



***HARRIS COUNTY
APPRAISAL DISTRICT***

***HARRIS COUNTY
HOUSTON, TEXAS***

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2018

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

of the

**HARRIS COUNTY
APPRAISAL DISTRICT, TEXAS**

For the Year Ended
December 31, 2018

Report Issued By:

Budget and Finance Division

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HARRIS COUNTY APPRAISAL DISTRICT

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INTRODUCTORY SECTION

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Harris County Appraisal District

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Board of Directors

Pete Pape, *Chairman*
Ann Harris Bennett, *Secretary*
Tax Assessor-Collector, *Ex-Officio Director*
Glenn E. Peters, *Assistant Secretary*
Wanda Adams, *Director*
Al Odom, *Director*
Jim Robinson, *Director*
Mike Sullivan, *Director*

Office of Chief Appraiser

June 3, 2019

Chief Appraiser

Roland Altinger
Deputy Chief Appraiser
Jason Cunningham
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, 2018.

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, 2018. 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 (the "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 533 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 2018 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 two members; 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 (ARB). 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 primary 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, and 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. Human Resources, Audit Support Services, Professional Education & Development, Communications Services, and Legal Services also report directly to the Chief Appraiser.

Divisions reporting directly to the Deputy 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.

Local Economy

The district's activities for the previous twelve months led up to the major event of certification of the appraisal roll. The appraisal roll was certified on August 10, 2018 with less than 5.21 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 533 taxing unit appraisal rolls was approximately \$3.6 trillion, resulting in a 2018 *ad valorem* tax levy of approximately \$11.6 billion, an increase of 9.59 percent from 2017.

The Harris County Appraisal District encompasses a 1,774-square-mile area, including some of the most complex properties in the world. These include the port facilities of the Houston Ship Channel and Port of Houston, the busiest port in the United States in terms of foreign tonnage and the second busiest in overall tonnage. The properties include two major international airports, more than 310 class A high-rise office properties, hundreds of millions of square feet of warehouse and retail properties, tens of thousands of apartment units, and more than 1.1 million homes. Harris County is one of the world's major petrochemical centers and includes five refineries, thousands of miles of pipeline and tank storage, and dozens of petrochemical processing facilities. The City of Houston is the fourth largest city in the United States, and Harris County estimates that the unincorporated area of the county would be the fifth largest city. The appraisal district also appraises business and industrial personal property for taxation, again at full market value.

Despite the numerous issues and challenges presented by Hurricane Harvey, which included the flooding of almost 70,000 homes, Houston's economy and residential markets are doing well. According to Houston Association of Realtors, single family home sales rose 3.8 percent in 2018 to 82,177 while sales of all property types totaled 98,323, a 3.7 percent increase over 2017's volume. Total dollar volume for 2018 jumped 21.5 percent to \$28 billion. Housing inventory grew to its highest levels, between a 4.0 and 4.1 months' supply, from June through September, but by year's end, had retreated to a 3.5 months. On a year-to-date basis, the average single family sales price rose 2.6 percent to \$298,982 while the median price increased 3.3 percent to \$237,500.

The economy in the Greater Houston area continued to improve in 2018 but important sectors, such as the office market, are just beginning to recover from the last oil downturn. According to Greater Houston Partnership, Houston had the largest job growth of any Metro in the U.S. over the past year. The professional and business services sector gained the most jobs at 28,500, which increased demand for office space and helped to stabilize the office market. Commercial building activity slipped 6.7 percent to \$9.2 billion in 2018 per Dodge Data & Analytics. The slowdown in the new construction pipeline should lead to further stabilization in some of the markets, such as office and high-rise apartments, that were suffering from an oversupply in prior years.

Apartment developers continued to restrain the new construction pipeline in 2018 and absorption outpaced deliveries for the second year in a row, resulting in strong market fundamentals for apartments heading into 2019. Demand for apartments is expected to remain strong due to population growth, the rising cost of single-family housing, real wage growth, and rising mortgage rates. The overall Houston vacancy rate is estimated at 9 percent to 10 percent. Historical vacancy rates are 7 percent to 8 percent. Vacancy is predicted to remain at the higher rates for another year or two. Class A and B apartments are enjoying lower vacancy rates than average for Houston. Urban Class A apartment vacancy rates are 8.3 percent, just above the national average of 7.9 percent. Suburban Class A are faring better at 6.5 percent, and Class B Urban and Suburban apartment vacancies are estimated at only 4.8 percent. The Houston apartment market saw \$7.4 billion in sales during 2018, totaling 277 apartment complexes and 67,639 units. This was the strongest year in terms of sales volume since before the subprime mortgage meltdown.

Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between years 2018 and 2017 is reflected in the table below:

HARRIS COUNTY APPRAISAL DISTRICT APPRAISED VALUES			
2018		2017	
Number of Accounts	Appraisal Value (in thousands)	Number of Accounts	Appraisal Value (in thousands)
1,639,530	\$577,811,240	1,640,520	\$562,968,171

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 1, 2019. The change in the appraised and taxable values from 2017 to 2018 varied among taxing units, reflecting the mix of property types, exemptions, and market conditions within each unit.

HARRIS COUNTY TAXABLE VALUES (in thousands)				
	2018	2017	Change	Percentage Change
Appraised Value	\$577,811,240	\$562,968,171	\$14,843,069	2.64%
Taxable Value	\$449,538,549	\$439,117,809	\$10,420,740	2.37%

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 2017 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 2018.

The district's median level of appraisal for 2017 is summarized in the following table:

STATE COMPTROLLER'S STUDY	
<u>Property Category</u>	<u>Median Level of Appraisal 2017</u>
Single Family Residential	.99
Multi-Family Residential	.93
Vacant Lots	N/A
Acreage	N/A
Commercial Real Property	.95
Utilities	.90
Commercial Personal Property	.97
Overall Median Level – All Properties	.98

The final results of the 2017 study reflect that appraisals within the district are generally uniform, with an average coefficient of dispersion of 8.33 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 0.98 percent appraisal level is considered to reflect very good appraisal performance.

Property Owner Protests

During 2018, property owners and professional tax consultants filed 371,549 protests, resulting in a decrease of 0.05 percent from the 2017 protest volume of 388,722. 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 2018 protest activity data has been updated through March 19, 2019. 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>
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%
2016	Yes	378,142	\$305,620	7.29%
2017	Yes	388,722	\$319,018	7.20%
2018	Yes	371,549	\$318,679	7.50%

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>
2009	2,711	8,673	\$31,747,534,252	8,645	13.73%
2010	2,195	5,433	\$17,720,051,500	5,416	11.10%
2011	2,939	6,601	\$23,561,742,530	6,601	10.97%
2012	2,864	6,985	\$29,508,040,449	6,981	10.43%
2013	3,568	11,020	\$55,330,858,310	10,975	9.88%
2014	4,023	9,735	\$62,483,606,823	9,679	9.87%
2015	4,133	10,122	\$64,583,996,276	9,962	11.46%
2016	4,211	11,997	\$90,641,093,171	11,395	11.86%
2017	4,655	11,837	\$80,719,747,843	9,416	10.86%
2018	7,026	18,964	\$84,228,176,857	2,167	9.40%

Rather than filing suit in state district court, property owners may appeal the appraisal review board decision through binding arbitration. Arbitration is available for non-homesteaded properties valued at \$5,000,000 or less. Homesteaded properties have no value limit. Arbitration volume for the last 10 years (first available in 2009) 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>
2009	363	363	53	0
2010	397	397	29	0
2011	520	520	45	0
2012	783	783	72	0
2013	774	773	47	0
2014	713	712	73	0
2015	1,239	1,239	495	0
2016	7,780	7,780	4,715	0
2017	7,373	7,370	3,702	3
2018	2,263	2,063	1,307	200

iFile and iSettle Programs

The Owners website was implemented in 2013 to allow property owners to voluntarily elect to receive value and scheduling notices as well as ARB hearing orders electronically, further reducing the costs of mailing communications between the district, the ARB, and the property owners.

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. The paper handling, data entry, scanning, and filing tasks were eliminated due to the increased use of iFile and iSettle. The iFile program also allows personal property renditions to be submitted on-line. Usage of this system continued strong and increased.

In 2017, a new feature was added to the iFile/iSettle program that allows property owners participating in iSettle to upload their hearing evidence via the Owners website. This uploaded evidence is taken under consideration by the district before making an iSettle offer to the property owner. A total of 3,326 property owners utilized this feature in 2018, and they uploaded a total of 9,758 files. The addition of this new feature plays a significant role in the quality of iSettle offers made by the district. iFile and iSettle volume (first available is 2013) is summarized in the table below:

iFILE / iSETTLE VOLUME						
<u>Year</u>	<u>iFile</u> <u>Participants</u>	<u>iFile</u> <u>Renditions</u> <u>Processed</u>	<u>iFile Rendition</u> <u>Extension</u> <u>Requested</u>	<u>iSettle Offers</u> <u>Accepted</u>	<u>Owners Website</u> <u>Accounts</u> <u>Enrolled</u>	<u>Owners Website</u> <u>Accounts</u> <u>Serviced</u>
2013	72,879	24,803	20,803	7,473	55,000	2,361
2014	97,000	31,258	21,202	13,920	90,000	8,061
2015	109,300	29,669	20,928	13,140	152,000	12,000
2016	119,547	30,452	21,075	13,679	180,000	16,000
2017	118,381	31,154	22,090	19,284	213,000	21,000
2018	118,798	32,098	20,546	9,749	233,000	25,000

Financial Information

The general fund's total fund balance was \$24,889,228 with an unassigned balance of \$13,332,403 at year-end, which is 37.67 percent below the district's financial policy recommendation for budgetary and planning purposes. Other assignments include \$2,149,882 for special projects, \$2,651,403 for future capital improvements of facilities, \$500,000 to the insurance fund, \$500,000 for the mobile field appraisal application project, and \$5,131,408 to the operating reserve fund. 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 533 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 0.75 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 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 2018 expenditure budget of \$85,562,087 on August 16, 2017. This amount represented a \$4,065,916 increase over the 2017 budget. Taxing unit funding increased from \$81,496,171 in 2017 to \$85,562,087 for 2018, an increase of \$4,065,916.

Major Initiatives

The Harris County Appraisal District's residence homestead exemption mobile and web applications were developed in 2015 and was made available to property owners in December of 2015. They provide 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. In 2016, enhancements were made to allow property owners to submit applications for an Over-65 exemption. The applications bring simple, convenient, easy, and secure electronic filing. During 2017, 7,576 property owners successfully utilized the process. In 2018, the number of successful submissions increased to 17,463.

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 2018, 72,342 agent protests and 46,456 property owner protests were received thru iFile.

In 2017, the district implemented a new website in response to the requests for disaster reappraisal because of Hurricane Harvey. This website provided property owners, residing in jurisdictions participating in reappraisal, the ability to provide the district with information regarding the damage they suffered during the storm. This new website also provided property owners a means to upload files detailing their damage. In all, 1,855 property owners submitted 5,418 files containing disaster information to the district through the new reappraisal website. The information received was pertinent to the district's efforts to perform the requested reappraisals.

As a result of legislation requiring re-inspection of each taxable property once every three years, the district initiated a pilot project in 2006 that involved combining high-resolution digital images from the front of a parcel with oblique images taken from all four sides by low-flying aircraft. The resulting photographic array permits detailed viewing of properties and accurate measurement of the improvements located on each parcel. The 2006 pilot project was successful and led to contracts to capture oblique images for the entire county in 2007. In 2008, the district was flown following Hurricane Ike, and again in 2009 to provide updated oblique imagery. Since 2010 the district has annually procured both oblique and orthographic imagery to assist in the valuation process. The resulting product has been used to assist in updating property characteristics, defining neighborhoods, and defending values in hearings.

To enhance/modernize the district parcel map database, in 2017, the District started the migration into the Esri Parcel Fabric system consisting of state-of-the-art database model and parcel editing tools. The migration was completed in mid-2018. The system is designed to improve data integrity, create a parcel history, store legal start/end dates plus record measurements with accuracies, all based on the Local Government Information Model (LGIM) standard. The Esri Parcel Fabric system will standardize previous systems data into a single model, and modernize parcel maintenance to produce data for enhanced web and mobile mapping.

