

**HOUSTON COUNTY
APPRAISAL DISTRICT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

**HOUSTON COUNTY APPRAISAL DISTRICT
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DECEMBER 31, 2019**

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**HOUSTON COUNTY APPRAISAL DISTRICT
BOARD OF DIRECTORS
DECEMBER 31, 2019**

Kathi Calvert..... Chairman
Dick Bridges Vice-Chairman
Danette Millican..... Secretary
W. F. Kitchen..... Member
Tommy Lundy Member
Terry Stubblefield Member
Carey Minter Chief Appraiser

Todd, Hamaker & Johnson, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Houston County Appraisal District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Houston County Appraisal District (the "District") as of and for the year ended December 31, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major governmental fund of Houston County Appraisal District as of December 31, 2019, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT – CONTINUED

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability, and the schedule of pension contributions and related notes on pages 4 - 7 and 27 - 32, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

March 11, 2020

**HOUSTON COUNTY APPRAISAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

As management of the Houston County Appraisal District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. We encourage readers to consider information presented here as well as the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources (or net position) at December 31, 2019 by \$56,782.
- During the year, expenses exceeded revenues (or a decrease in net position) by \$61,542.
- No new long-term debt was incurred in the year and none was outstanding at year end.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements must include both government-wide and fund financial statements. Governments must also present a Management's Discussion and Analysis, Notes to the Financial Statements, and Required Supplementary Information.

GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements under this combined method.

Using this method, governments will present financial statements that begin with *governmental fund financial statements*, with columns for major funds (usually only a general fund). The next column is an adjustments column. It reconciles the amounts reported in the governmental funds to show how specific individual accounts would change when reported on the accrual basis of accounting. The final column of these combined statements shows the amounts that normally would appear in the *government-wide statements*.

Combined Financial Statements (pages 9 - 12).

Governmental Fund Financial Statements (first column).

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred.

Governmental fund balance sheets present only current assets and liabilities. Capital assets and long-term liabilities are excluded.

Governmental fund statements of revenues, expenditures and changes in fund balance report information about the inflows, outflows, and balances of current financial resources.

**HOUSTON COUNTY APPRAISAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

Government-wide Financial Statements (final column).

Government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

Notes to the Financial Statements (pages 13 - 25).

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

Required Supplementary Information (pages 27 - 32).

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information as required by the Governmental Accounting Standards Board.

THE DISTRICT'S 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. A portion of the District's net position, or \$9,622, is invested in capital assets and is not available for future spending. The remaining portion of the District's net position, or \$47,160, is unrestricted in nature and available for future spending.

The District's Net Position

| | <u>2019</u> | <u>2018</u> |
|--|------------------|-------------------|
| ASSETS | | |
| Current and other assets | \$ 365,304 | \$ 448,222 |
| Capital assets | <u>9,622</u> | <u>5,814</u> |
| Total assets | <u>374,926</u> | <u>454,036</u> |
| DEFERRED OUTFLOWS | <u>143,923</u> | <u>63,934</u> |
| LIABILITIES | | |
| Long-term liabilities | 192,376 | 80,909 |
| Other liabilities | <u>261,040</u> | <u>295,161</u> |
| Total liabilities | <u>453,416</u> | <u>376,070</u> |
| DEFERRED INFLOWS | <u>8,651</u> | <u>23,576</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 9,622 | 5,814 |
| Unrestricted | <u>47,160</u> | <u>112,510</u> |
| Total net position | <u>\$ 56,782</u> | <u>\$ 118,324</u> |

**HOUSTON COUNTY APPRAISAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

Change in Net Position

| | 2019 | 2018 |
|-------------------------------------|------------|------------|
| REVENUES | | |
| Program revenues | | |
| Entity assessments | \$ 840,031 | \$ 810,917 |
| Certificates, mapping, other | 9,133 | 9,422 |
| General revenues | | |
| Investment income | 3,779 | 1,506 |
| Gain (loss) on disposal of assets | - | - |
| Total revenues | 852,943 | 821,845 |
| EXPENSES | | |
| General government | 914,485 | 829,722 |
| Interest on long-term debt | - | - |
| Total expenses | 914,485 | 829,722 |
| Increase (decrease) in net position | (61,542) | (7,877) |
| Net position, beginning of year | 118,324 | 126,201 |
| Net position, end of year | \$ 56,782 | \$ 118,324 |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related requirements, if applicable.

Governmental Funds. The focus of the District's *governmental funds* 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, *unrestricted fund balances* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2019, the District's governmental funds reported a total fund balance of \$110,611. \$55,501 of this balance is assigned to reflect the appropriation of a portion of the existing fund balance to eliminate a projected deficit in the subsequent year's budget. A portion of the District's fund balance, or \$3,689, is in non-spendable form and represents prepaid amounts. The remainder of the fund balance, or \$51,421, is unassigned. During the year, the fund balance in the District's governmental funds decreased by \$48,593.

General Fund Budget. A comparison of the general fund budget and actual results is presented as required supplementary information on pages 27-29. Actual revenues were higher than budgeted amounts by \$11,164. Actual expenditures were lower than budgeted amounts by \$40,257.

The General fund balance decreased by \$48,593 during the fiscal year; a decrease of \$100,117 was budgeted.

**HOUSTON COUNTY APPRAISAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2019, totaled \$9,622 (net of accumulated depreciation). Capital purchases totaling \$6,505 were made during the year. During the year, fully depreciated obsolete assets with a total original value of \$3,809 were removed, with no net effect to the financial statements.

