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, 2015, the district's investment in TexPool was rated "AAAm" by Standard & Poor's. All other investments are 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, 2015, 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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

B. Receivables

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

| | |
|--------------------------|-------------------|
| Jurisdiction assessments | \$ 200,193 |
| Accounts receivable | 12,281 |
| Interest receivable | 4,384 |
| | <u>\$ 216,858</u> |

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 |
| Construction in progress | - | 109,650 | - | 109,650 |
| Total capital assets, not being depreciated | <u>8,365,075</u> | <u>109,650</u> | <u>-</u> | <u>8,474,725</u> |
| Capital assets being depreciated: | | | | |
| Building | 16,602,032 | - | - | 16,602,032 |
| Furniture and equipment | 666,938 | - | (17,670) | 649,268 |
| Computers and peripherals | 4,969,212 | 78,044 | (192,729) | 4,854,527 |
| Vehicles and other | 154,989 | - | - | 154,989 |
| Total capital assets being depreciated | <u>22,393,171</u> | <u>78,044</u> | <u>(210,399)</u> | <u>22,260,816</u> |
| Less accumulated depreciation: | | | | |
| Building | (3,320,408) | (332,040) | - | (3,652,448) |
| Furniture and equipment | (469,585) | (56,929) | 17,670 | (508,844) |
| Computers and peripherals | (4,388,061) | (202,811) | 192,729 | (4,398,143) |
| Vehicles and other | (111,538) | (15,231) | - | (126,769) |
| Total accumulated depreciation | <u>(8,289,592)</u> | <u>(607,011)</u> | <u>210,399</u> | <u>(8,686,204)</u> |
| Total capital assets, being depreciated, net | <u>14,103,579</u> | <u>(528,967)</u> | <u>-</u> | <u>13,574,612</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 22,468,654</u> | <u>\$ (419,317)</u> | <u>\$ -</u> | <u>22,049,337</u> |
| | | | Less associated debt | (11,951,463) |
| | | | Net Investment in Capital Assets | <u>\$ 10,097,874</u> |

* Beginning balances have been restated.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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

Governmental Activities:

| | | |
|---|-----------|----------------|
| Office of chief appraiser and board of directors | \$ | 3,763 |
| Appraisal support | | 12,262 |
| Appraisal | | 21,427 |
| Information systems | | 333,856 |
| Administration | | 121,949 |
| Administration/ building services | | 113,754 |
| Total Governmental Activities Depreciation Expense | \$ | 607,011 |

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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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, 2015, there is a balance of \$151,549 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 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 | \$ 151,277 |
| Interest earnings | 272 |
| Ending balance | <u>\$ 151,549</u> |

Future combined minimum capital lease payments for this lease as of December 31, 2015 are as follows:

| Year Ending Dec. 31 | Capital Leases | | | | | |
|---------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| | \$21 M | | \$7.5 M | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 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 | 1,266,833 | 417,208 | 471,463 | 213,400 | 1,738,296 | 630,608 |
| 2021-2025 | 7,409,531 | 1,010,674 | 2,898,793 | 525,521 | 10,308,324 | 1,536,195 |
| Total | <u>\$ 13,140,117</u> | <u>\$ 3,700,290</u> | <u>\$ 4,968,160</u> | <u>\$ 1,880,469</u> | <u>\$ 18,108,277</u> | <u>\$ 5,580,759</u> |

Capital assets acquired under capital lease obligations and the accumulated depreciation as December 31, 2015 are as follows:

| | |
|-------------------------------|----------------------|
| Land | \$ 2,335,000 |
| Building | 16,602,032 |
| Less accumulated depreciation | (3,652,448) |
| Total | <u>\$ 15,284,584</u> |

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 | \$ 19,424,619 | \$ - | \$ 1,316,342 | \$ 18,108,277 | * \$ 1,391,480 |
| Other liabilities: | | | | | |
| Net OPEB obligation | 2,892,756 | 927,999 | 710,030 | 3,110,725 | - |
| Compensated absences | 2,661,293 | 1,606,826 | 1,547,718 | 2,720,401 | 2,176,321 |
| Total Governmental Activities | <u>\$ 24,978,668</u> | <u>\$ 2,534,825</u> | <u>\$ 3,574,090</u> | <u>\$ 23,939,403</u> | <u>\$ 3,567,801</u> |
| Long-term debt due in more than one year | | | | <u>\$ 20,371,602</u> | |
| * Capital leases | | | | \$ 18,108,277 | |
| Lease portion expended on noncapital costs | | | | (6,156,814) | |
| Debt associated with capital assets | | | | <u>\$ 11,951,463</u> | |

F. Restatement of Net Position

The district implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the district has restated beginning net position to account for a net pension asset as of the measurement date, December 31, 2013. In addition, the district has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, December 31, 2014. The district has also restated beginning net position to account for an adjustment to accumulated depreciation beginning balance for computers and peripherals. The beginning net position was restated as follows:

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Prior year ending net position, as reported | \$ 12,651,491 |
| Net pension asset | 4,004,486 |
| Deferred outflows | 5,038,460 |
| Accumulated depreciation | 217,104 |
| Restated beginning net position | <u>\$ 21,911,541</u> |

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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.

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:

| | 2015 | 2014 |
|------------------------------|-------------------|-------------------|
| Beginning claims payable | \$ 429,079 | \$ 428,164 |
| Claims incurred | 4,271,231 | 3,637,055 |
| Claims paid | (4,062,340) | (3,636,140) |
| Ending Claims Payable | \$ 637,970 | \$ 429,079 |

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 2015, the actual amount paid was \$161,050.

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 \$5,921,067.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 2015, the district's expenditures were approximately \$291,735 under assessments to the taxing jurisdictions. This credit will be applied to the 2016 budgeted assessments.