The Harris County Appraisal District's outreach program educates property owners on assessment and taxation issues. In 2018, the district conducted 51 presentations to property owners and real estate professionals in communities and companies throughout Harris County. The district did 23 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 Report to the Harris County Appraisal District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2017. This was the thirty-first 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,



Roland Altinger
Chief Appraiser



Jason Cunningham
Deputy Chief Appraiser



Theresa Paul
Chief Financial Officer



Tracey Dang
Assistant Chief Financial Officer

HARRIS COUNTY APPRAISAL DISTRICT

APPRAISAL PROCESS

December 31, 2018

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, 2018



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, 2017

Christopher P. Morrell

Executive Director/CEO

HARRIS COUNTY APPRAISAL DISTRICT

DISTRICT OFFICIALS

December 31, 2018

PETE PAPE

Chairman

GLENN PETERS

Secretary

WANDA ADAMS

Assistant Secretary

ANN HARRIS-BENNETT

Ex-Officio Director

AL ODOM

Member

JIM ROBINSON

Member

MIKE SULLIVAN

Member

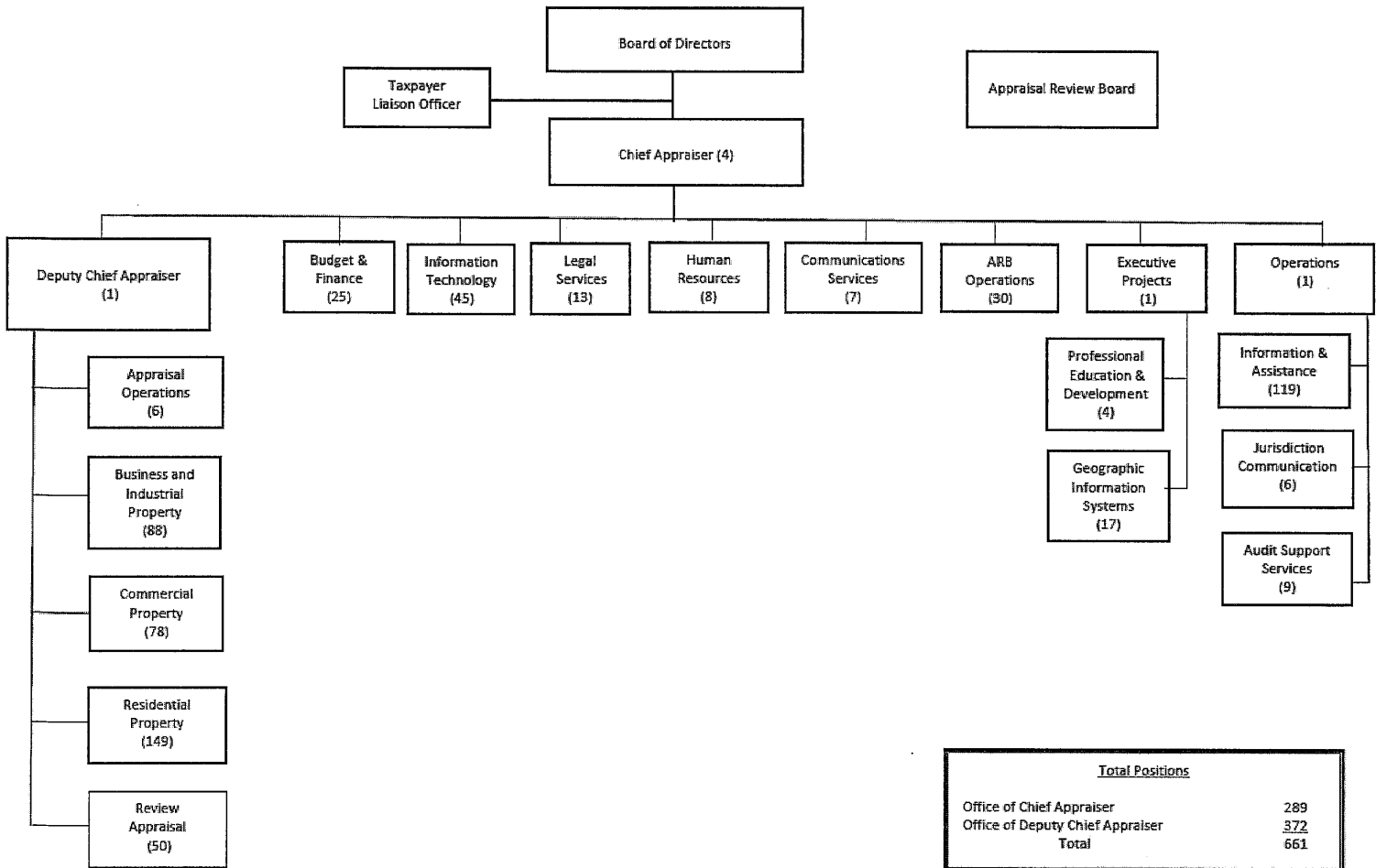
ROLAND ALTINGER

Chief Appraiser

HARRIS COUNTY APPRAISAL DISTRICT

PLAN OF ORGANIZATION

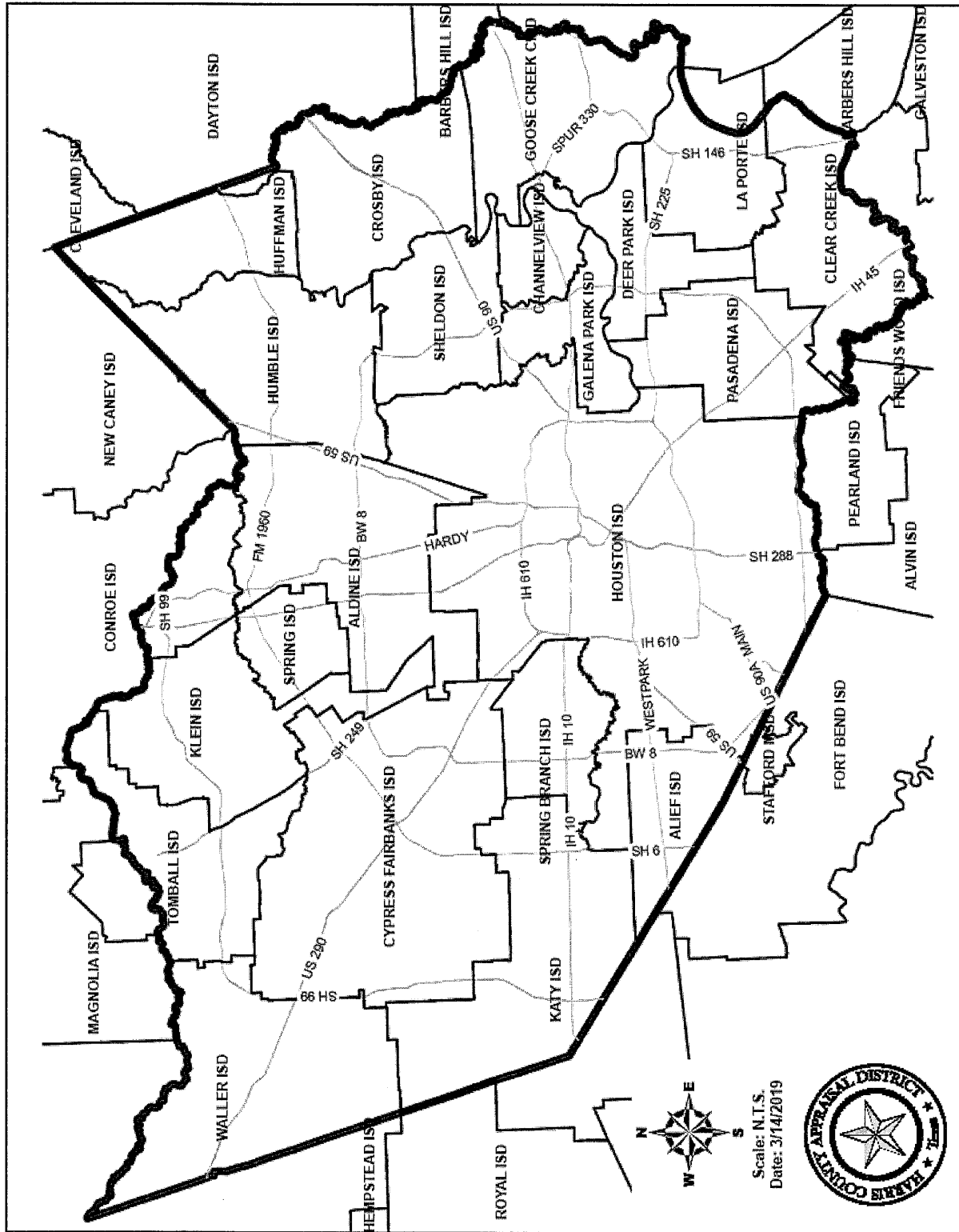
December 31, 2018



HARRIS COUNTY APPRAISAL DISTRICT

HARRIS COUNTY SCHOOL DISTRICTS

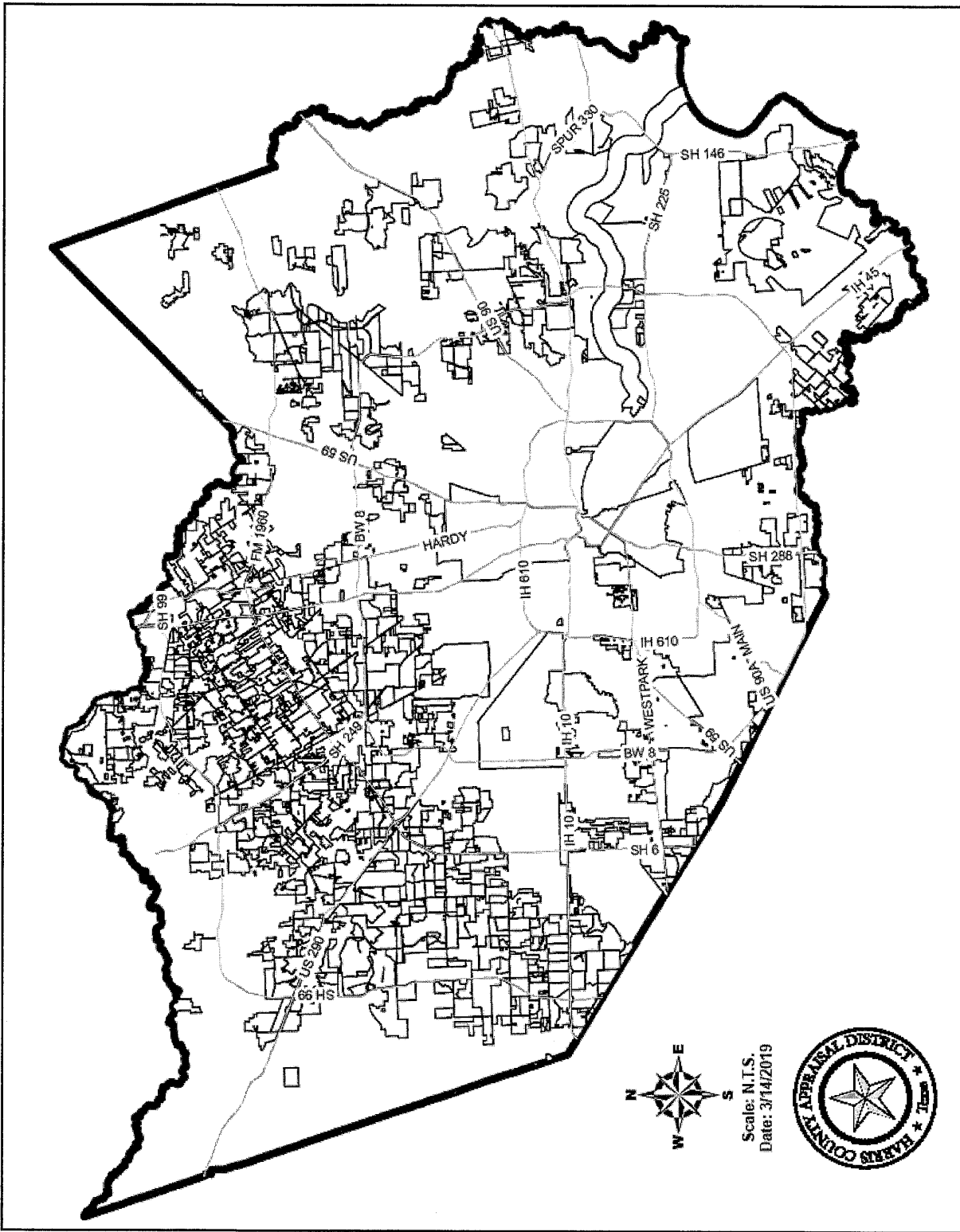
December 31, 2018



December 31, 2018



December 31, 2018



FINANCIAL SECTION

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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, 2018, 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.