Capital Assets (Net of Depreciation)

| | <u>Governmental Activities</u> | |
|-------------------------------|--------------------------------|----------|
| | 2019 | 2018 |
| Leasehold improvements | \$ 3,550 | \$ 1,500 |
| Furniture and equipment | 54,975 | 54,329 |
| Less accumulated depreciation | (48,903) | (50,015) |
| Net | \$ 9,622 | \$ 5,814 |

DEBT ADMINISTRATION

At the end of the current fiscal year, the District had no outstanding long-term indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The 2020 budget was approved at the District's July 2019 board meeting. Revenues and expenses were budgeted at levels consistent with the 2019 year. The budget includes a projected deficit of \$55,501 to be covered by existing fund balance.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances. If you have questions about this report or need any additional information, contact the District's business office at P.O. Drawer 112, Crockett, Texas 75835.

Basic Financial Statements

**HOUSTON COUNTY APPRAISAL DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2019**

| | <u>General Fund</u> | <u>Adjustments (Note A)</u> | <u>Statement of Net Position</u> |
|---|-------------------------|---------------------------------|--------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 251,545 | \$ - | \$ 251,545 |
| Certificates of deposit | 110,070 | - | 110,070 |
| Accounts receivable | - | - | - |
| Prepaid amounts | 3,689 | - | 3,689 |
| Capital assets, net of accumulated depreciation | - | <u>9,622</u> | <u>9,622</u> |
| Total assets | <u>365,304</u> | <u>9,622</u> | <u>374,926</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension plan | - | <u>143,923</u> | <u>143,923</u> |
| Total deferred outflows of resources | <u>-</u> | <u>143,923</u> | <u>143,923</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 365,304</u> | <u>153,545</u> | <u>518,849</u> |
| LIABILITIES | | | |
| Accrued expenses | \$ 6,491 | - | 6,491 |
| Due to other governments | 3,607 | - | 3,607 |
| Accrued compensated absences | - | 6,347 | 6,347 |
| Unearned revenue - next year budget assessments | 244,595 | - | 244,595 |
| Noncurrent liabilities | | | |
| Net pension liability | - | <u>192,376</u> | <u>192,376</u> |
| Total liabilities | <u>254,693</u> | <u>198,723</u> | <u>453,416</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension plan | - | <u>8,651</u> | <u>8,651</u> |
| Total deferred inflows of resources | <u>-</u> | <u>8,651</u> | <u>8,651</u> |
| FUND BALANCE/NET POSITION | | | |
| Fund balance | | | |
| Nonspendable - prepaid amounts | 3,689 | (3,689) | - |
| Assigned for 2020 budget | 55,501 | (55,501) | - |
| Unassigned | <u>51,421</u> | <u>(51,421)</u> | <u>-</u> |
| Total fund balance | <u>110,611</u> | <u>(110,611)</u> | <u>-</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE | <u>\$ 365,304</u> | | |
| Net position | | | |
| Invested in capital assets, net of related debt | | 9,622 | 9,622 |
| Unrestricted | | <u>47,160</u> | <u>47,160</u> |
| TOTAL NET POSITION | | <u>\$ 56,782</u> | <u>\$ 56,782</u> |

See accompanying notes to the financial statements.

**HOUSTON COUNTY APPRAISAL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019**

**NOTE A – ADJUSTMENTS FROM GOVERNMENTAL FUND
BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

| | |
|--|------------------|
| Total governmental fund balance | \$ 110,611 |
| Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds. | 9,622 |
| Deferred pension plan amounts relate to subsequent pension plan measurement periods and/or do not consume current financial resources and therefore, these amounts are not reported in the governmental funds. | 135,272 |
| Payables for accrued compensated absences are not due in the current period and therefore, are not reported in the governmental funds. | (6,347) |
| Net pension liabilities are not due in the current period and therefore, are not reported in the governmental funds. | <u>(192,376)</u> |
| Net position of governmental activities | <u>\$ 56,782</u> |

See accompanying notes to the financial statements.

**HOUSTON COUNTY APPRAISAL DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>General Fund</u> | <u>Adjustments (Note B)</u> | <u>Statement of Activities</u> |
|---|-------------------------|---------------------------------|------------------------------------|
| EXPENDITURES/EXPENSES | | | |
| General government | | | |
| Salaries | \$ 418,944 | \$ 204 | \$ 419,148 |
| Employee benefits | 164,185 | 16,553 | 180,738 |
| Administration expense | 20,000 | - | 20,000 |
| Data processing | 51,509 | - | 51,509 |
| Appraisal engineers | 52,000 | - | 52,000 |
| Office expense | 34,978 | - | 34,978 |
| Travel and auto | 65,769 | - | 65,769 |
| Rents and leases | 20,888 | - | 20,888 |
| Utilities and telephone | 16,440 | - | 16,440 |
| Legal and accounting | 10,556 | - | 10,556 |
| Insurance | 1,806 | - | 1,806 |
| Mapping expense | 23,536 | - | 23,536 |
| Contract labor | 5,308 | - | 5,308 |
| Dues and memberships | 2,500 | - | 2,500 |
| Legal notice and advertising | 1,036 | - | 1,036 |
| Appraisal review board | 3,822 | - | 3,822 |
| Books and subscriptions | 1,518 | - | 1,518 |
| Repairs and maintenance | 236 | - | 236 |
| Capital outlay | 6,505 | (6,505) | - |
| Depreciation | - | 2,697 | 2,697 |
| Total general government expenditures | <u>901,536</u> | <u>12,949</u> | <u>914,485</u> |
| PROGRAM REVENUES | | | |
| Operating assessments | 663,143 | - | 663,143 |
| Collection assessments | 176,888 | - | 176,888 |
| Tax certificates | 6,063 | - | 6,063 |
| Mapping and other income | 3,070 | - | 3,070 |
| Total program revenues | <u>849,164</u> | <u>-</u> | <u>849,164</u> |
| GENERAL REVENUES | | | |
| Investment income | <u>3,779</u> | <u>-</u> | <u>3,779</u> |
| Total general revenues | <u>3,779</u> | <u>-</u> | <u>3,779</u> |
| Excess (deficiency) of revenues over expenditures | (48,593) | 48,593 | |
| Change in net position | | (61,542) | (61,542) |
| FUND BALANCE/NET POSITION | | | |
| Beginning of the year | <u>159,204</u> | <u>12,319</u> | <u>118,324</u> |
| End of the year | <u>\$ 110,611</u> | <u>\$ (630)</u> | <u>\$ 56,782</u> |

See accompanying notes to the financial statements.