C. Pension Plan

Texas County and District Retirement System

Plan Description

The Texas County and District Retirement System (TCDRS) is a statewide, agent multiple-employer, public-employee retirement system. The system serves 677 actively participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the Board of Directors of each employer, within the options available in the TCERS Act. Because of that, the district has the flexibility and local control to select benefits and pay for those benefits based on its needs and budgets.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TCERS issues a publicly available comprehensive annual financial report that can be obtained at www.tcders.org.

All eligible employees (except temporary staff) of the district must be enrolled in the plan.

Benefits Provided

TCERS provides retirement, disability, and death benefits. The benefits provisions are adopted by the Board of Directors within the options available in Texas state statutes governing TCERS. Members can retire at age 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 district-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the district.

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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

The Board of Directors adopted the rate of seven percent as the contribution rate payable by the employee members for calendar year 2015. The Board of Directors may change the employee contribution rate and the district contribution rate within the options available in the TCDRS Act.

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-------------|
| Inactive employees or beneficiaries currently receiving benefits | 219 |
| Inactive employees entitled to, but not yet receiving benefits | 270 |
| Active employees | 573 |
| Total | <u>1062</u> |

Contributions

A combination of three elements funds each employer's plan: employee deposits, employer contributions, and investment income.

- The deposit rate for employees is four percent, five percent, six percent, or seven percent of compensation, as adopted by the employer's governing body.
- Participating employers are required, by law, to contribute at actuarially determined rates, which are determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method.
- Investment income funds a large part of the benefits employees earn.

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employers "prefund" benefit increases, such as a cost-of-living adjustment to retirees, and they can be used to help offset or mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions:

- (a) paying an elected contribution rate higher than the required rate and
- (b) making an extra lump-sum contribution to the employer account.

Employees for the district were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the district were 14.48 percent and 13.23 percent in calendar years 2014 and 2015, respectively. The district's contributions to TCDRS for the fiscal year ended December 31, 2015 were \$5,912,571, and were in excess of the required contributions.

Net Pension Asset

The District's Net Pension Asset (NPA) was measured as of December 31, 2014 and the Total Pension Liability (TPL) used to calculate the NPA was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The actuarial assumptions that determined the TPL as of December 31, 2014 were based on the results of an actuarial experience study for the period January 1, 2009 through October 31, 2012, except where required to be different by GASB 68.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

Key assumptions used in the December 31, 2014 actuarial valuation are as follows:

| | |
|----------------------------|--|
| Valuation Timing | Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in the which the contributions are reported. |
| Actuarial Cost Method | Entry Age Normal |
| Asset Valuation Method | |
| Smoothing period | 5 years |
| Recognition method | Non-asymptotic |
| Corridor | None |
| Inflation | 3.0% |
| Salary Increases | 2.5% |
| Investment Rate of Return | 8.10% |
| Cost of Living Adjustments | Cost-of-living adjustments for the district are not considered to be substantively automatic under GASB 68. Therefore, an assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation. |

The long-term expected rate of return of TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The target allocation and best estimate of geometric real rate of return for each major asset class are summarized in the following table:

| Asset Class | Benchmark | Target Allocation | Geometric Real Rate of Return (Expected minus Inflation) |
|------------------------------------|--|-------------------|--|
| US Equities | Dow Jones U.S. Total Stock Market Index | 16.50% | 5.35% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index | 12.00% | 8.35% |
| Global Equities | MSCI World (net) Index | 1.50% | 5.65% |
| International Equities - Developed | 50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index | 11.00% | 5.35% |
| International Equities - Emerging | 50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index | 9.00% | 6.35% |
| Investment-Grade Bonds | Barclays Capital Aggregate Bond Index | 3.00% | 0.55% |
| High-Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 3.75% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 5.00% | 5.54% |
| Direct Lending | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 5.80% |
| Distressed Debt | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 6.75% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index | 2.00% | 4.00% |
| Commodities | Bloomberg Commodities Index | 2.00% | -0.20% |
| Master Limited Partnerships (MLP) | Alerian MLP Index | 2.00% | 5.30% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index | 3.00% | 7.20% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 25.00% | 5.15% |

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

Discount Rate

The discount rate used to measure the TPL was 8.1 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the NPA

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---|
| | Total Pension Liability (A) | Plan Fiduciary Net Position (B) | Net Pension Liability (Asset) (A) - (B) |
| Changes for the year: | | | |
| Service cost | \$ 4,582,317 | \$ - | \$ 4,582,317 |
| Interest | 12,690,234 | - | 12,690,234 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | 2,160,168 | - | 2,160,168 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 5,038,460 | (5,038,460) |
| Contributions - employee | - | 2,194,012 | (2,194,012) |
| Net investment income | - | 10,845,397 | (10,845,397) |
| Benefit payments, including refunds of employee contributions | (5,858,003) | (5,858,003) | - |
| Administrative expense | - | (129,244) | 129,244 |
| Other changes | - | 426,166 | (426,166) |
| Net changes | 13,574,716 | 12,516,788 | 1,057,928 |
| Balance at December 31, 2013 | 157,294,981 | 161,299,467 | (4,004,486) |
| Balance at December 31, 2014 | \$ 170,869,697 | \$ 173,816,255 | \$ (2,946,558) |

Sensitivity of the NPA to Changes in the Discount Rate

The following presents the NPA of the district, calculated using the discount rate of 8.1 percent, as well as what the district's NPA would be if it were calculated using a discount rate that is one percentage point lower (7.1%) or one percentage point higher (9.1%) than the current rate:

| | 1% Decrease in Discount Rate (7.10%) | Discount Rate (8.10%) | 1% Increase in Discount Rate (9.10%) |
|--|--|--------------------------|--|
| District's Net Pension Liability (Asset) | \$ 19,425,502 | \$ (2,946,558) | \$ (21,352,120) |

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.org.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended December 31, 2015, the district recognized pension expense of \$2,363,866.