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, 2018, 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 2018, the district adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and total other postemployment benefits liability and related ratios, and schedule of contributions, 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, supplementary information, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
June 3, 2019

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

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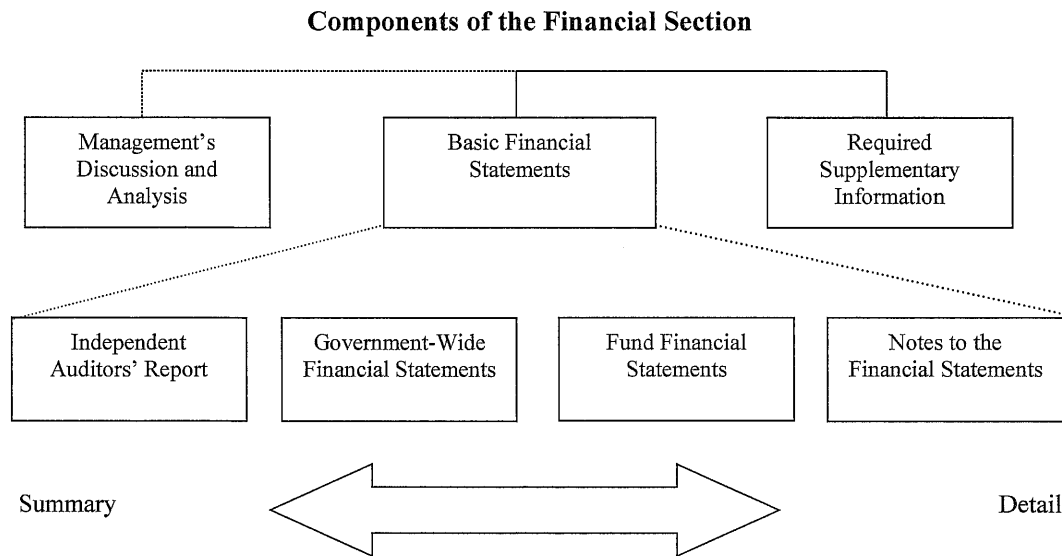
HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

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, 2018. 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 outflows/inflows 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 nonfinancial 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, 2018

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. Budgetary comparison schedules have 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, 2018

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 and total other postemployment benefits (OPEB) liability and related ratios and schedule of contributions for the Texas County and District Retirement System, and schedule of total OPEB liability for a retiree healthcare plan. 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 of resources exceed liabilities and deferred inflows of resources by \$21,568,238 as of year end. This compares with \$19,566,378 from the prior year. A portion of the district's net position, 69 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, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Percentage
	2018	2017	Change
Current and other assets	\$ 54,810,884	\$ 48,389,060	13%
Capital assets, net	23,887,375	24,360,405	-2%
Total Assets	78,698,259	72,749,465	8%
Deferred outflows - pensions	15,201,147	28,132,616	-46%
Deferred outflows - OPEB	1,848,051	650,691	184%
Total Deferred Outflows			
of Resources	17,049,198	28,783,307	-41%
Long-term liabilities	42,127,047	52,945,395	-20%
Other liabilities	7,542,659	7,272,267	4%
Total Liabilities	49,669,706	60,217,662	-18%
Unavailable revenue - assessments	22,023,690	21,390,582	3%
Deferred inflows - pensions	2,485,823	358,150	594%
Total Deferred Inflows			
of Resources	24,509,513	21,748,732	13%
Net Position:			
Net investment in capital assets	14,851,497	14,298,164	4%
Unrestricted	6,716,741	5,268,214	27%
Total Net Position	\$ 21,568,238	\$ 19,566,378	10%

The district's unrestricted net position of \$6,716,741, or 31 percent, may be used to meet the district's ongoing obligation to taxing units, citizens, and creditors.

The district's total net position increased by \$2,001,860 during the current fiscal year. This primarily was a result of an increase in assessment revenue.

Deferred outflows of resources decreased by \$11,734,109 and deferred inflows of resources increased by 2,760,781 compared to the prior year due to changes in the differences between projected and actual investment earnings related to the district's pension plan.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

Statement of Activities:

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

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 1,215,652	\$ 797,994
General revenues:		
Assessments	85,563,002	81,496,875
Investment income	712,637	273,054
Total Revenues	87,491,291	82,567,923
Expenses		
Office of Chief Appraiser and		
Board of Directors	14,165,593	12,438,172
Appraisal support	15,715,457	15,963,519
Appraisal	32,464,401	31,884,892
Information systems	8,055,552	7,566,640
Administration	7,782,316	7,937,982
Administration/building services	6,386,245	5,435,296
Interest on long-term debt	919,867	897,927
Total Expenses	85,489,431	82,124,428
Change in Net Position	2,001,860	443,495
Beginning net position	19,566,378	19,122,883
Ending Net Position	\$ 21,568,238	\$ 19,566,378

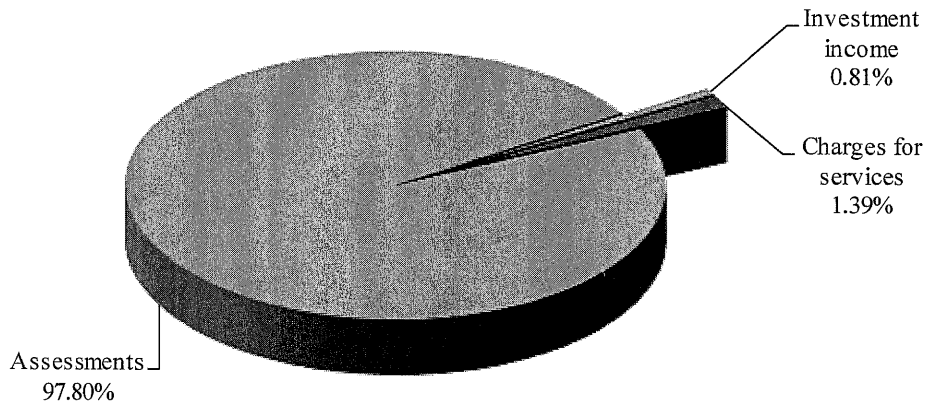
HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

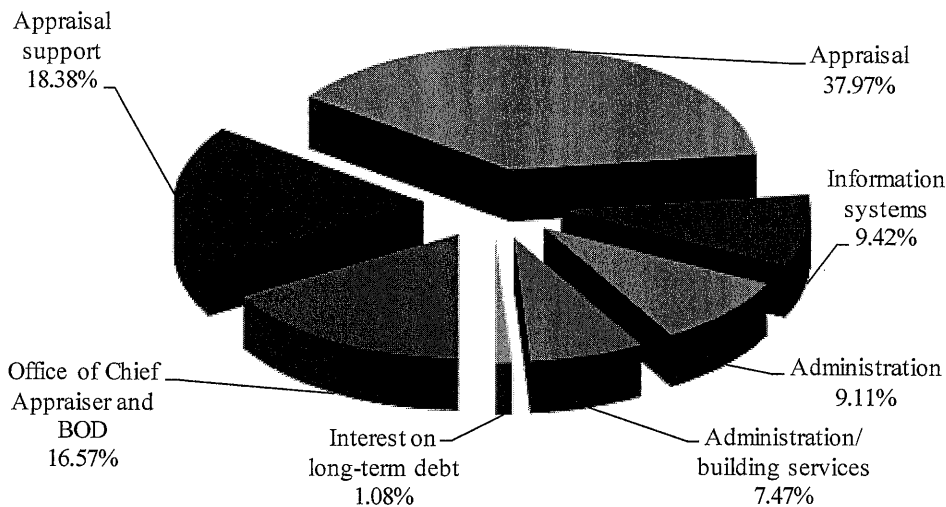
For the Year Ended December 31, 2018

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, 2018, revenues from governmental activities totaled \$87,491,291, which was an increase of \$4,923,368 or six percent from the prior year. This increase is primarily due to an increase in assessment revenue due to an increase in the district's budget.

Total expenses for the district increased in comparison to 2017 by \$3,365,003 or four percent. This was primarily due to an increase in the Office of Chief Appraiser and Board of Directors expenses as a result of an increase in salaries, legal expenses, and pension and OPEB expenses related to current year valuations.

HARRIS COUNTY APPRAISAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2018

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 \$24,889,228. Of this, \$624,132 is nonspendable, \$2,149,882 is assigned for special projects, \$2,651,403 is assigned for capital improvements, \$500,000 is assigned for insurance, \$500,000 is assigned for the mobile field appraisal application project, \$5,131,408 is assigned for the operating reserve, and \$13,332,403 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 16 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

There was an increase in fund balance for the general fund of \$5,205,784. Revenues increased \$5,100,364 mainly due to an increase in assessment revenue as a result of an increase in the district's budget. Expenditures increased \$1,454,924 largely due to an increase in personnel costs for salary adjustments and an increase in legal expenses for appraisal review hearings.

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 increased by \$528,785 primarily as a result of an increase in charges for services.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded final budgeted revenues by \$2,038,422 during the year. This net positive variance is largely due to greater than expected other revenues from dealer declaration penalties, investment income, and rendition penalty fees. General fund expenditures were less than the final budget by \$2,608,444 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 and other expenditures in administrative services. The decrease of \$1,002,500 for professional services in the Office of the Chief Appraiser and Board of Directors was primarily due to less appraisal review board hearing legal expenses than originally budgeted. The increase of \$1,086,500 for other expenditures in administration services was primarily due to an increase in building maintenance and repairs.

CAPITAL ASSETS

At the end of the year, the district's governmental activities funds had invested \$23,887,375 (net of accumulated depreciation) in a variety of capital assets. During the year, the district added 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, 2018

LONG-TERM DEBT

At the end of the current year, the district had total long-term debt of \$13,690,724, in addition to accrued compensated absences of \$2,976,395, a net pension liability of \$10,767,084, and a total combined OPEB liability of \$18,718,064.