**HOUSTON COUNTY APPRAISAL DISTRICT
RECONCILIATION OF EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES - GOVERNMENTAL FUNDS TO
CHANGE IN NET POSITION - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE B – ADJUSTMENTS FROM EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES TO CHANGE IN NET POSITION**

| | | |
|--|----|-----------------|
| Excess (deficiency) of revenues over expenditures - governmental fund | \$ | (48,593) |
| This amount represents the change in accrued compensated absences from the beginning of the period to the end of the period. | | (204) |
| This amount represents the change in net pension liabilities from the beginning of the period to the end of the period. | | (16,553) |
| Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | <u>3,808</u> |
| Change in net position - statement of activities | \$ | <u>(61,542)</u> |

Notes to the Financial Statements

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements of Houston County Appraisal District (the "District") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies used by the District are discussed below.

Reporting Entity

Houston County Appraisal District is a governmental unit under the applicable laws of the State of Texas. The District is responsible for appraising property in the district for each taxing unit that levies ad valorem taxes on property within the district. In addition, the District collects property taxes for some of the taxing units within its jurisdiction.

It is governed by a Board of Directors which is composed of five members, appointed by the governing bodies of the entities for which the District appraises and collects taxes. Funding for the District is provided annually from each taxing entity based on an approved budget.

For financial reporting purposes, based on standards established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, these financial statements should present the District (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is financially accountable or for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The District does not have any blended or discretely presented component units.

Government-wide and Fund Financial Statements

GASB Statement No. 34 provides that for special-purpose governments engaged in a single government program, the fund financial statements and the government-wide statements may be combined. The District has elected to present financial statements using this combined method.

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information on all of the activities of the District as a whole. *Governmental activities* include programs normally supported by taxes, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenue sources not properly included with program revenues are reported as *general revenues*.

New Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations* ("GASB 83"), addresses accounting and financial reporting for certain asset retirements which include a legally enforceable liability associated with

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

the retirement of such tangible capital asset. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. Implementation of GASB 83 did not have an impact on the District's financial disclosures.

GASB Statement No. 84, *Fiduciary Activities* ("GASB 84"), improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. Implementation of GASB 84 did not have an impact on the District's financial disclosures.

GASB Statement No. 87, *Leases* ("GASB 87"), is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The effects of implementing GASB 87 on the District's financial disclosures have not been evaluated by management.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"), is intended to improve the information that is disclosed in notes to government financial statements related to debt and to clarify which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. Implementation of GASB 88 did not have an impact on the District's financial disclosures.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), is intended to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The effects of implementing GASB 89 on the District's financial disclosures have not been evaluated by management.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* ("GASB 90"), is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. Implementation of GASB 88 did not have an impact on the District's financial disclosures.

GASB Statement No. 91, *Conduit Debt Obligations* ("GASB 91"), is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in certain practices. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2020. The effects of implementing GASB 91 on the District's financial disclosures have not been evaluated by management.

GASB Statement No. 92, *Omnibus 2020* ("GASB 92"), is intended to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2020. The effects of implementing GASB 92 on the District's financial disclosures have not been evaluated by management.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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. Revenues from taxing entities for budget assessments are recognized in the fiscal year for which the assessments apply.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. Debt service expenditures, both principal and interest, are recorded only when payment is due.

The District has one governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The District has no proprietary funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the District's policy to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the District that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less and are stated at fair value.

Certificates of deposit consist of deposits with original maturities greater than three months. Certificates of deposit are recorded at cost, which approximates market value at December 31, 2019.

The District is required by the Public Funds Collateral Act (Government Code, chapter 2257) to maintain security for all deposits of funds that exceed coverage provided by the Federal Deposit Insurance Corporation ("FDIC"). As of the balance sheet date, the District's cash deposits were fully collateralized by securities pledged by the depository banks. Based on audit procedures conducted in conjunction with the audit of the basic financial statements, the District complied with the requirements of the Public Funds Collateral Act.

The District is required by the Public Funds Investment Act (Government Code, chapter 2256) (the "Act") to adopt, implement, and publicize a written investment policy which primarily emphasizes safety of principal and liquidity, and addresses investment diversification, yield, and maturity. Additionally, the policy must

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

address the quality and capability of investment management and include the types of investments in which the entity may invest its funds, as well as the maximum allowable stated maturity of any individual investment, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio of pooled fund groups, and bid requirements for certificates of deposit.

The District is authorized to invest in financial instruments, as authorized by the Act, including:

- U.S. Treasury securities which have a liquid market; direct obligations of the State of Texas, and other obligations that are guaranteed by the State of Texas or United States of America;
- obligations of states, agencies, counties, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent;
- fully insured or collateralized certificates of deposit at commercial banks;
- repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement;
- joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law (the pool must be continuously rated no lower than "AAA" or "AAA-m" by at least one nationally recognized rating service).