At December 31, 2015, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 1,800,140 | \$ - |
| Difference between projected and actual investment earnings | 1,932,382 | - |
| Contributions subsequent to the measurement date | 5,912,571 | - |
| Total | \$ 9,645,093 | \$ - |

\$5,912,571 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase to the NPA for the fiscal year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended December 31:</u> | <u>Pension Expense Amount</u> |
|--------------------------------|-----------------------------------|
| 2016 | 843,123 |
| 2017 | 843,123 |
| 2018 | 843,123 |
| 2019 | 843,123 |
| 2020 | 360,030 |
| Total | \$ 3,732,522 |

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-

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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) | \$ 918,429 |
| Interest on OPEB obligation | 130,175 |
| Adjustment to ARC | (120,605) |
| Annual OPEB costs | 927,999 |
| Contributions made | (710,030) |
| Increase in net OPEB obligation | 217,969 |
| Net OPEB obligation - beginning of year | 2,892,756 |
| Net OPEB obligation - end of year | <u>\$ 3,110,725</u> |

The district's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2015 and the two preceding years are as follows:

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation | |
|-------------|------------------|--|---------------------|--------------|
| | | | Beginning | Ending |
| 2013 | \$ 809,440 | 39.48% | \$ 2,235,414 | \$ 2,725,261 |
| 2014 | \$ 900,694 | 81.40% | \$ 2,725,261 | \$ 2,892,756 |
| 2015 | \$ 927,999 | 76.51% | \$ 2,892,756 | \$ 3,110,725 |

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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

Actuarial Methods and Assumptions

The Projected Unit Credit Cost Method is used to calculate the GASB ARC for the district's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

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 percentage 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/Ultimate) | |
| Non-Medicare plans | 7.0%/5.0% |
| Medicare supplement | 5.5%/4.5% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the district's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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, 2015, 2014, and 2013 were \$103,323, \$97,165, and \$87,687, respectively, which equaled the contractually required contributions each year.

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, 2015
With Comparative Totals for the Year Ended December 31, 2014

| | 2015 | | | | 2014 |
|---|--------------------|-------------------|--------------------------|--|--------------------------|
| | Budgeted Amounts | | | Variance Final Budget Positive (Negative) | |
| | Original Budget | Final Budget | Actual (Budget Basis) | | Actual (Budget Basis) |
| Revenues | | | | | |
| Assessments | \$ 75,147,504 | \$ 75,147,504 | \$ 74,902,803 | \$ (244,701) | \$ 64,367,413 |
| Investment income | 30,000 | 30,000 | 17,685 | (12,315) | 18,782 |
| Other | 400,000 | 400,000 | 669,741 | 269,741 | 760,459 |
| Rendition penalty fee | 250,000 | 250,000 | 334,664 | 84,664 | 349,402 |
| Total Revenues | 75,827,504 | 75,827,504 | 75,924,893 | 97,389 | 65,496,056 |
| Expenditures | | | | | |
| Current: | | | | | |
| Office of Chief Appraiser and Board of Directors (OCA and BOD) | | | | | |
| Personnel | 913,490 | 991,190 | 975,153 | 16,037 | 912,798 |
| Appraisal review board | 2,450,000 | 2,777,000 | 2,776,734 | 266 | 2,596,823 |
| Professional services | 12,419,467 | 10,264,705 | 9,596,565 | 668,140 | 8,625,316 |
| Office supplies and printing | 10,500 | 13,800 | 13,564 | 236 | 13,688 |
| Other | 59,300 | 76,300 | 59,445 | 16,855 | 46,922 |
| Total OCA and BOD | 15,852,757 | 14,122,995 | 13,421,461 | 701,534 | 12,195,547 |
| Appraisal Support | | | | | |
| Personnel | 11,592,689 | 11,739,344 | 11,674,315 | 65,029 | 10,655,670 |
| Professional services | 413,470 | 389,870 | 366,640 | 23,230 | 399,765 |
| Office supplies and printing | 55,800 | 54,075 | 36,301 | 17,774 | 37,452 |
| Data processing | - | 1,070,722 | 1,064,951 | 5,771 | - |
| Other | 36,700 | 57,300 | 50,006 | 7,294 | 26,444 |
| Total Appraisal Support | 12,098,659 | 13,311,311 | 13,192,213 | 119,098 | 11,119,331 |
| Appraisal | | | | | |
| Personnel | 25,835,424 | 25,636,844 | 24,915,217 | 721,627 | 23,780,005 |
| Professional services | 1,569,195 | 1,626,195 | 1,546,454 | 79,741 | 1,525,848 |
| Office supplies and printing | 223,901 | 298,501 | 254,282 | 44,219 | 231,887 |
| Other | 86,215 | 76,715 | 52,792 | 23,923 | 57,722 |
| Total Appraisal | 27,714,735 | 27,638,255 | 26,768,745 | 869,510 | 25,595,462 |
| Information Systems | | | | | |
| Personnel | 4,492,585 | 4,298,915 | 4,243,891 | 55,024 | 4,198,899 |
| Professional services | 100,000 | 171,500 | 166,909 | 4,591 | 185,871 |
| Office supplies and printing | 455,409 | 369,874 | 310,375 | 59,499 | 275,121 |
| Data processing | 3,008,929 | 2,209,868 | 2,153,081 | 56,787 | 2,516,539 |
| Other | 31,500 | 28,500 | 18,434 | 10,066 | 19,609 |
| Total Information Systems | 8,088,423 | 7,078,657 | 6,892,690 | 185,967 | 7,196,039 |
| Administration | | | | | |
| Personnel | 4,776,306 | 4,811,631 | 4,513,745 | 297,886 | 4,376,567 |
| Professional services | 60,300 | 60,299 | 3,461 | 56,838 | 113,445 |
| Office supplies and printing | 73,563 | 74,563 | 54,466 | 20,097 | 45,098 |
| Other | 2,225,434 | 2,222,434 | 2,018,107 | 204,327 | 2,016,707 |
| Total Administration | 7,135,603 | 7,168,927 | 6,589,779 | 579,148 | 6,551,817 |

HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)
GENERAL FUND (BUDGET BASIS)
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

| | 2015 | | | | 2014 |
|--|--------------------|-------------------|--------------------------|--|--------------------------|
| | Budgeted Amounts | | | Variance Final Budget Positive (Negative) | |
| | Original Budget | Final Budget | Actual (Budget Basis) | | Actual (Budget Basis) |
| Administration Services | | | | | |
| Personnel | \$ 873,903 | \$ 2,286,635 | \$ 1,919,443 | \$ 367,192 | \$ 601,407 |
| Professional services | 154,750 | 154,750 | 140,856 | 13,894 | 128,168 |
| Office supplies and printing | 150,550 | 150,550 | 120,370 | 30,180 | 117,703 |
| Rent and utilities | 642,999 | 492,999 | 484,495 | 8,504 | 494,095 |
| Other | 1,346,220 | 1,622,320 | 1,596,544 | 25,776 | 1,343,201 |
| Total Administration Services | 3,168,422 | 4,707,254 | 4,261,708 | 445,546 | 2,684,574 |
| Debt Service: | | | | | |
| Principal retirement and interest charges | 2,368,905 | 2,368,905 | 2,368,904 | 1 | 2,368,905 |
| Capital Outlay | 150,000 | 181,200 | 157,303 | 23,897 | 62,643 |
| Total Expenditures | 76,577,504 | 76,577,504 | 73,652,803 | 2,924,701 | 67,774,318 |
| Net Change in Fund Balance | \$ (750,000) | \$ (750,000) | 2,272,090 | \$ 3,022,090 | \$ (2,278,262) |

Notes to Required Supplementary Information:

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

Timing differences:

| | |
|---|-----------|
| Encumbrances at the end of the year | 1,082,434 |
| Encumbrances at the beginning of the year that were incurred | (978,282) |

Perspective differences:

| | |
|---|-----|
| Interest income (cash with fiscal agent-restricted) | 272 |
|---|-----|

Net Change in Fund Balance **\$ 2,376,514**

HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
December 31, 2015

| | Measurement Year <u>2014*</u> |
|--|-------------------------------------|
| Total Pension Liability | |
| Service cost | \$ 4,582,317 |
| Interest (on the total pension liability) | 12,690,234 |
| Difference between expected and actual experience | 2,160,168 |
| Benefit payments, including refunds of employee contributions | (5,858,003) |
| Net Change in Total Pension Liability | <u>13,574,716</u> |
| Beginning total pension liability | <u>157,294,981</u> |
| Ending Total Pension Liability | <u><u>\$ 170,869,697</u></u> |
| Plan Fiduciary Net Position | |
| Contributions - employer | \$ 5,038,460 |
| Contributions - employee | 2,194,012 |
| Net investment income | 10,845,397 |
| Benefit payments, including refunds of employee contributions | (5,858,003) |
| Administrative expense | (129,244) |
| Other | 426,166 |
| Net Change in Plan Fiduciary Net Position | <u>12,516,788</u> |
| Beginning plan fiduciary net position | <u>161,299,467</u> |
| Ending Plan Fiduciary Net Position | <u><u>\$ 173,816,255</u></u> |
| Net Pension Liability (Asset) | <u><u>\$ (2,946,558)</u></u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 101.72% |
| Covered Employee Payroll | \$ 31,343,022 |
| Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll | (9.40%) |

*Only one year of information is currently available. The district will build this schedule over the next nine-year period.

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HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF CONTRIBUTIONS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
December 31, 2015

| | Fiscal Year* | |
|---|---------------------|-----------------------|
| | 2014 | 2015 |
| Actuarially determined contribution | \$ 4,538,460 | \$ 4,409,573 |
| Contributions in relation to the actuarially determined contribution | 5,038,460 | 5,912,571 |
| Contribution (excess) | <u>\$ (500,000)</u> | <u>\$ (1,502,998)</u> |
| Covered employee payroll | \$ 31,342,957 | \$ 33,330,107 |
| Contributions as a percentage of covered employee payroll | 16.08% | 17.74% |

*Only two years of information are currently available. The district will build this schedule over the next eight-year period.

Notes to Required Supplementary Information:
There were no benefit changes during the year.

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HARRIS COUNTY APPRAISAL DISTRICT

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT HEALTHCARE BENEFITS

December 31, 2015

| 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% |

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 | 86 |
| <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 | 94 |
| <i>These schedules contain information to help the reader assess the district's most significant local revenue source, assessment fees from the taxing entities.</i> | |
| Debt Capacity | 98 |
| <i>These schedules present information to help the reader assess the affordability of the district's current level of outstanding debt and the district's ability to issue additional debt in the future.</i> | |
| Demographic and Economic Information | 101 |
| <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 | 104 |
| <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 | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2006 | 2007 | 2008 | 2009 |
| Governmental Activities | | | | |
| Net investment in capital assets | \$ 6,731,571 | \$ 7,207,791 | \$ 7,517,575 | \$ 8,229,698 |
| Restricted | 3,447,102 | 3,316,820 | 3,249,079 | 3,203,151 |
| Unrestricted | 5,941,966 | 4,698,792 | 1,998,921 | 2,444,621 |
| Total Governmental Activities Net Position | <u>\$ 16,120,639</u> | <u>\$ 15,223,403</u> | <u>\$ 12,765,575</u> | <u>\$ 13,877,470</u> |

| Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 9,219,871 | \$ 9,732,611 | \$ 8,438,593 | \$ 9,021,196 | \$ 9,648,405 | \$ 10,097,874 |
| 2,923,838 | 150,929 | 151,013 | 151,312 | 151,277 | 151,549 |
| 3,329,336 | 4,494,025 | 8,014,806 | 6,626,297 | 12,111,859 | 17,667,023 |
| <u>\$ 15,473,045</u> | <u>\$ 14,377,565</u> | <u>\$ 16,604,412</u> | <u>\$ 15,798,805</u> | <u>\$ 21,911,541</u> | <u>\$ 27,916,446</u> |