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 an \$88 million budget for the 2019 fiscal year. This was an increase of \$2.5 million or three percent over the 2018 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

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION

December 31, 2018

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Current assets	
Cash and cash equivalents	\$ 50,250,341
Investments	1,996,214
Receivables, net	1,940,197
Prepaid items	624,132
	<u>54,810,884</u>
Noncurrent assets	
Capital assets - nondepreciable	8,365,075
Capital assets - depreciable, net of accumulated depreciation	15,522,300
	<u>23,887,375</u>
Total Assets	<u>78,698,259</u>
<u>Deferred Outflows of Resources</u>	
Deferred outflows - pensions	15,201,147
Deferred outflows - OPEB GTLF	75,827
Deferred outflows - OPEB Retiree health	1,772,224
Total Deferred Outflows of Resources	<u>17,049,198</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable and accrued liabilities	3,517,439
Due within one year	4,025,220
	<u>7,542,659</u>
Noncurrent liabilities	
Due in more than one year	42,127,047
	<u>42,127,047</u>
Total Liabilities	<u>49,669,706</u>
<u>Deferred Inflows of Resources</u>	
Deferred revenue - assessments	22,023,690
Deferred inflows - pensions	2,485,823
Total Deferred Inflows of Resources	<u>24,509,513</u>
<u>Net Position</u>	
Net investment in capital assets	14,851,497
Unrestricted	6,716,741
Total Net Position	<u>\$ 21,568,238</u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Change in Net Position
			Primary Governmental Activities
Primary Government			
Governmental Activities			
Office of Chief Appraiser and			
Board of Directors	\$ 14,165,593	\$ -	\$ (14,165,593)
Appraisal support	15,715,457	-	(15,715,457)
Appraisal	32,464,401	1,215,652	(31,248,749)
Information systems	8,055,552	-	(8,055,552)
Administration	7,782,316	-	(7,782,316)
Administration/building services	6,386,245	-	(6,386,245)
Interest on long-term debt	919,867	-	(919,867)
Total Governmental Activities	<u>\$ 85,489,431</u>	<u>\$ 1,215,652</u>	<u>(84,273,779)</u>
Total Primary Government	<u>\$ 85,489,431</u>	<u>\$ 1,215,652</u>	<u>(84,273,779)</u>
General Revenues:			
Assessments			85,563,002
Investment income			712,637
Total General Revenues			<u>86,275,639</u>
Change in Net Position			<u>2,001,860</u>
Beginning net position			<u>19,566,378</u>
Ending Net Position			<u>\$ 21,568,238</u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

BALANCE SHEET GOVERNMENTAL FUND

December 31, 2018

	General
<u>Assets</u>	
Cash and cash equivalents	\$ 46,308,675
Investments	1,996,214
Receivables, net	1,242,347
Prepaid items	624,132
Total Assets	\$ 50,171,368
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 2,614,216
Total Liabilities	2,614,216
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - assessments	22,023,690
Unavailable revenue - rendition penalty	644,234
Total Deferred Inflows of Resources	22,667,924
<u>Fund Balance</u>	
Nonspendable:	
Prepaid items	624,132
Assigned for:	
Special projects	2,149,882
Capital improvements	2,651,403
Insurance	500,000
Mobile field appraisal application project	500,000
Operating reserve	5,131,408
Unassigned	13,332,403
Total Fund Balance	24,889,228
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 50,171,368

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HARRIS COUNTY APPRAISAL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2018

Total fund balance for the governmental fund	\$ 24,889,228
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	644,234
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.	
Capital assets - nondepreciable	8,365,075
Capital assets - depreciable, net of accumulated depreciation	15,522,300
Deferred outflows and deferred inflows related to pension and other postemployment benefits (OPEB) activity are not current financial resources and, therefore, not reported in the governmental fund.	
Deferred outflows - pensions	15,201,147
Deferred inflows - pensions	(2,485,823)
Deferred outflows - OPEB	1,848,051
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.	3,736,293
Some liabilities are not reported as liabilities in the governmental funds:	
Noncurrent liabilities due within one year	(4,025,220)
Noncurrent liabilities due in more than one year	(42,127,047)
Net Position of Governmental Activities	\$ <u>21,568,238</u>

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, 2018

	<u>General</u>
<u>Revenues</u>	
Assessments	\$ 85,563,002
Investment income, net	673,462
Other revenue	910,371
Rendition penalty fee	453,674
Total Revenues	<u>87,600,509</u>
<u>Expenditures</u>	
Current:	
Office of Chief Appraiser and Board of Directors	14,002,216
Appraisal support	14,958,051
Appraisal	30,723,471
Information systems	7,397,376
Administration	7,406,834
Administration/building services	4,993,486
Capital outlay	438,329
Debt service:	
Principal	1,555,095
Interest and fiscal charges	919,867
Total Expenditures	<u>82,394,725</u>
Net Change in Fund Balance	5,205,784
Beginning fund balance	19,683,444
Ending Fund Balance	<u><u>\$ 24,889,228</u></u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

Net change in fund balance - governmental fund \$ 5,205,784

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

The governmental fund reports 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	89,731
Depreciation expense	(562,761)

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

Change in rendition penalty receivable	(148,393)
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Changes in pension and other postemployment benefits (OPEB) 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 and OPEB activity that affect the district's net position are as follows:

Change in net pension liability	11,179,702
Change in total OPEB liability	(2,010,747)
Change in deferred outflows - pensions	(12,931,469)
Change in deferred inflows - pensions	(2,127,673)
Change in deferred outflows - OPEB	1,197,360

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 the governmental fund. Neither transaction, however, has any effect on net position. Also, the governmental fund reports 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	1,555,095
Change in accrued compensated absences	26,446

The internal service fund is used by management to charge the costs of certain activities, such as employee health and dental benefits, to individual funds.

The net revenue of the internal service fund is reported with governmental activities.	528,785
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Change in Net Position of Governmental Activities	\$ 2,001,860
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See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

December 31, 2018

	<u>Governmental Activities Internal Service</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 3,941,666
Receivables, net	697,850
Total Assets	<u>4,639,516</u>
<u>Liabilities</u>	
Current liabilities:	
Estimated claims payable	903,223
Total Liabilities	<u>903,223</u>
<u>Net Position</u>	
Unrestricted	3,736,293
Total Net Position	<u>\$ 3,736,293</u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended December 31, 2018

	<u>Governmental Activities Internal Service</u>
<u>Operating Revenues</u>	
Charges for services	\$ 8,536,420
Claim refunds and other	1,448,137
Total Operating Revenues	<u>9,984,557</u>
<u>Operating Expenses</u>	
Insurance claims	6,718,052
Prescription claims	2,374,913
Dental claims	401,982
Total Operating Expenses	<u>9,494,947</u>
Operating Income	<u>489,610</u>
<u>Nonoperating Revenues</u>	
Interest income	39,175
Total Nonoperating Revenues	<u>39,175</u>
Change in Net Position	528,785
Beginning net position	<u>3,207,508</u>
Ending Net Position	<u><u>\$ 3,736,293</u></u>

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2018

	Governmental Activities Internal Service
<u>Cash Flows from Operating Activities</u>	
Proceeds from charges for services	\$ 9,531,978
Claims paid	(9,267,767)
Net Cash Provided by Operating Activities	264,211
<u>Cash Flows from Investing Activities</u>	
Interest income	39,175
Net Cash Provided by Investing Activities	39,175
Net Increase in Cash and Cash Equivalents	303,386
Beginning cash and cash equivalents	3,638,280
Ending Cash and Cash Equivalents	\$ 3,941,666
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 489,610
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) in accounts receivable	(452,579)
Increase in estimated claims payable	227,180
Net Cash Provided by Operating Activities	\$ 264,211

See Notes to Financial Statements.

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HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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 (the “Board”) 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 the governmental fund and internal service fund. Separate financial statements are provided for the governmental fund and proprietary fund.

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 fund. 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, 2018

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, 2018

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, balances in statewide investment pools (TexPool), 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

Investments, except for certain investment pools, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost.

For district investments, both the statutes of the State of Texas and policies mandated by the district's Board, 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 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.

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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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. 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 acquisition 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

6. 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 and changes in actuarial assumptions for the district's defined benefit pension and other postemployment benefits (OPEB) plans. These amounts are deferred and amortized over the average of the expected service lives of pension and OPEB plan members. A deferred charge has been recognized for employer pension and OPEB plan contributions that were made subsequent to the measurement date through the end of the district's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability 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 three items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience. This amount is deferred and amortized over the average of the expected service lives of pension plan members. A deferred inflow of resources is recognized for the net difference between the projected and actual investment earnings on the pension plan assets.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

This amount is deferred and amortized over a period of five years. Deferred inflows of resources are recognized for the portion of assessments that was collected for use in the subsequent period. 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 and rendition penalties. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. 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.

8. 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 straight-line 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.

9. 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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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.

10. 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.

11. 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 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.

12. 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, and 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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

13. 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 and 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.

14. Other Postemployment Benefits

The district participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TCERS known as the Group Term Life Fund (GTLF). This is a voluntary program in which participating member counties may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The funding policy for the GTLF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the district's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TCERS from reports prepared by their consulting actuary.

The district administers an additional single-employer defined benefit OPEB plan, known as 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 has the authority to establish and amend benefits. The Plan provides medical benefits to eligible retired district employees and their beneficiaries. 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. Information about the district's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expenses is provided by the district's consulting actuary.

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.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to customers for services and insurance claim refunds. Operating expenses for the internal service fund include insurance, prescription, and dental claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

Prior to June 15, the Board 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, 2018 was legally enacted through passage of Board resolution 2017-01 on August 16, 2017.

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 budget is appropriated and adopted at the sub-object level (legal level of budgetary control). A supplementary budgetary comparison schedule is presented under supplementary information to demonstrate compliance at the legal level of budgetary control. The chief appraiser is authorized to transfer budgeted amounts between budget accounts. However, the Board 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 2018.

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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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 expenditures paid from the capital reserve, which are not budgeted but are approved by the Board. Adjustments necessary to convert results of operations for the general fund for the year ended December 31, 2018 from the budget basis to GAAP basis are presented in the notes to RSI and the notes to supplementary information.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

As of December 31, 2018, the district had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Municipal bonds	\$ 1,996,214	0.68
Statewide investment pool (TexPool)	32,700,170	0.09
Total Value	\$ 34,696,384	
Portfolio weighted average maturity		0.04

Fair Value Measurements

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value establishing a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of December 31, 2018, the district had the following recurring fair value measurements:

	December 31, 2018	Fair Value Measurements Using Significant Other Observable Inputs (Level 2)
Investments by Fair Value Level		
Municipal bonds	\$ 1,996,214	\$ 1,996,214

Municipal bonds are classified in Level 2 of the fair value hierarchy and are valued using the market approach.

Credit risk. The district's investment policy limits investments in local government investment pools rated no lower than "AAA" or "AAAm" or at an equivalent rating by at least one nationally recognized rating service. Investments under section 2256.009 of the local governments code must be rated by a nationally recognized investment rating firm not less than A or its equivalent. As of December 31, 2018, the district's investment in TexPool was rated "AAAm" by Standard & Poor's, one of the municipal bonds was rated "AAA" by Fitch Ratings. One was rated "Aa2" by Moody's, and two were rated "AA" by Standard & Poor's.

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, 2018, 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 rates TexPool "AAAm". As a requirement to maintain the rating, weekly

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

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	\$	536,916
Rendition penalty		2,084,225
Accounts receivable		33,408
Interest receivable		27,789
Less allowance		(1,439,991)
	\$	<u>1,242,347</u>

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

C. Capital Assets

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

	Beginning Balance	Additions	Deletions/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,335,000	\$ -	\$ -	\$ 2,335,000
GIS database	6,030,075	-	-	6,030,075
Total capital assets, not being depreciated	8,365,075	-	-	8,365,075
Capital assets being depreciated:				
Building	20,121,135	-	-	20,121,135
Furniture and equipment	641,477	-	(19,441)	622,036
Computers and peripherals	4,590,228	89,731	(18,471)	4,661,488
Vehicles and other	154,989	-	(18,497)	136,492
Total capital assets being depreciated	25,507,829	89,731	(56,409)	25,541,151
Less accumulated depreciation:				
Building	(4,357,995)	(426,031)	-	(4,784,026)
Furniture and equipment	(614,911)	(26,567)	19,441	(622,037)
Computers and peripherals	(4,389,388)	(105,378)	18,471	(4,476,295)
Vehicles and other	(150,205)	(4,785)	18,497	(136,493)
Total accumulated depreciation	(9,512,499)	(562,761)	56,409	(10,018,851)
Total capital assets being depreciated, net	15,995,330	(473,030)	-	15,522,300
Governmental Activities Capital Assets, Net	\$ 24,360,405	\$ (473,030)	\$ -	23,887,375
			Less associated debt	(9,035,878)
			Net Investment in Capital Assets	\$ 14,851,497

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

Governmental Activities:	
Office of Chief Appraiser and Board of Directors	\$ 3,489
Appraisal support	11,368
Appraisal	19,865
Information systems	309,519
Administration	113,059
Administration/ building services	105,461
Total Governmental Activities Depreciation Expense	\$ 562,761

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 agreements are provisions for use of these monies if a reduction in the remaining lease payments could be negotiated. To

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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 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 6.26 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.