The Act also requires an annual audit of investment practices. Audit procedures conducted in conjunction with the audit of the basic financial statements disclosed that the District's investment practices adhered to its policies and were consistent with the requirements of the Public Funds Investment Act.

Fair Value of Financial Instruments

The District evaluates the fair value of its non-investment financial instruments based on the current interest rate environment and current pricing of debt instruments with comparable terms. The carrying value of all non-investment financial instruments, including debt, is considered to approximate fair value.

Revenues

The District is financed primarily through the allocation of anticipated budget costs to the taxing units participating in the District. Each taxing unit is allocated a portion of the budget equal to the proportion of that taxing unit's assessed property values (property within the District boundaries) in relation to the assessed property values for all of the taxing units of the District in total for that year.

The District may refund to the taxing entities assessments levied that were in excess of the District's budgetary requirements. During the year, no such refunds were made.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These amounts are recorded as prepaid assets and excluded from current period expenses. Prepayments for insurance totaling \$3,264 and rent in the amount of \$425, all of which related to future periods, totaled \$3,689 at December 31, 2019.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Capital Assets, Depreciation, and Amortization

Capital assets, which include primarily furniture and equipment, are reported in the government-wide financial statements. Capital assets are considered by the District to be assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date received.

Costs incurred for normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expensed.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The estimated useful lives for all assets are between 5 and 10 years.

Deferred Inflows/Outflows 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 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 that time. The District has three types of items, which arise only under a full accrual basis of accounting, that qualify for reporting in this category: 1) unamortized differences – pension plan projected and actual investment earnings, is recognized as a component of pension expense at an actuarially determined rate; 2) pension contributions subsequent to the plan measurement date, is recognized as a component of pension expense in the following fiscal year; and 3) unamortized differences – actuarial assumption changes, is reported on the government-wide statement of net position and is recognized as a component of pension expense at an actuarially determined rate.

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 represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item, which arises under a full accrual basis of accounting, that qualifies for reporting in this category. Unamortized differences – pension plan expected and actual economic experience, is reported on the government-wide statement of net position and is recognized as a component of pension expense at an actuarially determined rate.

Compensated Absences

It is the District's policy to encourage all employees to utilize their vacation and compensatory time annually. Employees may carry forward any unused, unearned vacation and compensatory time in accordance with the District's personnel policy guidelines. Unused, earned vacation and compensatory time is payable to employees at separation. Accordingly, compensated absences have been accrued in these financial statements.

Sick leave is recorded as an expenditure during the fiscal year in which such benefits are paid. Sick leave may accumulate, but does not vest.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Pensions

For purposes of measuring the net pension liability/net pension asset, 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.

Net Position and Fund Balance

In the government-wide financial statements, the difference between the District’s total assets and total liabilities represents net position. Net position is displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. At December 31, 2019, there were no restrictions on net position. Unrestricted net position represents the net assets available for future operations.

In the governmental fund financial statements, fund balance is classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form (such as inventories and prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes due to constraints imposed on resources either (a) externally by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Directors – the government’s highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

At December 31, 2019, assigned fund balance in the governmental fund represents the portion of fund balance appropriated by the Board needed to eliminate the projected deficit in the 2020 budget.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Process

The District Board adopts an annual budget for the general fund before the beginning of each fiscal year. The budget is amended, if necessary, during the year.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

In accordance with legal requirements, the District adopts an annual budget for the General Fund. Budgeted expenditures for the current year, as adopted in the original budget, may be amended to take into account special authorizations of the Board during the year. All appropriations lapse at the end of each fiscal year. The original budget for the current fiscal year was amended one time during the year. A comparison of governmental fund revenues and expenditures to budgeted amounts is presented as Required Supplementary Information (“RSI”) following the notes to the financial statements.

DETAILED NOTES ON ALL FUNDS

ASSETS

Deposits and Investments

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. The District’s policy requires funds on deposit at depository banks to be collateralized to the extent that the deposits exceed FDIC coverage. As of December 31, 2019, the District’s deposits held by depository banks totaled \$1,838,227, including certificates of deposit totaling \$110,070. All deposits were fully collateralized by securities pledged by the depository banks with total collateral value of \$2,962,850, in addition to FDIC coverage.

Tax Collections

As noted previously, the District collects property taxes for some of the taxing units within its jurisdiction and remits those amounts at least monthly to the entities. Collection activity is transacted through a separate bank account. At December 31, 2019, collections due to be remitted to other governmental entities totaled \$3,607.

Receivables

The District had no receivables at December 31, 2019.

Capital Assets

A summary of changes in capital assets for the year ended December 31, 2019, is as follows:

| | <u>Balance</u> <u>12/31/2018</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>12/31/2019</u> |
|-----------------------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Capital assets, being depreciated | | | | |
| Leasehold improvements | \$ 1,500 | \$ 2,050 | \$ - | \$ 3,550 |
| Furniture and equipment | <u>54,329</u> | <u>4,455</u> | <u>(3,809)</u> | <u>54,975</u> |
| Total being depreciated | <u>55,829</u> | <u>6,505</u> | <u>(3,809)</u> | <u>58,525</u> |
| Less accumulated depreciation: | <u>(50,015)</u> | <u>(2,697)</u> | <u>3,809</u> | <u>(48,903)</u> |
| Total capital assets, net | <u>\$ 5,814</u> | <u>\$ 3,808</u> | <u>\$ -</u> | <u>\$ 9,622</u> |

Depreciation expense of \$2,697 was charged to general government expenses at December 31, 2019.

LIABILITIES

Unearned Revenue

Unearned revenue – next year budget assessments consists of amounts received from the participating taxing entities within the District, which pay their proportional share of the costs of the District based on the budget

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

estimates for the year. As of December 31, 2019, \$244,595 had been received by the District to be applied toward the 2020 budget requirements.