HARRIS COUNTY APPRAISAL DISTRICT

CHANGES IN NET POSITION

Last Ten Years
(accrual basis of accounting)

| | Year | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2006 | 2007 | 2008 | 2009 |
| Expenses | | | | |
| Governmental activities | | | | |
| Office of Chief Appraiser and | | | | |
| Board of Directors | \$ 5,205,700 | \$ 7,164,294 | \$ 9,755,491 | \$ 9,256,665 |
| Appraisal support | 7,018,490 | 7,686,395 | 9,802,213 | 10,311,720 |
| Appraisal | 16,115,462 | 17,424,858 | 21,464,205 | 24,157,193 |
| Information systems | 6,338,746 | 6,409,167 | 6,929,962 | 6,663,816 |
| Administration | 3,914,964 | 4,337,829 | 4,623,874 | 5,670,303 |
| Administration/building services | 7,724,416 | 4,610,783 | 3,759,466 | 3,442,034 |
| Interest and fiscal agent fees on long-term debt | 1,573,617 | 1,519,234 | 1,477,038 | 1,425,811 |
| Total Governmental Activities Expenses | <u>47,891,395</u> | <u>49,152,560</u> | <u>57,812,249</u> | <u>60,927,542</u> |
| Program Revenues | | | | |
| Governmental activities | | | | |
| Charges for services | | | | |
| Administration/building services | \$ 588,288 | \$ - | \$ - | \$ - |
| Appraisal | 703,170 | 1,117,207 | 722,871 | 789,310 |
| Total Governmental Activities Program Revenues | <u>1,291,458</u> | <u>1,117,207</u> | <u>722,871</u> | <u>789,310</u> |
| Net (Expense) | | | | |
| Governmental activities | <u>\$ (46,599,937)</u> | <u>\$ (48,035,353)</u> | <u>\$ (57,089,378)</u> | <u>\$ (60,138,232)</u> |
| General Revenues and Other Changes in Net Position | | | | |
| Governmental activities | | | | |
| Assessments | \$ 42,294,633 | \$ 45,662,193 | \$ 53,997,326 | \$ 61,190,821 |
| Investment income | 1,474,414 | 1,475,924 | 634,224 | 59,306 |
| Total Governmental Activities | <u>\$ 43,769,047</u> | <u>\$ 47,138,117</u> | <u>\$ 54,631,550</u> | <u>\$ 61,250,127</u> |
| Change in Net Position | | | | |
| Governmental activities | <u>\$ (2,830,890)</u> | <u>\$ (897,236)</u> | <u>\$ (2,457,828)</u> | <u>\$ 1,111,895</u> |

| Year | | | | | |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 8,179,031 | \$ 6,964,757 | \$ 7,144,120 | \$ 9,236,747 | \$ 12,277,502 | \$ 13,459,605 |
| 10,566,860 | 10,210,883 | 10,325,083 | 10,596,987 | 11,292,560 | 12,123,489 |
| 24,831,948 | 24,092,912 | 24,162,142 | 25,046,836 | 26,003,956 | 25,781,516 |
| 7,343,823 | 8,389,895 | 6,476,683 | 7,598,860 | 8,303,305 | 7,968,093 |
| 5,437,350 | 5,526,701 | 5,755,421 | 6,080,782 | 6,742,844 | 6,521,949 |
| 2,745,811 | 6,229,802 | 3,016,395 | 3,683,503 | 2,944,527 | 3,051,631 |
| 1,255,167 | 1,314,157 | 1,254,168 | 1,190,711 | 1,123,581 | 1,052,562 |
| <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> | <u>69,958,845</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 743,712 | 549,947 | 856,611 | 1,036,988 | 1,153,984 | 1,041,448 |
| <u>743,712</u> | <u>549,947</u> | <u>856,611</u> | <u>1,036,988</u> | <u>1,153,984</u> | <u>1,041,448</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> | <u>\$ (68,917,397)</u> |
| | | | | | |
| \$ 61,171,142 | \$ 61,060,911 | \$ 59,473,306 | \$ 61,566,883 | \$ 64,367,413 | \$ 74,902,803 |
| 40,711 | 22,769 | 30,942 | 24,948 | 19,564 | 19,499 |
| <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>\$ 74,922,302</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> | <u>\$ 6,004,905</u> |

HARRIS COUNTY APPRAISAL DISTRICT

FUND BALANCE, GOVERNMENTAL FUND

Last Ten Years

(modified accrual basis of accounting)

| | Year | | | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2006 | 2007 | 2008 | 2009 |
| General Fund | | | | |
| Nonspendable | \$ 216,691 | \$ 263,953 | \$ 286,906 | \$ 274,612 |
| Restricted | 3,447,102 | 3,316,820 | 3,249,079 | 3,203,151 |
| Assigned | 1,786,597 | 1,963,770 | 724,499 | 1,082,429 |
| Unassigned | 11,319,012 | 11,188,636 | 10,611,680 | 11,032,679 |
| Total General Fund | <u>\$ 16,769,402</u> | <u>\$ 16,733,179</u> | <u>\$ 14,872,164</u> | <u>\$ 15,592,871</u> |

| Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 224,819 | \$ 220,867 | \$ 229,011 | \$ 278,690 | \$ 355,921 | \$ 321,572 |
| 2,923,838 | 150,929 | 151,013 | 151,312 | 151,277 | 151,549 |
| 3,250,513 | 2,495,471 | 3,720,970 | 6,316,077 | 3,228,282 | 3,332,434 |
| 9,576,127 | 11,670,886 | 11,247,535 | 7,887,037 | 7,665,983 | 9,972,422 |
| <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> | <u>\$ 13,777,977</u> |