Future combined minimum capital lease payments for this lease as of December 31, 2018 are as follows:

Year Ending Dec. 31	Capital Leases					
	\$21 M		\$7.5 M		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,203,375	\$ 584,265	\$ 440,729	\$ 244,134	\$ 1,644,104	\$ 828,399
2020	1,266,833	507,130	471,463	213,400	1,738,296	720,530
2021	1,333,638	425,927	504,340	180,522	1,837,978	606,449
2022	1,403,964	340,443	539,510	145,353	1,943,474	485,796
2023	1,478,000	250,450	577,133	107,730	2,055,133	358,180
2024-2025	3,193,929	211,690	1,277,810	91,916	4,471,739	303,606
Total	\$ 9,879,739	\$ 2,319,905	\$ 3,810,985	\$ 983,055	\$ 13,690,724	\$ 3,302,960

Capital assets acquired under capital lease obligations and the accumulated depreciation as December 31, 2018 are as follows:

Land	\$ 2,335,000
Building	16,602,032
Less accumulated depreciation	(4,648,569)
Total	\$ 14,288,463

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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 fund. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in the governmental fund, but rather is recognized as an expenditure when due.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
Notes and other payables:					
Capital leases	\$ 15,245,819	\$ -	\$ 1,555,095	\$ 13,690,724	* \$ 1,644,104
Other liabilities:					
Net pension liability	21,946,786	-	11,179,702	10,767,084	-
Total OPEB liability - GTLF	1,078,567	108,857	-	1,187,424	-
Total OPEB liability - Retiree health	15,628,750	1,901,890	-	17,530,640	-
Compensated absences	3,002,841	1,758,659	1,785,105	2,976,395	2,381,116
Total Governmental Activities	<u>\$ 56,902,763</u>	<u>\$ 3,769,406</u>	<u>\$ 14,519,902</u>	<u>\$ 46,152,267</u>	<u>\$ 4,025,220</u>
Long-term debt due in more than one year				<u>\$ 42,127,047</u>	
* Capital leases				\$ 13,690,724	
Lease portion expended on noncapital costs				(4,654,846)	
Debt associated with capital assets				<u>\$ 9,035,878</u>	

F. Restatement of Beginning Net Position

Due to the implementation of GASB 75, the district restated its beginning net position as follows:

	Governmental Activities
Prior year ending net position, as reported	\$ 31,427,828
Total OPEB liability - GTLF	(1,078,567)
Total OPEB liability - Retiree health	(15,628,750)
Deferred outflows - OPEB GTLF	25,029
Deferred outflows - OPEB Retiree health	625,662
Net OPEB obligation	4,195,176
Restated beginning net position	<u>\$ 19,566,378</u>

IV. OTHER INFORMATION

A. Risk Management

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation claims for which the

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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. The maximum medical claims for each participant applying to the aggregate stop-loss is \$100,000. The district is limited to the total aggregate stop-loss coverage of approximately \$6,996,755.

Changes in the balance of claim liabilities during the past two years are as follows:

	2018	2017
Beginning claims payable	\$ 676,043	\$ 627,984
Claims incurred	6,945,232	5,756,165
Claims paid	(6,718,052)	(5,708,106)
Ending Claims Payable	\$ 903,223	\$ 676,043

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 2018, the actual amount paid was \$950,825.

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 \$6,996,755.

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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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. No refund or credit is due to the taxing jurisdictions in 2018.

C. Pension Plan

Texas County and District Retirement System

Plan Description

TCDRS is a statewide, agent multiple-employer, public employee retirement system. TCDRS serves 700 actively participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the Board of each employer, within the options available in the TCDRS 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. TCDRS issues a publicly available comprehensive annual financial report that can be obtained at www.tcdrs.com.

All eligible employees of the district are required to participate in TCDRS.

Benefits Provided

TCDRS provides retirement, disability, and death benefits. The benefit provisions are adopted by the Board within the options available in Texas statutes governing TCDRS. 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 TCDRS 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 TCDRS, with interest, and district-financed monetary credits. The level of these monetary credits is adopted by the Board within the actuarial constraints imposed by the TCDRS 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 TCDRS Act.

The Board adopted the rate of seven percent as the contributed rate payable by the employee members for calendar year 2018. The Board may change the employee contribution rate and the district contribution rate within the options available in the TCDRS Act.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	271
Inactive employees entitled to, but not yet receiving, benefits	308
Active employees	608
Total	1,187

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 cost-of-living adjustments 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 year. The contribution rates for the district were 15.29 percent and 14.43 percent in calendar years 2018 and 2017, respectively. The district's contributions to TCDRS for the fiscal year ended December 31, 2018 were \$7,601,849, which were in excess of the required contributions.

Net Pension Liability

The district's Net Pension Liability/Asset (NPL/NPA) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The actuarial assumptions that determined the TPL as of December 31, 2017 were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except where required to be different by the *Governmental Accounting Standards Board* (GASB) 68.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

Key assumptions used in the December 31, 2017 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
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career, including inflation
Investment Rate of Return	8.10% (Gross of administrative expenses)
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the district are not considered to be substantively automatic under GASB 68. Therefore, no 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	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities - Developed	MSCI World Ex USA (net)	11.00%	4.55%
International Equities - Emerging	MSCI Emerging Markets Index (net)	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT Index (net)	2.00%	4.05%
Master Limited Partnerships (MLP)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

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

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

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 NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 6,074,069	\$ -	\$ 6,074,069
Interest	17,052,600	-	17,052,600
Changes in benefit terms	1,904,183	-	1,904,183
Difference between expected and actual experience	(309,104)	-	(309,104)
Changes in assumptions	1,091,615	-	1,091,615
Contributions - employer	-	7,316,029	(7,316,029)
Contributions - employee	-	2,502,926	(2,502,926)
Net investment income	-	27,311,265	(27,311,265)
Benefit payments, including refunds of employee contributions	(9,264,496)	(9,264,496)	-
Administrative expense	-	(142,833)	142,833
Other changes	-	5,678	(5,678)
Net changes	16,548,867	27,728,569	(11,179,702)
Balance at December 31, 2016	208,993,923	187,047,137	21,946,786
Balance at December 31, 2017	\$ 225,542,790	\$ 214,775,706	\$ 10,767,084

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the district, calculated using the discount rate of 8.1 percent, as well as what the district's NPL/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 (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
District's Net Pension Liability (Asset)	\$ 40,179,077	\$ 10,767,084	\$ (14,038,123)

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 year ended December 31, 2018, the district recognized pension expense of \$11,481,290.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

At December 31, 2018, the district reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,588,999	\$ 544,107
Changes in actuarial assumptions	2,010,299	-
Net, difference between projected and actual investment earnings	-	1,941,716
Contributions subsequent to the measurement date	7,601,849	-
Total	\$ 15,201,147	\$ 2,485,823

\$7,601,849 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction to the NPL for the fiscal year ending December 31, 2019. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense
2019	\$ 3,983,599
2020	3,500,503
2021	(131,059)
2022	(2,369,987)
2023	130,419
Total	\$ 5,113,475

D. Other Postemployment Benefits

1. Texas County and District Retirement System – Optional Group Term Life Fund

Plan Description

The district participates in a defined benefit OPEB plan administered by the TCDRS. TCDRS administers the defined benefit group-term life insurance plan known as the GTLF. This is a voluntary program in which participating member counties may elect, by ordinance, to provide group term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the GTLF by adopting an ordinance at any point during the year to be effective the following January 1.

The member district contributes to the GTLF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as a basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy for the GTLF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the GTLF is considered to be a single-

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the GTLF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TCDRS Act requires the PTF to allocate a portion of investment income to the GTLF on an annual basis each December 31 based on the fund value in the GTLF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$5,000. As the GTLF covers both active and retiree participants with no segregation of assets, the GTLF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the GTLF as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	233
Inactive employees entitled to, but not yet receiving, benefits	104
Active employees	608
Total	945

Total OPEB Liability

The district's total OPEB liability of \$1,187,424 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Discount rate*	3.44%
Administrative expenses	N/A
Mortality - depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Mortality - service retirees	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Mortality - disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

*The discount rate was based on 20 Year Bond GO Index published by bondbuyer.com as of December 28, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2016.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

Changes in the Total OPEB Liability

	<u>Increase (Decrease)</u> <u>Total OPEB Liability</u>
Changes for the year:	
Service cost	\$ 33,764
Interest	41,577
Changes in benefit terms	3,218
Difference between expected and actual experience	55,327
Other changes	(25,029)
Net changes	<u>108,857</u>
Balance at December 31, 2016	<u>1,078,567</u>
Balance at December 31, 2017	<u>\$ 1,187,424</u>

The discount rate changed from 3.78% to 3.44%. New assumptions adopted are based on the January 1, 2013 through December 31, 2016 Investigation of Experience.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

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

The following presents the total OPEB liability of the district, as well as what the district's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (2.44%)</u>	<u>Discount Rate (3.44%)</u>	<u>1% Increase in Discount Rate (4.44%)</u>
Total OPEB Liability	<u>\$ 1,439,721</u>	<u>\$ 1,187,424</u>	<u>\$ 993,750</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the district recognized OPEB expense of \$83,705. The district reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,758
Changes in actuarial assumptions	47,423
Contributions subsequent to the measurement date	25,646
Total	<u>\$ 75,827</u>

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

\$25,646 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending December 31, 2019. Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	OPEB Expense
2019	\$ 8,364
2020	8,364
2021	8,364
2022	8,364
2023	8,364
Thereafter	8,361
Total	\$ 50,181

2. Retiree Healthcare Plan

Plan Description

The district provides a defined benefit 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 has the authority to establish and amend benefits. The Plan provides medical benefits to eligible retired district employees and their beneficiaries.

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

Beginning with retirement and ending when the person is eligible for Medicare coverage, the district shall pay a portion of the retiree medical and dental coverage premiums and claims. Rates paid by retirees are slightly higher than rates paid by active employees. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the Plan is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

Benefits

The retiree health insurance plan is available to retirees age 64 and under. Retirees will continue to have the same group medical coverage that applies to current employees while in the plan. Premiums for retiree health coverage in all categories are set annually by the board of directors. Qualified employees are eligible to participate in the retiree health insurance plan from date of retirement until the earlier of attainment of age 65 or the fifth anniversary of retirement. A Medicare advantage or supplement plan as determined by the board of directors is available to retirees who reach 65 and to employees who retire at age 65 or older. Qualified employees are eligible to participate in the Medicare advantage or supplement plan from age 65 on.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

To qualify for one of the above plans, the employee must have had 20 total years of service at the district, been continuously employed by the district as a regular employee for at least four consecutive years prior to the date of retirement; retire under TCDRS on or after January 1, 2008 or be retired under TCDRS and participating in the district's retiree health plan or Medicare advantage plan, as applicable, as of January 1, 2008, and begin participating in the plan immediately upon retirement.

If an employee retires and participates in the plan, the spouse may also participate if the spouse qualifies. To qualify for participation the spouse must be 55 years of age or older, the employee must have covered the spouse as a dependent on the district's regular health plan for at least the 12 months immediately preceding the employee's retirement, and the spouse must not be eligible for coverage under any other insurance plan.