Long-term Debt

The District had no outstanding long-term debt at December 31, 2019.

Commitments

The District leases office space in Crockett, Texas at a rate of \$1,197 per month. The District is currently occupying the office space on a month-to-month basis.

In February 2018 the District entered into a contract with Pictometry International Corp. for aerial real estate imaging and software. The contract covers two phases with the initial phase covering three years for \$98,808 and the second phase covering an additional three years for \$98,808. The District has the ability to opt-out of the contract at any time. The initial term of the contract is payable in various amounts and dates beginning on the date of contract signing.

The District has entered into multiple agreements with Pritchard & Abbott, Inc. to provide professional services to the District as follows:

Annual appraisal valuation of mineral, industrial, utility, and personal property for tax years 2020, 2021, and 2022. The agreement totals \$57,000 per year to be paid in twelve (12) quarterly payments of \$14,250 beginning in February 2020.

Computer hardware and software lease and maintenance services for tax years 2020 and 2021. The agreement totals \$49,350 for 2020 (due in quarterly payments of \$12,338 beginning January 2020) and \$50,350 for 2021 (due in quarterly payments of \$12,588 beginning January 2021).

Web hosting services for tax years 2020 and 2021. The agreement totals \$8,400 due in January 2020 and \$8,650 due in January 2021.

Annual mapping software maintenance for 2019 and 2020. The agreement totals \$5,500 per year to be paid in eight (8) quarterly payments of \$1,375 beginning in February 2019.

Defined Benefit Pension Plan

Plan Description. Houston County Appraisal District participates as one of 760 plans in the non-traditional defined benefit plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available online at www.tcdrs.org.

Benefits Provided. The Plan provides retirement, disability, and survivor benefits for all of its full-time and part-time non-temporary employees. TCDRS is a savings-based plan. For the District's plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 150%) and is then converted to an annuity. There are no automatic cost of living adjustments. The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Members can retire at ages 60 and above with 10 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 80 or more. Members are vested after ten years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

Employees Covered by Benefit Terms. At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 1 |
| Inactive employees entitled to but not yet receiving benefits | 5 |
| Active employees | 10 |
| | 16 |

Contributions and Actuarial Information. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings. The employee contribution rate may be changed by the District, within the options available in the TCDRS Act. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually, and the employer is required to contribute at that rate. The employer may increase its contribution rate and/or make additional contributions in excess of its annual required contribution.

The District has elected the annually determined contribution rate (“ADCR”) plan provisions of the TCDRS Act. The District contributed using the actuarially determined rate of 11.00%. The contribution rate payable by the employee members for fiscal year 2019 is the rate of 7.00% as adopted by the District. For fiscal year 2019, the District’s required contributions totaled \$48,500. The District made an additional contribution of \$1,747 during the year. The District’s total contributions for the year ended December 31, 2019 were \$50,247.

The District’s Net Pension Liability/Asset (“NPL”) was measured as of December 31, 2018, and the Total Pension Liability (“TPL”) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The required contribution was determined as part of the December 31, 2018, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2017, included (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The total pension liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2018, was 10.7 years.

Salary increases were based on a service-related table. Mortality rates for active members were based on 90% of the RP-2014 Active Employee Mortality Table for males and females, projected with 110% of the MP-2014 Ultimate scale after 2014. Mortality rates for active members were based on 110% 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. For disabled annuitants, mortality rates were based on 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.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Updated mortality assumptions were adopted in 2017. All other actuarial assumptions that determined the total pension liability as of December 31, 2017 valuation were based on the results of actuarial experience studies. The experience study in TCDRS was for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68. Assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 8.10%. The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2019 information for a 10-year time horizon.

The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017 for the period January 1, 2013 - December 31, 2016. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class:</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return (Geometric)</u> |
|------------------------------------|------------------------------|---|
| US equities | 10.5% | 5.40% |
| Private equity | 18.0% | 8.40% |
| Global equities | 2.5% | 5.70% |
| International equities - developed | 10.0% | 5.40% |
| International equities - emerging | 7.0% | 5.90% |
| Investment-grade bonds | 3.0% | 1.60% |
| Strategic credit | 12.0% | 4.39% |
| Direct lending | 11.0% | 7.95% |
| Distressed debt | 2.0% | 7.20% |
| REIT equities | 2.0% | 4.15% |
| Master limited partnerships | 3.0% | 5.35% |
| Private real estate partnerships | 6.0% | 6.30% |
| Hedge funds | <u>13.0%</u> | 3.90% |
| Total | 100.0% | |

Discount Rate. The discount rate used to measure the Total Pension Liability was 8.10%, which is net of investment expenses and increased by 0.10% to be gross of administrative expenses. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

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**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Changes in the Net Pension Liability/Asset. A schedule of changes in net pension liability/asset is as follows:

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balance at 12/31/2017 | \$ 1,326,514 | \$ 1,245,605 | \$ 80,909 |
| Changes for the year: | | | |
| Service cost | 54,569 | - | 54,569 |
| Interest on total pension liability | 110,949 | - | 110,949 |
| Effect of plan changes | - | - | - |
| Effect of economic/demographic (gains) or losses | 769 | - | 769 |
| Effect of assumptions changes | - | - | - |
| Benefit payments | (23,122) | (23,122) | - |
| Administrative expenses | - | (1,026) | 1,026 |
| Employer contributions | - | 47,703 | (47,703) |
| Member contributions | - | 29,028 | (29,028) |
| Net investment income | - | (22,607) | 22,607 |
| Other | - | 1,722 | (1,722) |
| Net changes | <u>143,165</u> | <u>31,698</u> | <u>111,467</u> |
| Balance at 12/31/2018 | <u>\$ 1,469,679</u> | <u>\$ 1,277,303</u> | <u>\$ 192,376</u> |