HARRIS COUNTY APPRAISAL DISTRICT

CHANGES IN FUND BALANCE, GOVERNMENTAL FUND

Last Ten Years

(modified accrual basis of accounting)

| | | Year | | | |
|---|----|--------------------|--------------------|-----------------------|-------------------|
| | | 2006 | 2007 | 2008 | 2009 |
| Revenues | | | | | |
| Assessments | \$ | 42,294,633 | \$ 45,662,193 | \$ 53,997,326 | \$ 61,190,821 |
| Investment income | | 1,306,743 | 1,326,703 | 592,534 | 55,296 |
| Other revenues | | 415,013 | 418,762 | 480,123 | 405,486 |
| Escalation settlement | | 588,288 | - | - | - |
| Rendition penalty fee | | 376,155 | 557,545 | 269,397 | 353,101 |
| Total Revenues | | <u>44,980,832</u> | <u>47,965,203</u> | <u>55,339,380</u> | <u>62,004,704</u> |
| Expenditures | | | | | |
| Office of Chief Appraiser and | | | | | |
| Board of Directors | | 5,206,976 | 7,151,961 | 9,699,915 | 9,217,871 |
| Appraisal support | | 6,963,236 | 7,603,298 | 9,624,462 | 10,218,855 |
| Appraisal | | 16,067,803 | 17,296,546 | 21,080,167 | 23,948,617 |
| Information systems | | 5,846,988 | 5,888,562 | 6,480,479 | 6,291,016 |
| Administration | | 3,753,254 | 4,059,326 | 4,399,795 | 5,520,413 |
| Administration services/building services | | 6,904,973 | 3,117,793 | 3,704,450 | 3,331,736 |
| Capital outlay | | 161,635 | 515,036 | 65,118 | 220,591 |
| Debt service | | | | | |
| Principal | | 1,308,473 | 845,776 | 984,579 | 1,104,733 |
| Interest | | 1,581,698 | 1,523,128 | 1,481,155 | 1,430,165 |
| Total Expenditures | | <u>47,795,036</u> | <u>48,001,426</u> | <u>57,520,120</u> | <u>61,283,997</u> |
| Excess (Deficiency) of Revenues Over | | | | | |
| (Under) Expenditures | | (2,814,204) | (36,223) | (2,180,740) | 720,707 |
| Other Financing Sources (Uses) | | | | | |
| Capital lease proceeds | | - | - | 319,725 | - |
| Total Other Financing Sources | | <u>-</u> | <u>-</u> | <u>319,725</u> | <u>-</u> |
| Net Change in Fund Balance | \$ | <u>(2,814,204)</u> | <u>\$ (36,223)</u> | <u>\$ (1,861,015)</u> | <u>\$ 720,707</u> |
| Debt service as a percentage | | | | | |
| of noncapital expenditures | | 6.07% | 4.99% | 4.29% | 4.15% |

| Year | | | | | |
|---------------|----------------|---------------|---------------|----------------|---------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 61,171,142 | \$ 61,060,911 | \$ 59,473,306 | \$ 61,566,883 | \$ 64,367,413 | \$ 74,902,803 |
| 39,065 | 20,993 | 28,462 | 23,229 | 18,934 | 17,957 |
| 354,446 | 269,021 | 507,054 | 717,721 | 760,459 | 669,741 |
| - | - | - | - | - | - |
| 396,148 | 283,546 | 274,860 | 294,934 | 349,402 | 334,664 |
| 61,960,801 | 61,634,471 | 60,283,682 | 62,602,767 | 65,496,208 | 75,925,165 |
| 8,099,641 | 6,931,647 | 7,097,353 | 9,137,044 | 12,195,547 | 13,421,461 |
| 10,463,681 | 10,091,490 | 10,192,816 | 10,350,238 | 11,119,331 | 12,584,529 |
| 24,703,329 | 23,843,834 | 23,870,266 | 24,474,901 | 25,595,462 | 26,768,745 |
| 7,114,740 | 8,052,079 | 6,141,940 | 7,257,810 | 7,851,749 | 7,803,603 |
| 5,302,049 | 5,368,780 | 5,605,428 | 5,877,296 | 6,551,032 | 6,590,564 |
| 3,277,849 | 6,389,220 | 3,600,301 | 3,577,236 | 2,826,193 | 3,932,801 |
| 179,018 | 25,661 | 596,298 | 274,751 | 219,642 | 78,044 |
| 1,066,572 | 1,054,747 | 1,114,736 | 1,178,193 | 1,245,324 | 1,316,342 |
| 1,371,496 | 1,314,157 | 1,254,168 | 1,190,711 | 1,123,581 | 1,052,562 |
| 61,578,375 | 63,071,615 | 59,473,306 | 63,318,180 | 68,727,861 | 73,548,651 |
| 382,426 | (1,437,144) | 810,376 | (715,413) | (3,231,653) | 2,376,514 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| \$ 382,426 | \$ (1,437,144) | \$ 810,376 | \$ (715,413) | \$ (3,231,653) | \$ 2,376,514 |
| 3.97% | 3.76% | 4.02% | 3.76% | 3.46% | 3.23% |

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

| | Year | | | |
|---|------------------|------------------|------------------|------------------|
| | 2006 | 2007 | 2008 | 2009 |
| Total adjusted levy for calculation of taxing unit assessments ^{(1) (2)} | \$ 6,003,582,726 | \$ 6,278,466,241 | \$ 6,586,789,240 | \$ 7,349,553,692 |
| Direct rate ⁽⁴⁾ | 100% | 100% | 100% | 100% |
| Assessments | \$ 42,294,558 | \$ 45,662,191 | \$ 53,997,326 | \$ 61,189,143 |

- (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 and 2015. The amount shown here does not include the adjustment for the refund.
- (4) 100% of the adjusted levy is used in the calculation allocating the assessment fees.

| Year | | | | | |
|------------------|------------------|------------------------------|------------------|------------------|------------------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 7,467,082,380 | \$ 7,228,564,513 | \$ 7,390,428,021 | \$ 7,728,886,310 | \$ 8,458,886,001 | \$ 9,385,920,743 |
| 100% | 100% | 100% | 100% | 100% | 100% |
| \$ 61,171,141 | \$ 61,060,911 | \$ 60,429,430 ⁽³⁾ | \$ 61,566,862 | \$ 64,367,413 | \$ 75,147,518 ⁽³⁾ |