Participation in the Plan as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	78
Active employees	601
Total	679

Total OPEB Liability

The district's total OPEB liability of \$17,530,640 was measured as of December 31, 2017 and was determined by an actuarial valuation as of December 31, 2017.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	0.50% to 5.00%, not including wage inflation of 3.25%
Discount rate	3.31%*
Actuarial cost method	Individual entry-age
Demographic assumptions	Based on the experience study covering the four-year period ending December 31, 2016 as conducted for TCDRS.
Mortality	For healthy retirees, the gender-distinct RP2014 Healthy Annuitant Mortality Tables are used with male rates multiplied by 130% and female rates multiplied by 110%. Those rates are projected on a fully generational basis based on 100% of the ultimate rates of Scale MP-2014.
Health care trend rates	Pre-65 initial rate of 7.50% declining to an ultimate rate of 5.25% after 11 years; Pre-65 ultimate trend rate includes a 1.00% adjustment for the excise tax; Pre-65 initial rate of 6.50% declining to an ultimate rate of 4.25% after 15 years
Participation rates	90% for non-Medicare eligible retirees; 65% for Medicare eligible retirees

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

Changes in the Total OPEB Liability

	<u>Increase (Decrease)</u>
	<u>Total OPEB Liability</u>
Changes for the year:	
Service cost	\$ 874,556
Interest	600,197
Changes in assumptions	1,052,799
Other changes	<u>(625,662)</u>
Net changes	1,901,890
Balance at December 31, 2016	<u>15,628,750</u>
Balance at December 31, 2017	<u>\$ 17,530,640</u>

Changes of assumptions reflect a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

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

The following presents the total OPEB liability of the district, as well as what the district's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	<u>\$ 19,948,109</u>	<u>\$ 17,530,640</u>	<u>\$ 15,514,527</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Costs Trend Rate Assumptions

The following presents the total OPEB liability of the district, as well as what the district's total OPEB liability would be if it were calculated using the assumed healthcare costs trend rates if that rate was one percentage point lower or one percentage point higher than the current healthcare costs trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Total OPEB Liability	<u>\$ 14,920,792</u>	<u>\$ 17,530,640</u>	<u>\$ 20,855,117</u>

HARRIS COUNTY APPRAISAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2018

OPEB Expense and Deferred Outflows/Inflows of Resources

For the fiscal year ended December 31, 2018, the district recognized OPEB expense of \$1,587,345. The district reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 940,207
Contributions subsequent to the measurement date	832,017
Total	\$ 1,772,224

\$832,017 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending December 31, 2019.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	OPEB Expense
2019	\$ 112,592
2020	112,592
2021	112,592
2022	112,592
2023	112,592
Thereafter	377,247
Total	\$ 940,207

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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	2018				2017
	Budgeted Amounts			Variance	
	Original Budget	Final Budget	Actual (Budget Basis)	Final Budget Positive (Negative)	Actual (Budget Basis)
Revenues					
Assessments	\$ 85,562,087	\$ 85,562,087	\$ 85,563,002	\$ 915	\$ 81,496,875
Investment income, net	-	-	673,462	673,462	256,406
Other revenue	-	-	910,371	910,371	422,498
Rendition penalty fee	-	-	453,674	453,674	324,366
Total Revenues	85,562,087	85,562,087	87,600,509	2,038,422	82,500,145
Expenditures					
Current:					
Office of Chief Appraiser and Board of Directors (OCA and BOD)					
Personnel	1,388,248	1,550,648	1,484,767	65,881	669,830
Appraisal review board	2,781,000	2,585,500	2,575,119	10,381	2,767,714
Professional services	11,293,967	10,291,467	9,781,677	509,790	8,770,538
Office supplies and printing	14,000	14,600	8,712	5,888	10,912
Other	59,200	107,700	102,940	4,760	87,652
Total OCA and BOD	15,536,415	14,549,915	13,953,215	596,700	12,306,646
Appraisal Support					
Personnel	12,978,175	13,020,175	12,409,248	610,927	12,768,822
Professional services	819,870	819,870	810,100	9,770	813,940
Office supplies and printing	102,875	69,015	55,054	13,961	41,317
Data processing	1,459,100	1,459,100	1,450,322	8,778	1,076,255
Other	91,305	91,305	57,171	34,134	38,884
Total Appraisal Support	15,451,325	15,459,465	14,781,895	677,570	14,739,218
Appraisal					
Personnel	29,582,448	29,313,948	28,906,726	407,222	27,580,400
Professional services	1,553,295	1,536,295	1,477,345	58,950	1,815,781
Office supplies and printing	316,399	315,899	260,946	54,953	274,033
Other	114,825	114,825	69,278	45,547	56,567
Total Appraisal	31,566,967	31,280,967	30,714,295	566,672	29,726,781
Information Systems					
Personnel	4,874,237	4,810,237	4,711,790	98,447	4,161,368
Professional services	250,800	235,800	67,603	168,197	258,895
Office supplies and printing	218,646	145,146	119,401	25,745	163,037
Data processing	2,719,098	2,692,958	2,614,227	78,731	2,195,484
Other	48,000	51,000	44,196	6,804	44,349
Total Information Systems	8,110,781	7,935,141	7,557,217	377,924	6,823,133
Administration					
Personnel	5,368,855	5,420,455	5,277,825	142,630	5,079,657
Professional services	95,465	140,465	93,571	46,894	108,992
Office supplies and printing	79,490	94,090	74,903	19,187	71,665
Other	2,185,184	2,063,184	2,004,637	58,547	2,109,949
Total Administration	7,728,994	7,718,194	7,450,936	267,258	7,370,263

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, 2018
With Comparative Totals for the Year Ended December 31, 2017

	2018				2017
	Budgeted Amounts			Variance	
	Original Budget	Final Budget	Actual (Budget Basis)	Final Budget Positive (Negative)	Actual (Budget Basis)
Administration Services					
Personnel	\$ 1,884,831	\$ 2,117,831	\$ 2,090,232	\$ 27,599	\$ 2,262,274
Professional services	169,000	164,000	160,477	3,523	152,211
Office supplies and printing	150,550	182,050	157,050	25,000	126,817
Rent and utilities	542,942	542,942	457,650	85,292	439,143
Other	1,895,320	2,981,820	3,031,279	(49,459)	1,700,332
Total Administration Services	4,642,643	5,988,643	5,896,688	91,955	4,680,777
Debt Service:					
Principal retirement and interest charges	2,474,962	2,474,962	2,474,962	-	2,368,905
Capital Outlay	50,000	154,800	124,435	30,365	-
Total Expenditures	85,562,087	85,562,087	82,953,643	2,608,444	78,015,723
Net Change in Fund Balance	\$ -	\$ -	4,646,866	\$ 4,646,866	\$ 4,484,422

Notes to Required Supplementary Information:

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

Timing differences:

Encumbrances at the end of the year	2,149,882
Encumbrances at the beginning of the year that were incurred	(1,242,367)

Perspective differences:

Capital outlay paid from the capital reserve	(348,597)
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Net Change in Fund Balance **\$ 5,205,784**

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HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
December 31, 2018

	Measurement Year*			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	\$ 4,582,317	\$ 4,807,154	\$ 5,477,128	\$ 6,074,069
Interest (on the total pension liability)	12,690,234	13,860,474	15,741,528	17,052,600
Changes in benefit terms	-	443,216	1,069,294	1,904,183
Difference between expected and actual experience	2,160,168	9,737,885	(429,780)	(309,104)
Changes in assumptions	-	2,201,240	-	1,091,615
Benefit payments, including refunds of employee contributions	(5,858,003)	(6,947,254)	(7,836,659)	(9,264,496)
Net Change in Total Pension Liability	13,574,716	24,102,715	14,021,511	16,548,867
Beginning total pension liability	157,294,981	170,869,697	194,972,412	208,993,923
Ending Total Pension Liability	\$ 170,869,697	\$ 194,972,412	\$ 208,993,923	\$ 225,542,790
Plan Fiduciary Net Position				
Contributions - employer	\$ 5,038,460	\$ 5,912,571	\$ 6,193,489	\$ 7,316,029
Contributions - employee	2,194,012	2,333,110	2,405,154	2,502,926
Net investment income	10,845,397	(2,102,745)	12,816,220	27,311,265
Benefit payments, including refunds of employee contributions	(5,858,003)	(6,947,254)	(7,836,659)	(9,264,496)
Administrative expense	(129,244)	(125,003)	(139,420)	(142,833)
Other	426,166	105,965	615,454	5,678
Net Change in Plan Fiduciary Net Position	12,516,788	(823,356)	14,054,238	27,728,569
Beginning plan fiduciary net position	161,299,467	173,816,255	172,992,899	187,047,137
Ending Plan Fiduciary Net Position	\$ 173,816,255	\$ 172,992,899	\$ 187,047,137	\$ 214,775,706
Net Pension Liability / (Asset)	\$ (2,946,558)	\$ 21,979,513	\$ 21,946,786	\$ 10,767,084
Plan Fiduciary Net Position as a Percentage of Total Pension Liability / (Asset)	101.72%	88.73%	89.50%	95.23%
Covered Payroll	\$ 31,343,022	\$ 33,330,139	\$ 34,359,355	\$ 35,756,086
Net Pension Liability / (Asset) as a Percentage of Covered Payroll	(9.40%)	65.94%	63.87%	30.11%

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

HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF CONTRIBUTIONS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
December 31, 2018

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 4,538,460	\$ 4,409,573	\$ 4,693,488	\$ 5,159,603
Contributions in relation to the actuarially determined contribution	5,038,460	5,912,571	6,193,488	7,316,029
Contribution (excess)	<u>\$ (500,000)</u>	<u>\$ (1,502,998)</u>	<u>\$ (1,500,000)</u>	<u>\$ (2,156,426)</u>
Covered payroll	\$ 31,343,022	\$ 33,330,139	\$ 34,359,355	\$ 35,756,082
Contributions as a percentage of covered payroll	16.08%	17.74%	18.03%	20.46%

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

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	12.3 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions**
2015: New inflation, mortality and other assumptions were reflected.
2017: New mortality assumptions were reflected.

Changes in Plan Provisions Reflected in the Schedule of Employer Contributions**
2015: No changes in plan provisions were reflected in the Schedule.
2016: Employer contributions reflect that the current service matching rate was increased to 245%.
2017: Employer contributions reflect that a 60% CPI COLA was adopted. Also, new Annuity Purchase Rates were reflected for benefits earned after 2017.

**Only changes effective 2015 and later are shown in the Notes to Schedule.

Fiscal Year*
2018

\$	5,601,849
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	7,601,849
\$	(2,000,000)

\$	36,637,339
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20.75%

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HARRIS COUNTY APPRAISAL DISTRICT

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

December 31, 2018

	Measurement Year*
	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 33,764
Interest (on the total OPEB liability)	41,577
experience	3,218
Change of assumptions	55,327
Benefit payments**	<u>(25,029)</u>
Net Change in Total OPEB Liability	108,857
 Beginning total OPEB liability	 <u>1,078,567</u>
 Ending Total OPEB Liability	 <u>\$ 1,187,424</u>
 Covered Payroll	 \$ 35,756,086
 Total OPEB Liability as a Percentage of Covered Payroll	 3.32%

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

** Due to the GLTF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Required Supplementary Information:

Valuation Date:

Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	N/A
Salary increases	N/A
Discount rate	3.44%
Administrative expenses	N/A
Mortality - depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Mortality - service retirees	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Mortality - disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Other Information:

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

The discount rate was based on 20 Year Bond GO Index published by bondbuyer.com as of December 28, 2017.

There were no benefit changes during the year.

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HARRIS COUNTY APPRAISAL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTHCARE BENEFITS
December 31, 2018

	Measurement Year*
	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 874,556
Interest (on the total OPEB liability)	600,197
Change of assumptions	1,052,799
Benefit payments**	<u>(625,662)</u>
Net Change in Total OPEB Liability	1,901,890
 Beginning total OPEB liability	 <u>15,628,750</u>
Ending Total OPEB Liability	<u>\$ 17,530,640</u>
 Covered Payroll	 \$ 34,029,405
 Total OPEB Liability as a Percentage of Covered Payroll	 51.52%

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

Notes to Required Supplementary Information:

Changes of Assumptions

Changes of assumptions reflect a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

Changes in Benefits

There were no changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

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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, 2018

2018				
	Budgeted Amounts		Actual	Variance
	Original Budget	Final Budget	(Budget Basis)	Final Budget Positive (Negative)
Revenues				
Assessments	\$ 85,562,087	\$ 85,562,087	\$ 85,563,002	\$ 915
Investment income, net	-	-	673,462	673,462
Other revenue	-	-	910,371	910,371
Rendition penalty fee	-	-	453,674	453,674
Total Revenues	85,562,087	85,562,087	87,600,509	2,038,422
Expenditures				
Current:				
Salaries, Wages & Related				
Net salaries & wages	37,499,362	35,727,462	35,540,052	187,410
ARB board members	2,781,000	2,585,500	2,575,119	10,381
Shift differential	16,000	316,000	290,422	25,578
Overtime	636,376	310,076	251,269	58,807
Part-time & seasonal wages	710,820	886,820	419,752	467,068
Total Salaries, Wages & Related	41,643,558	39,825,858	39,076,614	749,244
Employee Benefits & Related				
Group health insurance	8,542,764	8,542,764	8,542,764	-
Workers' compensation insurance	100,000	100,000	90,232	9,768
Group life & LTD insurance	100,320	100,320	86,096	14,224
Group dental insurance	230,822	230,822	230,822	-
Group vision insurance	71,388	71,388	39,295	32,093
Unemployment insurance	229,770	229,770	122,221	107,549
Retirement	5,993,639	7,963,639	7,693,441	270,198
FICA Medicare	603,834	603,934	548,643	55,291
Social security	216,493	216,493	172,606	43,887
Total Employee Benefits & Related	16,089,030	18,059,130	17,526,120	533,010
Computer Operations				
CPU & related maintenance	124,000	106,000	91,608	14,392
Other computer maintenance	11,000	11,000	7,222	3,778
Computer supplies	26,000	44,000	27,755	16,245
Software lease & maintenance	1,789,132	1,673,992	1,633,786	40,206
Teleprocessing lines & installation	31,000	6,000	-	6,000
Total Computer Operations	1,981,132	1,840,992	1,760,371	80,621
Professional Services				
Financial auditing	60,300	60,300	56,497	3,803
Legal services	10,983,967	9,323,967	8,830,852	493,115
Arbitration fees & services	300,000	965,000	950,825	14,175
State office of admin hearings	5,000	-	-	-
Appraisal services	1,506,295	1,506,295	1,475,968	30,327
Other professional services	1,157,835	1,168,335	955,684	212,651
Mapping & records maintenance	1,459,100	1,459,100	1,450,322	8,778
Total Professional Services	15,472,497	14,482,997	13,720,148	762,849