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of the District, calculated using the discount rate of 8.1%, as well as what the District's net pension liability/asset would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

| | 1% Decrease in Discount Rate (7.10%) | Discount Rate (8.10%) | 1% Increase in Discount Rate (9.10%) |
|-------------------------------|--|--------------------------|--|
| Total pension liability | \$ 1,640,333 | \$ 1,469,679 | \$ 1,322,582 |
| Fiduciary net position | <u>1,277,303</u> | <u>1,277,303</u> | <u>1,277,303</u> |
| Net pension liability (asset) | <u>\$ 363,030</u> | <u>\$ 192,376</u> | <u>\$ 45,279</u> |

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions. For the fiscal year ended December 31, 2019, the District recognized net pension (benefit) expense of \$66,800.

At December 31, 2019, the District reported deferred amounts related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ (8,651) |
| Difference between projected and actual investment earnings | 82,109 | - |
| Changes in actuarial assumptions | 11,568 | - |
| Contributions subsequent to the measurement date | <u>50,246</u> | <u>-</u> |
| Totals | <u>\$ 143,923</u> | <u>\$ (8,651)</u> |

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Plan year ended December 31, _____</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| 2019 | \$ 86,623 | \$ (4,983) |
| 2020 | 18,099 | (5,484) |
| 2021 | 14,069 | 1,663 |
| 2022 | 25,133 | 153 |
| 2023 | - | - |
| Total | <u>\$ 143,923</u> | <u>\$ (8,651)</u> |

OTHER INFORMATION

Investment with Principal Financial Group, Inc.

In prior years, the District utilized Principal Financial Group, Inc. ("Principal") for certain insurance products. In October 2001, Principal underwent a process of mutualization and thereby issued stock to its then-customers. In December 2001, Principal issued 120 shares of stock to the District at no cost to the District. The shares are held by Computershare Investor Services as agent for the District. At December 31, 2019, the stock was valued at \$55 per share, with a total value of \$6,600. During the year, the total value of the shares increased by \$1,300. The District anticipates selling the stock. Accordingly, the value of the stock is not recorded in the accompanying financial statements.

During the year, the District received dividends from Principal totaling \$260. The dividends are reported in "Mapping and other income" in the District's financial statements.

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; injuries to employees; and natural disasters. The District provides insurance coverage for each of these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

Subsequent Events

Management has evaluated subsequent events through March 11, 2020, the date when the financial statements were available to be issued.

**Required Supplementary Information
(unaudited)**

**HOUSTON COUNTY APPRAISAL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Appraisal Department | | | |
|--|----------------------|---------------------------------|------------------------------|---|
| | Original Budget | Final Appropriated Budget | Budgetary Basis Actual | Variances Favorable (Unfavorable) |
| REVENUES | | | | |
| Operating assessment | \$ 663,143 | \$ 663,143 | \$ 663,143 | \$ - |
| Collection assessment | - | - | - | - |
| Tax certificates | - | - | - | - |
| Mapping, other income | - | 1,748 | 3,070 | 1,322 |
| Interest income | - | - | 3,779 | 3,779 |
| Total revenues | <u>663,143</u> | <u>664,891</u> | <u>669,992</u> | <u>5,101</u> |
| EXPENDITURES | | | | |
| Salaries | 331,653 | 331,654 | 331,653 | 1 |
| Employee benefits | 124,564 | 125,956 | 125,941 | 15 |
| Administration expense | 12,000 | 12,000 | 12,000 | - |
| Data processing | 27,000 | 27,105 | 27,105 | - |
| Appraisal engineers | 52,000 | 52,000 | 52,000 | - |
| Office expense | 22,900 | 22,881 | 21,978 | 903 |
| Travel and auto | 68,000 | 68,000 | 63,509 | 4,491 |
| Rents and leases | 13,950 | 13,950 | 13,080 | 870 |
| Utilities and telephone | 13,000 | 13,000 | 11,435 | 1,565 |
| Legal and accounting | 9,400 | 9,400 | 7,330 | 2,070 |
| Insurance | 1,600 | 1,610 | 1,584 | 26 |
| Mapping expense | 25,500 | 25,395 | 23,536 | 1,859 |
| Contract labor | 4,000 | 4,809 | 4,808 | 1 |
| Dues and memberships | 2,600 | 2,600 | 2,335 | 265 |
| Legal notices and advertising | 1,500 | 1,490 | 892 | 598 |
| Appraisal review board | 5,000 | 5,000 | 3,822 | 1,178 |
| Books and subscriptions | 1,500 | 1,519 | 1,518 | 1 |
| Repairs and maintenance | 700 | 700 | 236 | 464 |
| Capital outlay | 2,500 | 2,500 | 2,168 | 332 |
| Contingency | 6,000 | 5,546 | - | 5,546 |
| Total expenditures | <u>725,367</u> | <u>727,115</u> | <u>706,930</u> | <u>20,185</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (62,224)</u> | <u>\$ (62,224)</u> | <u>\$ (36,938)</u> | <u>\$ 25,286</u> |