HARRIS COUNTY APPRAISAL DISTRICT

PRINCIPAL TAXING JURISDICTIONS

Current Year and Nine Years Ago

| Taxing Jurisdictions | 2015 | | | 2006 | | |
|------------------------------|-------------------------|------|-----------------------------|-------------------------|------|-----------------------------|
| | Tax Levy | Rank | % of Taxable Assessed Value | Tax Levy | Rank | % of Taxable Assessed Value |
| Houston ISD | \$ 1,625,165,576 | 1 | 17.31% | \$ 1,174,413,920 | 1 | 19.56% |
| Harris County | 1,458,514,240 | 2 | 15.54% | 822,687,527 | 2 | 13.70% |
| City of Houston | 1,172,124,068 | 3 | 12.49% | 719,504,439 | 3 | 11.98% |
| Harris County Hospital Dist. | 575,782,713 | 4 | 6.13% | 395,357,463 | 5 | 6.59% |
| Cypress-Fairbanks ISD | 572,993,305 | 5 | 6.10% | 397,683,548 | 4 | 6.62% |
| Spring Branch ISD | 319,076,874 | 6 | 3.40% | 229,861,899 | 6 | 3.83% |
| Katy ISD | 246,187,326 | 7 | 2.62% | n/a | n/a | n/a |
| Aldine ISD | 218,968,228 | 8 | 2.33% | 163,224,281 | 7 | 2.72% |
| Klein ISD | 216,097,294 | 9 | 2.30% | 157,217,744 | 8 | 2.62% |
| Humble ISD | 190,064,471 | 10 | 2.02% | n/a | n/a | n/a |
| Alief ISD | n/a | n/a | n/a | 156,801,984 | 9 | 2.61% |
| Pasadena ISD | n/a | n/a | n/a | 137,568,715 | 10 | 2.29% |
| Subtotal | 6,594,974,095 | | 70.26% | 4,354,321,520 | | 72.53% |
| Other taxing jurisdictions | 2,790,946,648 | | 29.74% | 1,649,261,206 | | 27.47% |
| Total | \$ 9,385,920,743 | | 100.00% | \$ 6,003,582,726 | | 100.00% |

Source: Harris County Appraisal District's departmental records.

HARRIS COUNTY APPRAISAL DISTRICT

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Years

| | | Year | | | |
|--|--|----------------------|----------------------|----------------------|----------------------|
| | | 2006 | 2007 | 2008 | 2009 |
| Governmental Activities: | | | | | |
| Capital leases | | \$ 27,699,553 | \$ 26,853,777 | \$ 25,960,063 | \$ 25,015,651 |
| Total | | <u>\$ 27,699,553</u> | <u>\$ 26,853,777</u> | <u>\$ 25,960,063</u> | <u>\$ 25,015,651</u> |
| Taxing jurisdictions in district | | 429 | 429 | 477 | 476 |
| Debt per taxing unit ⁽¹⁾ | | \$ 64,568 | \$ 62,596 | \$ 54,424 | \$ 52,554 |

(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 | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 24,017,619 | \$ 22,962,872 | \$ 21,848,136 | \$ 20,669,943 | \$ 19,424,619 | \$ 18,108,277 |
| <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> | <u>\$ 18,108,277</u> |
| 485 | 488 | 492 | 493 | 501 | 513 |
| \$ 49,521 | \$ 47,055 | \$ 44,407 | \$ 41,927 | \$ 38,772 | \$ 35,299 |

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 |
|--|--|---|---|--------------------------------------|
| 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 | \$ 252,694,912 | \$ 56,896 | 4.0% |
| 2015 | 6,622 | not available | not available | 4.6% |

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 | 2015 | | | 2006 | | |
|--------------------------------|----------------|------|--|----------------|------|--|
| | Employees | Rank | Percentage of Total County Employment | Employees | Rank | Percentage of Total County Employment |
| Wal-Mart Stores | 32,000 | 1 | 1.0770% | 29,554 | 1 | 1.2141% |
| H-E-B | 21,471 | 2 | 0.7226% | - | - | - |
| UT MD Anderson Cancer Center | 20,357 | 3 | 0.6851% | 15,293 | 6 | 0.6282% |
| Memorial Hermann Health System | 20,055 | 4 | 0.6750% | 16,248 | 5 | 0.6675% |
| The Methodist Hospital System | 16,961 | 5 | 0.5708% | - | - | - |
| Kroger Co. | 15,216 | 6 | 0.5121% | 12,803 | 7 | 0.5259% |
| United Airlines | 15,108 | 7 | 0.5085% | - | - | - |
| Exxon Mobil Corp. | 12,814 | 8 | 0.4313% | 16,732 | 4 | 0.6873% |
| Schlumberger | 12,207 | 9 | 0.4108% | - | - | - |
| Shell Oil Co. | 12,050 | 10 | 0.4056% | 11,780 | 9 | 0.4839% |
| Continental Airlines | - | - | - | 19,661 | 3 | 0.8077% |
| Administaff | - | - | - | 19,851 | 2 | 0.8155% |
| Halliburton | - | - | - | 11,868 | 8 | 0.4875% |
| UT Medical Branch at Galveston | - | - | - | 10,199 | 10 | 0.4190% |
| Total | 178,239 | | | 163,989 | | |

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 | | | |
|-------------------------------|------------|------------|------------|------------|
| | 2006 | 2007 | 2008 | 2009 |
| Office of the Chief Appraiser | 6 | 7 | 7 | 7 |
| Support Services | 143 | 157 | 177 | 176 |
| Appraisal | 305 | 313 | 363 | 368 |
| Information Systems | 51 | 47 | 49 | 48 |
| Administration | 37 | 37 | 34 | 41 |
| Regular Positions | 542 | 561 | 630 | 640 |

Notes:

(1) Data represents employed positions at year end.