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, 2018

	2018			Variance
	Budgeted Amounts		Actual	Final Budget
	Original Budget	Final Budget	(Budget Basis)	Positive (Negative)
Office & Field Operations				
Office supplies	\$ 169,108	\$ 169,636	\$ 125,917	\$ 43,719
Office equipment maintenance	549,882	554,382	537,053	17,329
Telephone & communication service	271,284	352,284	349,426	2,858
Copier leases	94,000	113,500	110,684	2,816
Copier supplies & maintenance	89,350	44,350	26,807	17,543
Mapping reproduction & supplies	3,250	3,250	2,838	412
Public notice advertising	18,000	4,500	2,862	1,638
Security services	174,000	181,000	177,444	3,556
Field travel, vanpool & other expense	1,125,206	933,806	852,973	80,833
Appraisal supplies	13,610	13,610	9,140	4,470
Vehicle gasoline & maintenance	34,000	34,000	17,404	16,596
Records storage & supplies	1,500	10,172	9,230	942
Employee recognition activities	12,000	42,000	40,317	1,683
Postage, mailing, & handling services	2,072,000	1,947,000	1,881,057	65,943
Professional registration & dues	79,170	91,170	86,225	4,945
Seminars & other tuition	293,489	273,989	202,196	71,793
Education travel & expenses	169,625	216,125	173,139	42,986
Books, manuals & publications	340,596	323,736	276,259	47,477
Printing, forms, & stationery	60,000	52,000	46,370	5,630
Paper, copier & printer	69,746	51,746	43,944	7,802
Total Office & Field Operations	5,639,816	5,412,256	4,971,285	440,971
Office Space, Utilities & Related				
Office space	2,427,904	2,567,904	2,548,103	19,801
Utilities	590,000	450,000	384,509	65,491
Building & fixture maintenance	1,524,650	2,624,650	2,701,883	(77,233)
Casualty & liability insurance	143,500	143,500	140,175	3,325
Total Office Space, Utilities & Related	4,686,054	5,786,054	5,774,670	11,384
Capital Outlay	50,000	154,800	124,435	30,365
Total Expenditures	85,562,087	85,562,087	82,953,643	2,608,444
Net Change in Fund Balance	\$ -	\$ -	4,646,866	\$ 4,646,866

Notes to Supplementary Information:

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

Timing differences:

Encumbrances at the end of the year	2,149,882
Encumbrances at the beginning of the year that were incurred	(1,242,367)

Perspective differences:

Capital outlay paid from the capital reserve	(348,597)
--	-----------

Net Change in Fund Balance **\$ 5,205,784**

2. This supplementary budgetary comparison schedule is presented to demonstrate compliance at the legal level of budgetary control.

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STATISTICAL SECTION

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

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Financial Trends

98

These schedules contain trend information to help the reader understand how the district's financial performance and well-being have changed over time.

Revenue Capacity

106

These schedules contain information to help the reader assess the district's most significant local revenue source, assessment fees from the taxing entities.

Debt Capacity

110

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.

Demographic and Economic Information

113

These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.

Operating Information

116

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.

HARRIS COUNTY APPRAISAL DISTRICT

NET POSITION BY COMPONENT

Last Ten Years
(accrual basis of accounting)

	Year			
	2009	2010	2011	2012
Governmental Activities				
Net investment in capital assets	\$ 8,229,698	\$ 9,219,871	\$ 9,732,611	\$ 8,438,593
Restricted	3,203,151	2,923,838	150,929	151,013
Unrestricted	2,444,621	3,329,336	4,494,025	8,014,806
Total Governmental Activities Net Position	<u>\$ 13,877,470</u>	<u>\$ 15,473,045</u>	<u>\$ 14,377,565</u>	<u>\$ 16,604,412</u>

*Restated with implementation of GASB 75.

Year					
2013	2014	2015	2016	2017*	2018
\$ 9,021,196	\$ 9,648,405	\$ 10,097,874	\$ 10,982,048	\$ 14,298,164	\$ 14,851,497
151,312	151,277	151,549	-	-	-
6,626,297	12,111,859	17,667,023	20,002,285	5,288,214	6,716,741
<u>\$ 15,798,805</u>	<u>\$ 21,911,541</u>	<u>\$ 27,916,446</u>	<u>\$ 30,984,333</u>	<u>\$ 19,586,378</u>	<u>\$ 21,568,238</u>

HARRIS COUNTY APPRAISAL DISTRICT

CHANGES IN NET POSITION

Last Ten Years

(accrual basis of accounting)

	Year			
	2009	2010	2011	2012
Expenses				
Governmental activities				
Office of Chief Appraiser and				
Board of Directors	\$ 9,256,665	\$ 8,179,031	\$ 6,964,757	\$ 7,144,120
Appraisal support	10,311,720	10,566,860	10,210,883	10,325,083
Appraisal	24,157,193	24,831,948	24,092,912	24,162,142
Information systems	6,663,816	7,343,823	8,389,895	6,476,683
Administration	5,670,303	5,437,350	5,526,701	5,755,421
Administration/building services	3,442,034	2,745,811	6,229,802	3,016,395
Interest and fiscal agent fees on long-term debt	1,425,811	1,255,167	1,314,157	1,254,168
Total Governmental Activities Expenses	60,927,542	60,359,990	62,729,107	58,134,012
Program Revenues				
Governmental activities				
Charges for services				
Appraisal	\$ 789,310	\$ 743,712	\$ 549,947	\$ 856,611
Total Governmental Activities Program Revenues	789,310	743,712	549,947	856,611
Net (Expense)				
Governmental activities	\$ (60,138,232)	\$ (59,616,278)	\$ (62,179,160)	\$ (57,277,401)
General Revenues and Other Changes in Net Position				
Governmental activities				
Assessments	\$ 61,190,821	\$ 61,171,142	\$ 61,060,911	\$ 59,473,306
Investment income	59,306	40,711	22,769	30,942
Total Governmental Activities	\$ 61,250,127	\$ 61,211,853	\$ 61,083,680	\$ 59,504,248
Change in Net Position				
Governmental activities	\$ 1,111,895	\$ 1,595,575	\$ (1,095,480)	\$ 2,226,847

Year					
2013	2014	2015	2016	2017	2018
\$ 9,236,747	\$ 12,277,502	\$ 13,459,605	\$ 11,735,608	\$ 12,438,172	\$ 14,165,593
10,596,987	11,292,560	12,123,489	13,268,588	15,963,519	15,715,457
25,046,836	26,003,956	25,781,516	29,304,190	31,884,892	32,464,401
7,598,860	8,303,305	7,968,093	8,525,684	7,566,640	8,055,552
6,080,782	6,742,844	6,521,949	7,127,107	7,937,982	7,782,316
3,683,503	2,944,527	3,051,631	4,671,629	5,435,296	6,386,245
1,190,711	1,123,581	1,052,562	977,425	897,927	919,867
63,434,426	68,688,275	69,958,845	75,610,231	82,124,428	85,489,431
\$ 1,036,988	\$ 1,153,984	\$ 1,041,448	\$ 891,183	\$ 797,994	\$ 1,215,652
1,036,988	1,153,984	1,041,448	891,183	797,994	1,215,652
\$ (62,397,438)	\$ (67,534,291)	\$ (68,917,397)	\$ (74,719,048)	\$ (81,326,434)	\$ (84,273,779)
\$ 61,566,883	\$ 64,367,413	\$ 74,902,803	\$ 77,706,956	\$ 81,496,875	\$ 85,563,002
24,948	19,564	19,499	79,979	273,054	712,637
\$ 61,591,831	\$ 64,386,977	\$ 74,922,302	\$ 77,786,935	\$ 81,769,929	\$ 86,275,639
\$ (805,607)	\$ (3,147,314)	\$ 6,004,905	\$ 3,067,887	\$ 443,495	\$ 2,001,860

HARRIS COUNTY APPRAISAL DISTRICT

FUND BALANCE, GOVERNMENTAL FUND

Last Ten Years

(modified accrual basis of accounting)

		Year			
		2009	2010	2011	2012
General Fund					
Nonspendable	\$	274,612	\$ 224,819	\$ 220,867	\$ 229,011
Restricted		3,203,151	2,923,838	150,929	151,013
Assigned		1,082,429	3,250,513	2,495,471	3,720,970
Unassigned		11,032,679	9,576,127	11,670,886	11,247,535
Total General Fund	\$	15,592,871	\$ 15,975,297	\$ 14,538,153	\$ 15,348,529

Year					
2013	2014	2015	2016	2017	2018
\$ 278,690	\$ 355,921	\$ 321,572	\$ 368,870	\$ 487,968	\$ 624,132
151,312	151,277	151,549	-	-	-
6,316,077	3,228,282	4,082,434	6,466,307	7,816,962	10,932,693
7,887,037	7,665,983	9,222,422	12,287,923	11,378,514	13,332,403
<u>\$ 14,633,116</u>	<u>\$ 11,401,463</u>	<u>\$ 13,777,977</u>	<u>\$ 19,123,100</u>	<u>\$ 19,683,444</u>	<u>\$ 24,889,228</u>

HARRIS COUNTY APPRAISAL DISTRICT

CHANGES IN FUND BALANCE, GOVERNMENTAL FUND

Last Ten Years
(modified accrual basis of accounting)

	Year			
	2009	2010	2011	2012
Revenues				
Assessments	\$ 61,190,821	\$ 61,171,142	\$ 61,060,911	\$ 59,473,306
Investment income	55,296	39,065	20,993	28,462
Other revenues	405,486	354,446	269,021	507,054
Rendition penalty fee	353,101	396,148	283,546	274,860
Total Revenues	<u>62,004,704</u>	<u>61,960,801</u>	<u>61,634,471</u>	<u>60,283,682</u>
Expenditures				
Office of Chief Appraiser and Board of Directors	9,217,871	8,099,641	6,931,647	7,097,353
Appraisal support	10,218,855	10,463,681	10,091,490	10,192,816
Appraisal	23,948,617	24,703,329	23,843,834	23,870,266
Information systems	6,291,016	7,114,740	8,052,079	6,141,940
Administration	5,520,413	5,302,049	5,368,780	5,605,428
Administration services/building services	3,331,736	3,277,849	6,389,220	3,600,301
Capital outlay	220,591	179,018	25,661	596,298
Debt service				
Principal	1,104,733	1,066,572	1,054,747	1,114,736
Interest	1,430,165	1,371,496	1,314,157	1,254,168
Total Expenditures	<u>61,283,997</u>	<u>61,578,375</u>	<u>63,071,615</u>	<u>59,473,306</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	720,707	382,426	(1,437,144)	810,376
Other Financing Sources (Uses)				
Transfers (out)	-	-	-	-
Total Other Financing (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 720,707</u>	<u>\$ 382,426</u>	<u>\$ (1,437,144)</u>	<u>\$ 810,376</u>
Debt service as a percentage of noncapital expenditures	4.15%	3.97%	3.76%	4.02%