continued

**HOUSTON COUNTY APPRAISAL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)**

| | Collection Department | | | |
|--|-----------------------|---------------------------------|------------------------------|---|
| | Original Budget | Final Appropriated Budget | Budgetary Basis Actual | Variances Favorable (Unfavorable) |
| REVENUES | | | | |
| Operating assessment | \$ - | \$ - | \$ - | \$ - |
| Collection assessment | 176,888 | 176,888 | 176,888 | - |
| Tax certificates | - | - | 6,063 | 6,063 |
| Mapping, other income | - | - | - | - |
| Interest income | - | - | - | - |
| Total revenues | <u>176,888</u> | <u>176,888</u> | <u>182,951</u> | <u>6,063</u> |
| EXPENDITURES | | | | |
| Salaries | 87,291 | 87,292 | 87,291 | 1 |
| Employee benefits | 37,890 | 38,370 | 38,369 | 1 |
| Administration expense | 8,000 | 8,000 | 8,000 | - |
| Data processing | 35,000 | 35,000 | 24,404 | 10,596 |
| Appraisal engineers | - | - | - | - |
| Office expense | 13,500 | 13,500 | 13,000 | 500 |
| Travel and auto | 7,500 | 7,500 | 2,260 | 5,240 |
| Rents and leases | 8,200 | 8,200 | 7,808 | 392 |
| Utilities and telephone | 5,500 | 5,500 | 5,005 | 495 |
| Legal and accounting | 3,400 | 3,400 | 3,226 | 174 |
| Insurance | 200 | 200 | 200 | - |
| Mapping expense | - | - | - | - |
| Contract labor | 500 | 500 | 500 | - |
| Dues and memberships | 300 | 300 | 165 | 135 |
| Legal notices and advertising | 500 | 500 | 144 | 356 |
| Appraisal review board | - | - | - | - |
| Books and subscriptions | - | - | - | - |
| Repairs and maintenance | - | - | - | - |
| Capital outlay | 6,000 | 6,000 | 4,337 | 1,663 |
| Contingency | 1,000 | 519 | - | 519 |
| Total expenditures | <u>214,781</u> | <u>214,781</u> | <u>194,709</u> | <u>20,072</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ (37,893)</u> | <u>\$ (37,893)</u> | <u>\$ (11,758)</u> | <u>\$ 26,135</u> |

continued

**HOUSTON COUNTY APPRAISAL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)**

| | Combined | | | |
|--|---------------------|---------------------------------|------------------------------|---|
| | Original Budget | Final Appropriated Budget | Budgetary Basis Actual | Variances Favorable (Unfavorable) |
| REVENUES | | | | |
| Operating assessment | \$ 663,143 | \$ 663,143 | \$ 663,143 | \$ - |
| Collection assessment | 176,888 | 176,888 | 176,888 | - |
| Tax certificates | - | - | 6,063 | 6,063 |
| Mapping, other income | - | 1,748 | 3,070 | 1,322 |
| Interest income | - | - | 3,779 | 3,779 |
| Total revenues | <u>840,031</u> | <u>841,779</u> | <u>852,943</u> | <u>11,164</u> |
| EXPENDITURES | | | | |
| Salaries | 418,944 | 418,946 | 418,944 | 2 |
| Employee benefits | 162,454 | 164,326 | 164,310 | 16 |
| Administration expense | 20,000 | 20,000 | 20,000 | - |
| Data processing | 62,000 | 62,105 | 51,509 | 10,596 |
| Appraisal engineers | 52,000 | 52,000 | 52,000 | - |
| Office expense | 36,400 | 36,381 | 34,978 | 1,403 |
| Travel and auto | 75,500 | 75,500 | 65,769 | 9,731 |
| Rents and leases | 22,150 | 22,150 | 20,888 | 1,262 |
| Utilities and telephone | 18,500 | 18,500 | 16,440 | 2,060 |
| Legal and accounting | 12,800 | 12,800 | 10,556 | 2,244 |
| Insurance | 1,800 | 1,810 | 1,784 | 26 |
| Mapping expense | 25,500 | 25,395 | 23,536 | 1,859 |
| Contract labor | 4,500 | 5,309 | 5,308 | 1 |
| Dues and memberships | 2,900 | 2,900 | 2,500 | 400 |
| Legal notices and advertising | 2,000 | 1,990 | 1,036 | 954 |
| Appraisal review board | 5,000 | 5,000 | 3,822 | 1,178 |
| Books and subscriptions | 1,500 | 1,519 | 1,518 | 1 |
| Repairs and maintenance | 700 | 700 | 236 | 464 |
| Capital outlay | 8,500 | 8,500 | 6,505 | 1,995 |
| Contingency | 7,000 | 6,065 | - | 6,065 |
| Total expenditures | <u>940,148</u> | <u>941,896</u> | <u>901,639</u> | <u>40,257</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ (100,117) | \$ (100,117) | \$ (48,696) | \$ 51,421 |
| RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS: | | | | |
| GAAP ADJUSTMENTS | | | | |
| Prepaid insurance | - | - | 103 | 103 |
| FUND BALANCE AT BEGINNING OF YEAR | <u>159,204</u> | <u>159,204</u> | <u>159,204</u> | <u>-</u> |
| FUND BALANCE AT END OF YEAR | <u>\$ 59,087</u> | <u>\$ 59,087</u> | <u>\$ 110,611</u> | <u>\$ 51,524</u> |

See Independent Auditors' Report.