| Year | | | | | |
|------|------|------|------|------|------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| 6 | 6 | 5 | 5 | 5 | 5 |
| 173 | 173 | 168 | 170 | 166 | 165 |
| 359 | 357 | 354 | 354 | 319 | 327 |
| 48 | 46 | 46 | 46 | 36 | 45 |
| 44 | 48 | 50 | 48 | 50 | 41 |
| 630 | 630 | 623 | 623 | 576 | 583 |

HARRIS COUNTY APPRAISAL DISTRICT

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

Last Ten Years

| Property Category | Year | | | |
|------------------------------|-------------|-------------|-------------|-------------|
| | 2006 | 2007 | 2008 | 2009 |
| Single family residential | 0.98 | 0.99 | 0.98 | 0.99 |
| Multi-family residential | 0.93 | 0.94 | 0.92 | 0.98 |
| Vacant lots | 9.00 | 0.94 | 0.95 | 0.98 |
| Acreage | 0.99 | 0.90 | 0.92 | 1.00 |
| Commercial real property | 0.92 | 0.93 | 0.94 | 0.98 |
| Utilities | 1.00 | 1.01 | n/a | 0.97 |
| Commercial personal property | 0.98 | 0.98 | 0.99 | 0.99 |
| Overall Median Level | 0.97 | 0.98 | 0.98 | 0.99 |

(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 the district's appraisal department.

| Year | | | | | |
|---------|------|---------|------|---------|------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| n/a | 0.99 | n/a | 0.97 | n/a | 0.99 |
| n/a | 0.99 | n/a | 0.94 | n/a | 0.97 |
| n/a | 1.00 | n/a | n/a | n/a | n/a |
| n/a | 0.96 | n/a | n/a | n/a | n/a |
| n/a | 0.97 | n/a | 1.01 | n/a | 1.00 |
| n/a | 1.02 | n/a | 0.98 | n/a | 0.96 |
| n/a | 0.99 | n/a | 0.99 | n/a | 1.00 |
| n/a (2) | 0.99 | n/a (2) | 1.03 | n/a (2) | 0.99 |

HARRIS COUNTY APPRAISAL DISTRICT

PROTEST ACTIVITY AND LITIGATION VOLUME

Last Ten Years

| Property Category | Year | | | |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2006 | 2007 | 2008 | 2009 |
| Reappraisal year | No | Yes | Yes | No |
| Accounts protested | 271,226 | 363,238 | 394,467 | 393,050 |
| Value of accounts | \$ 155,457,071,162 | \$ 192,361,247,493 | \$ 219,642,785,368 | \$ 218,485,516,553 |
| Average percentage reduction | 13.7% | 12.1% | 11.6% | 10.7% |
| Total lawsuits | 2,172 | 3,530 | 2,730 | 2,713 |
| Number of accounts | 3,912 | 6,094 | 6,208 | 8,645 |
| Value of accounts | \$ 17,446,885,543 | \$ 21,444,067,224 | \$ 29,042,542,084 | \$ 31,605,691,200 |
| Number of accounts resolved | 3,907 | 6,094 | 6,203 | 8,580 |
| Average percentage reduction | 11.82% | 11.76% | 13.71% | 13.65% |

Data from district's appraisal department.

| Year | | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Yes | Yes | Yes | Yes | Yes | Yes |
| 322,238 | 305,395 | 295,905 | 301,803 | 345,056 | 369,355 |
| \$ 186,744,404,468 | \$ 183,706,930,898 | \$ 198,141,775,586 | \$ 230,059,613,150 | \$ 246,503,712,052 | \$ 281,500,145,312 |
| 8.2% | 9.0% | 9.3% | 8.8% | 8.5% | 6.3% |
| 2,196 | 2,940 | 2,866 | 3,568 | 4,028 | 4,080 |
| 5,435 | 6,604 | 6,980 | 11,025 | 9,676 | 9,202 |
| \$ 17,707,586,961 | \$ 23,499,481,923 | \$ 29,360,329,928 | \$ 55,280,102,559 | \$ 62,324,795,571 | \$ 58,866,224,729 |
| 5,393 | 6,475 | 6,891 | 10,548 | 7,670 | 759 |
| 11.17% | 10.92% | 10.52% | 9.43% | 7.80% | 8.40% |

HARRIS COUNTY APPRAISAL DISTRICT

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Years

| Function / Program | Year | | | |
|--------------------|----------------|----------------|----------------|----------------|
| | 2006 | 2007 | 2008 | 2009 |
| Appraisal | | | | |
| Appraised value | \$ 293,384,510 | \$ 327,590,375 | \$ 364,711,001 | \$ 372,664,071 |
| Number of accounts | 1,470,831 | 1,486,328 | 1,522,251 | 1,541,287 |

Source: Various district departments.

| Year | | | | | |
|----------------|----------------|----------------|----------------|----------------|----------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| \$ 359,326,951 | \$ 363,527,388 | \$ 380,886,243 | \$ 413,396,777 | \$ 449,206,021 | \$ 503,278,759 |
| 1,542,759 | 1,555,477 | 1,563,992 | 1,576,093 | 1,593,793 | 1,604,903 |

HARRIS COUNTY APPRAISAL DISTRICT

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Years

| Function/Program | Year | | | |
|-------------------------------|------|-------|-------|-------|
| | 2006 | 2007 | 2008 | 2009 |
| General Fund | | | | |
| Office of the Chief Appraiser | 5 | 74 | 73 | 72 |
| Support Services | 21 | 268 | 262 | 257 |
| Appraisal | 570 | 560 | 525 | 516 |
| Information Systems | 490 | 1,734 | 1,711 | 1,672 |
| Administration | 8 | 191 | 187 | 180 |

Source: Various district departments.

Figures represent total capital assets by function.

| Year | | | | | |
|-------|-------|-------|-------|-------|------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| 70 | 66 | 66 | 63 | 59 | 57 |
| 249 | 217 | 211 | 201 | 198 | 191 |
| 502 | 488 | 487 | 478 | 476 | 471 |
| 1,635 | 1,482 | 1,432 | 1,263 | 1,222 | 1158 |
| 179 | 179 | 176 | 176 | 173 | 169 |

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