Year					
2013	2014	2015	2016	2017	2018
\$ 61,566,883	\$ 64,367,413	\$ 74,902,803	\$ 77,706,956	\$ 81,496,875	\$ 85,563,002
23,229	18,934	17,957	74,272	256,406	673,462
717,721	760,459	669,741	481,123	422,498	910,371
294,934	349,402	334,664	391,930	324,366	453,674
62,602,767	65,496,208	75,925,165	78,654,281	82,500,145	87,600,509
9,137,044	12,195,547	13,421,461	11,587,428	12,310,648	14,002,216
10,350,238	11,119,331	12,584,529	12,549,219	14,993,839	14,958,051
24,474,901	25,595,462	26,768,745	27,679,141	29,767,205	30,723,471
7,257,810	7,851,749	7,803,603	7,874,275	6,858,842	7,397,376
5,877,296	6,551,032	6,590,564	6,704,181	7,389,849	7,406,834
3,577,236	2,826,193	3,932,801	4,424,778	5,250,513	4,993,486
274,751	219,642	78,044	121,231	2,000,000	438,329
1,178,193	1,245,324	1,316,342	1,391,480	1,470,978	1,555,095
1,190,711	1,123,581	1,052,562	977,425	897,927	919,867
63,318,180	68,727,861	73,548,651	73,309,158	80,939,801	82,394,725
(715,413)	(3,231,653)	2,376,514	5,345,123	1,560,344	5,205,784
-	-	-	-	(1,000,000)	-
-	-	-	-	(1,000,000)	-
\$ (715,413)	\$ (3,231,653)	\$ 2,376,514	\$ 5,345,123	\$ 560,344	\$ 5,205,784
3.76%	3.46%	3.23%	3.26%	3.04%	3.01%

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

	Year			
	2009	2010	2011	2012
Total adjusted levy for calculation of taxing unit assessments ^{(1) (2)}	\$ 7,349,553,692	\$ 7,467,082,380	\$ 7,228,564,513	\$ 7,390,428,021
Direct rate ⁽⁴⁾	100%	100%	100%	100%
Assessments	\$ 61,189,143	\$ 61,171,141	\$ 61,060,911	\$ 60,429,430 ⁽³⁾

(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					
2013	2014	2015	2016	2017	2018
\$ 7,728,886,310	\$ 8,458,886,001	\$ 9,385,920,743	\$ 10,270,428,310	\$ 11,053,954,982	\$ 11,564,280,439
100%	100%	100%	100%	100%	100%
\$ 61,566,862	\$ 64,367,413	\$ 75,147,518 ⁽³⁾	\$ 77,706,956	\$ 81,496,875	\$ 85,563,002

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HARRIS COUNTY APPRAISAL DISTRICT
PRINCIPAL TAXING JURISDICTIONS
Current Year and Nine Years Ago

Taxing Jurisdictions	2018			2009		
	Tax Levy	Rank	% of Taxable Assessed Value	Tax Levy	Rank	% of Taxable Assessed Value
Houston ISD 001	\$ 2,003,903,710	1	17.33%	\$ 1,207,508,153	1	16.43%
Harris County 040	1,814,268,146	2	15.69%	1,093,757,984	2	14.88%
City of Houston 061	1,318,403,255	3	11.40%	946,143,582	3	12.87%
Harris County Hospital Dist. 043	727,723,717	4	6.29%	525,728,295	4	7.15%
Cypress-Fairbanks ISD 004	700,228,110	5	6.06%	408,004,522	5	5.55%
Spring Branch ISD 025	416,954,068	6	3.61%	227,627,883	6	3.10%
Katy ISD 019	332,333,587	7	2.87%	179,447,642	7	2.44%
Klein ISD 017	286,910,904	9	2.48%	165,828,680	8	2.26%
Aldine ISD 009	264,502,589	8	2.29%	173,621,069	9	2.36%
Humble ISD 018	232,272,799	10	2.01%	n/a	n/a	n/a
Alief ISD 008	n/a	n/a	n/a	156,504,333	10	2.13%
Subtotal	8,097,500,885		70.02%	5,084,172,143		69.18%
Other taxing jurisdictions	3,466,779,554		29.98%	2,265,381,549		30.82%
Total	\$ 11,564,280,439		100.00%	\$ 7,349,553,692		100.00%

Source: Harris County Appraisal District's departmental records.

HARRIS COUNTY APPRAISAL DISTRICT

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Years

		Year			
		2009	2010	2011	2012
Governmental Activities:					
Capital leases		\$ 25,015,651	\$ 24,017,619	\$ 22,962,872	\$ 21,848,136
Total		<u>\$ 25,015,651</u>	<u>\$ 24,017,619</u>	<u>\$ 22,962,872</u>	<u>\$ 21,848,136</u>
Taxing jurisdictions in district		476	485	488	492
Debt per taxing unit ⁽¹⁾		\$ 52,554	\$ 49,521	\$ 47,055	\$ 44,407

(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					
2013	2014	2015	2016	2017	2018
\$ 20,669,943	\$ 19,424,619	\$ 18,108,277	\$ 16,716,797	\$ 15,245,819	\$ 13,690,724
<u>\$ 20,669,943</u>	<u>\$ 19,424,619</u>	<u>\$ 18,108,277</u>	<u>\$ 16,716,797</u>	<u>\$ 15,245,819</u>	<u>\$ 13,690,724</u>
493	501	513	517	525	533
\$ 41,927	\$ 38,772	\$ 35,299	\$ 32,334	\$ 29,040	\$ 25,686

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HARRIS COUNTY APPRAISAL DISTRICT

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Years

Year Ended December 31	(a) Estimated Population (In Thousands)	(a) Personal Income (In Thousands)	(a) Per Capita Personal Income	(a) Unemployment Rate
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	4,448	\$ 252,694,912	\$ 54,212	5.0%
2015	4,538	\$ 249,989,494	\$ 54,100	4.6%
2016	4,590	\$ 240,752,454	\$ 51,186	5.3%
2017	6,928	\$ 247,482,118	\$ 53,188	5.0%
2018	7,086	not available	not available	4.0%

Data sources:

- (a) Source: <http://www.tracer2.com> (Texas Workforce Commission)
- Source: <http://www.txcip.org> (Texas Association of Counties)
- Source: <http://www.bls.gov> (Bureau of Labor Statistics)
- Source: <https://www.dshs.texas.gov> (Texas Department of State Health Services)
- Source: <https://www.homefacts.com/>

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HARRIS COUNTY APPRAISAL DISTRICT

PRINCIPAL CORPORATE EMPLOYERS

Current Year and Nine Years Ago
(amounts in thousands)

Employer	2018			2009		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Wal-Mart Stores	34,000	1	1.0977%	31,900	1	1.2625%
H-E-B	26,956	2	0.8703%	12,283	10	0.4861%
Memorial Hermann Health System	26,011	3	0.8397%	20,201	3	0.7995%
Houston Methodist	22,247	4	0.7182%	12,363	9	0.4893%
UT MD Anderson Cancer Center	20,189	5	0.6518%	17,536	4	0.6940%
The Kroger Co.	17,188	6	0.5549%	14,620	6	0.5786%
McDonald's Corporation	16,100	7	0.5198%	-	-	-
United Airlines	14,084	8	0.4547%	-	-	-
Texas Children's Hospital	13,445	9	0.4341%	-	-	-
Exxon Mobil Corp.	13,000	10	0.4197%	14,396	7	0.5698%
Shell Oil Co.	-	-	-	12,850	8	0.5086%
Continental Airlines	-	-	-	16,451	5	0.6511%
Administaff	-	-	-	20,589	2	0.8149%
Total	<u>203,220</u>			<u>173,189</u>		

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			
	2009	2010	2011	2012
Office of the Chief Appraiser	7	6	6	4
Support Services	167	163	163	163
Appraisal	345	316	317	321
Information Systems	43	42	42	46
Administration	50	50	49	50
Regular Positions	612	577	577	584

Notes:

(1) Data represents employed positions at year end.

Year					
2013	2014	2015	2016	2017	2018
4	5	5	3	5	7
162	166	165	172	168	166
315	319	327	340	345	332
41	36	45	34	40	39
50	50	41	52	49	50
572	576	583	601	607	594

HARRIS COUNTY APPRAISAL DISTRICT

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

Last Ten Years

<u>Property Category</u>	<u>Year</u>			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Single family residential	0.99	n/a	0.99	n/a
Multi-family residential	0.98	n/a	0.99	n/a
Vacant lots	0.98	n/a	1.00	n/a
Acreage	1.00	n/a	0.96	n/a
Commercial real property	0.98	n/a	0.97	n/a
Utilities	0.97	n/a	1.02	n/a
Commercial personal property	0.99	n/a	0.99	n/a
Overall Median Level	<u>0.99</u>	<u>n/a (2)</u>	<u>0.99</u>	<u>n/a (2)</u>

(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					
2013	2014	2015	2016	2017	2018
0.97	n/a	0.99	n/a	0.99	n/a
0.94	n/a	0.97	n/a	0.93	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
1.01	n/a	1.00	n/a	0.95	n/a
0.98	n/a	0.96	n/a	0.90	n/a
0.99	n/a	1.00	n/a	0.97	n/a
1.03	n/a (2)	0.99	n/a (2)	0.98	n/a (2)

HARRIS COUNTY APPRAISAL DISTRICT

PROTEST ACTIVITY AND LITIGATION VOLUME

Last Ten Years

Property Category	Year			
	2009	2010	2011	2012
Reappraisal year	No	Yes	Yes	Yes
Accounts protested	393,050	322,285	305,639	296,228
Value of accounts	\$ 218,485,592,660	\$ 186,762,906,578	\$ 183,786,736,165	\$ 198,242,427,719
Average percentage reduction	10.7%	8.2%	9.0%	9.3%
Total lawsuits	2,713	2,196	2,940	2,866
Number of accounts	8,645	5,435	6,601	6,985
Value of accounts	\$ 31,611,253,082	\$ 17,707,461,961	\$ 23,505,997,980	\$ 29,390,152,342
Number of accounts resolved	8,644	5,410	6,547	6,974
Average percentage reduction	13.73%	11.16%	10.97%	10.40%

Data from district's appraisal department.

Year					
2013	2014	2015	2016	2017	2018
Yes	Yes	Yes	Yes	Yes	Yes
302,336	346,041	372,584	378,142	388,722	366,876
\$ 230,189,392,360	\$ 247,547,796,763	\$ 285,432,274,329	\$ 305,620,832,123	\$ 319,018,013,280	\$ 317,439,765,278
8.8%	8.5%	6.3%	7.3%	7.2%	7.5%
3,570	4,030	4,133	4,163	4,594	7,026
11,014	9,722	10,078	10,945	10,848	18,964
\$ 55,268,643,142	\$ 61,855,148,541	\$ 63,245,068,995	\$ 89,151,650,584	\$ 75,861,277,365	\$ 84,228,176,857
10,904	9,583	9,561	9,240	1,610	2,167
9.81%	9.87%	11.46%	11.53%	9.12%	9.40%

HARRIS COUNTY APPRAISAL DISTRICT

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Ten Years

Function / Program	Year			
	2009	2010	2011	2012
Appraisal				
Appraised value	\$ 372,664,071	\$ 359,326,951	\$ 363,527,388	\$ 380,886,243
Number of accounts	1,541,287	1,542,759	1,555,477	1,563,992

Source: Various district departments.

Year					
2013	2014	2015	2016	2017	2018
\$ 413,396,777	\$ 449,206,021	\$ 503,278,759	\$ 532,811,166	\$ 562,968,171	\$ 577,811,240
1,576,093	1,593,793	1,604,903	1,624,760	1,640,520	1,639,530

HARRIS COUNTY APPRAISAL DISTRICT
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Years

Function/Program	Year			
	2009	2010	2011	2012
General Fund				
Office of the Chief Appraiser	72	70	66	66
Support Services	257	249	217	211
Appraisal	516	502	488	487
Information Systems	1,672	1,635	1,482	1,432
Administration	180	179	179	176

Source: Various district departments.

Figures represent total capital assets by function.

Year					
2013	2014	2015	2016	2017	2018
63	59	57	57	57	56
201	198	191	191	189	186
478	476	471	470	459	455
1,263	1,222	1,158	1,141	1,060	1,031
176	173	169	168	167	161

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