**HOUSTON COUNTY APPRAISAL DISTRICT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS - LAST TEN YEARS *
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Plan Year Ending December 31, ** | | | | |
|--|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| TOTAL PENSION LIABILITY | | | | | |
| Service cost | \$ 54,569 | \$ 51,388 | \$ 52,863 | \$ 49,227 | \$ 47,770 |
| Interest on total pension liability | 110,949 | 98,874 | 87,081 | 81,462 | 71,630 |
| Effect of plan changes | - | - | - | (2,666) | - |
| Effect of economic/demographic (gains) or losses | 769 | 7,541 | 4,739 | (48,563) | 3,006 |
| Effect of assumption changes or inputs | - | 11,212 | - | 14,524 | - |
| Benefit payments/refunds of contributions | (23,122) | (23,122) | (25,944) | (15,415) | - |
| NET CHANGE IN TOTAL PENSION LIABILITY | 143,165 | 145,893 | 118,739 | 78,569 | 122,406 |
| TOTAL PENSION LIABILITY - BEGINNING | 1,326,514 | 1,180,621 | 1,061,882 | 983,313 | 860,907 |
| TOTAL PENSION LIABILITY - ENDING | (a) \$ 1,469,679 | \$ 1,326,514 | \$ 1,180,621 | \$ 1,061,882 | \$ 983,313 |
| PLAN FIDUCIARY NET POSITION | | | | | |
| Employer contributions | \$ 47,703 | \$ 45,431 | \$ 44,382 | \$ 43,696 | \$ 43,107 |
| Member contributions | 29,028 | 28,156 | 27,560 | 27,161 | 26,390 |
| Investment income, net of investment expenses | (22,607) | 152,957 | 68,599 | (17,294) | 51,350 |
| Benefit payments/refunds of contributions | (23,122) | (23,122) | (25,944) | (15,415) | - |
| Administrative expenses | (1,026) | (828) | (745) | (651) | (631) |
| Other | 1,722 | 668 | 8,361 | 5,683 | (46) |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 31,698 | 203,262 | 122,213 | 43,180 | 120,170 |
| PLAN FIDUCIARY NET POSITION - BEGINNING | 1,245,605 | 1,042,343 | 920,130 | 876,950 | 756,780 |
| PLAN FIDUCIARY NET POSITION - ENDING | (b) \$ 1,277,303 | \$ 1,245,605 | \$ 1,042,343 | \$ 920,130 | \$ 876,950 |
| NET PENSION LIABILITY (ASSET) - ENDING | (a - b) \$ 192,376 | \$ 80,909 | \$ 138,278 | \$ 141,752 | \$ 106,363 |
| RELATED RATIOS | | | | | |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 86.91% | 93.90% | 88.29% | 86.65% | 89.18% |
| Pensionable Covered Payroll | \$ 414,687 | \$ 402,229 | \$ 393,716 | \$ 388,015 | \$ 376,999 |
| Net Pension Liability (Asset) as a percentage of Covered Payroll | 46.39% | 20.12% | 35.12% | 36.53% | 28.21% |

* - GASB 68 requires ten years of data to be presented. Data for only five years are available

** - In accordance with GASB standards, the District has elected to present data calculated at the actuarial valuation/ measurement date, which occurs on December 31 of the year preceding each fiscal year.

**HOUSTON COUNTY APPRAISAL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
LAST TEN FISCAL YEARS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| <u>Fiscal Year Ending December 31</u> | <u>Actuarially Determined Contribution</u> | <u>Actual Employer Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Pensionable Covered Payroll</u> | <u>Actual Contribution as a % of Covered Payroll</u> |
|---|--|---|---|--|--|
| 2010 | \$ 28,967 | \$ 30,208 | \$ (1,241) | \$ 317,975 | 9.5% |
| 2011 | 36,123 | 36,221 | (98) | 329,289 | 11.0% |
| 2012 | 36,732 | 38,231 | (1,499) | 335,150 | 11.4% |
| 2013 | 38,017 | 39,256 | (1,239) | 348,145 | 11.3% |
| 2014 | 41,168 | 43,107 | (1,939) | 376,999 | 11.4% |
| 2015 | 39,927 | 43,696 | (3,769) | 388,015 | 11.3% |
| 2016 | 38,545 | 44,382 | (5,837) | 393,716 | 11.3% |
| 2017 | 44,245 | 45,431 | (1,186) | 402,226 | 11.3% |
| 2018 | 45,616 | 47,703 | (2,087) | 414,687 | 11.5% |
| 2019 | 48,500 | 50,247 | (1,747) | 440,904 | 11.4% |

See Independent Auditors' Report and Notes to the Schedule of Pension Contributions.

**HOUSTON COUNTY APPRAISAL DISTRICT
NOTES TO THE SCHEDULE OF PENSION CONTRIBUTIONS
DECEMBER 31, 2019**

Valuation Date Actuarially determined contribution rates are calculated 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

| | |
|--|--|
| <i>Actuarial Cost Method</i> | Entry Age |
| <i>Amortization Method</i> | Level percentage of payroll, Closed |
| <i>Amortization Period</i> | 10.7 years (based on contribution rate calculated in 12/31/18 valuation) |
| <i>Asset Valuation Method</i> | 5-year smoothed market |
| <i>Inflation</i> | 2.75% |
| <i>Salary Increases</i> | 4.9% average over career including inflation, varies by age and service. |
| <i>Investment Rate of Return</i> | 8.0%, net of investment expenses, including inflation |
| <i>Cost-of-Living Adjustments</i> | 0.0% |
| <i>Retirement Age</i> | 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. |
| <i>Mortality</i> | 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. |
| <i>Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*</i> | 2015: New inflation, mortality, and other assumptions were reflected. 2017: New mortality assumptions were reflected. |
| <i>Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*</i> | 2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. |

**Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to the Schedule.*

Other Information No changes in plan provisions are reflected in the Schedule of Pension Contributions.

Presentation of Schedule In accordance with GASB standards, the District reports contribution activity included in the Schedule of Pension Contributions based on the District's fiscal year end of December 31.

Internal Control and Compliance

Todd, Hamaker & Johnson, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Houston County Appraisal District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major governmental fund of Houston County Appraisal District (the "District"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* - CONTINUED**

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Todd, Hamaker & Johnson, LLP

Todd, Hamaker & Johnson, LLP
Lufkin, Texas

March 11, 2020