

**CENTRAL APPRAISAL DISTRICT  
OF COLLIN COUNTY**

Financial Statements  
(With Auditor's Report Thereon)

December 31, 2011

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# EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS  
8950 GARY BURNS DRIVE, SUITE D  
FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA  
TOM W. PINGLETON, CPA  
RANDY HOWARD, CPA  
ROBIN J. TURNBULL, CPA  
WHITNEY YOUNTS, CPA  
RON RUSHING, CPA  
BELINDA BAI, CPA

MEMBERS  
AMERICAN INSTITUTE OF CPAs  
AICPA DIVISION FOR CPA FIRMS  
TEXAS SOCIETY OF CPAs

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
**Central Appraisal District of Collin County**  
250 W. Eldorado Parkway  
McKinney, Texas 75069

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Central Appraisal District of Collin County, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the individual fund statement of the Central Appraisal District of Collin County for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Central Appraisal District of Collin County, at December 31, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the Proprietary Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Evans, Pingleton and Howard, PLLC*

January 25, 2012

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## Management's Discussion and Analysis

As management of the Central Appraisal District of Collin County, 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, 2011. All amounts, unless otherwise indicated, are expressed in actual dollars.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,188,701 (net assets). Of this amount, \$5,045,578, (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$937,197. The decrease is mainly attributable to major repairs on the building of \$1,928,319.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The business-type activity of the District is an appraisal service.

The government-wide financial statements include only the District itself (known as the primary government).

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The only fund of the District is a proprietary fund.

**Proprietary fund.** The District maintains one proprietary fund. The proprietary fund is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the appraisal service, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 10-13 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-22 of this report.

**Other information.** The individual fund statement provides a budgetary comparison statement for the proprietary fund. This statement can be found on pages 24-25 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$6,188,701 at the close of the most recent fiscal year.

A portion of the District’s net assets (18 percent) reflects its investment in capital assets (e.g. computers, furniture, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of *unrestricted net assets* \$5,045,578 may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in both categories of net assets for the government as a whole.

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY - Net Assets**

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 8,978,628	8,827,540
Capital assets	6,683,730	6,825,310
Total assets	15,662,358	15,652,850
Long-term liabilities	5,376,920	5,861,502
Other liabilities	4,096,737	2,665,450
Total liabilities	9,473,657	8,526,952
<b>Net assets:</b>		
Invested in capital assets, net of related debt	1,143,123	1,126,483
Unrestricted	5,045,578	5,999,415
Total net assets	\$ 6,188,701	7,125,898

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**  
**Changes in Net Assets**

	<u>2011</u>	<u>2010</u>
Revenue:		
Program revenue:		
Charges for services	\$ 10,522,800	10,296,499
General revenue:		
Investment earnings	22,118	21,537
Miscellaneous	33,899	38,669
Total revenues	10,578,817	10,356,705
Expense:		
Appraisal service	9,587,695	9,475,710
Total expenses	9,587,695	9,475,710
Extraordinary item:		
Building settlement		3,000,750
Building repair	(1,928,319)	
Increase (decrease) in net assets	(937,197)	3,881,745
Net assets - beginning	7,125,898	3,244,153
Net assets - ending	\$ 6,188,701	7,125,898

The following key elements influenced the changes in net assets from the prior year:

Business-type Activities

Business-type activities decreased the District's net assets by \$937,197.

- Operating expenses increased by \$119,889 from the previous year. Salaries and benefits increased by \$120,398.
- The building repairs decreased net assets by \$1,928,319.

**Financial Analysis of the Government's Funds**

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

**Proprietary fund.** The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Proprietary Fund at the end of the year amounted to \$6,188,701. The total decrease in net assets of the Proprietary Fund was \$937,197. The factors concerning the finances of this fund have already been addressed in the discussion of the District's business type activities.

## **Capital Assets and Debt Administration**

**Capital Assets:** The District's investment in capital assets for its business-type activities as of December 31, 2011, amounts to \$6,683,730 (net of accumulated depreciation). This investment in capital assets includes computers, software, furniture, equipment, land, and building.

Major capital asset events during the current fiscal year included the following:

- Computer equipment additions in the proprietary fund totaled \$74,876.

Additional information on the District's capital assets can be found in note 3.B. on page 18 of this report.

**Long-term debt:** At the end of the current fiscal year, the District had notes payable outstanding of \$5,540,607, a decrease of \$158,220 from the from the previous year.

Additional information on the District's long-term debt can be found in note 3.D. on pages 19-20 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

- The 2012 budget did not change from 2011.
- Salary expenses will decrease by 1.93%.
- Legal services, primarily associated with appraisal litigation, will increase by 18.75%.
- Appraisal Review Board expenses, for hearing tax payer protests, will remain the same.
- Furniture and equipment, primarily for technology/computer equipment upgrades and/or replacements, will decrease by 23.97%.
- The amount of District funds utilized to lessen the amount collected from our taxing units will increase from \$700,000 in 2011 to \$900,000 for the 2012 budget.

All these factors were considered in preparing the District's budget for the 2012 fiscal year.

## **Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Appraiser, 250 W. Eldorado Parkway, McKinney, Texas 75069.

## **FINANCIAL STATEMENTS**

CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY

Statement of Net Assets

December 31, 2011

	<u>Primary Government</u> Business-type Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,766,068
Investments	3,014,088
Other receivable	1,274
Prepaid items	197,198
Capital assets (net of accumulated depreciation):	
Land	1,387,232
Building	4,800,488
Computer equipment	204,793
Furniture and equipment	285,687
Software	5,530
Total assets	<u>15,662,358</u>
<b>LIABILITIES</b>	
Accounts payable	857,542
Accrued wages payable	110,556
Accrued interest payable	141,840
Unearned revenues	2,648,198
Noncurrent liabilities:	
Due within one year	338,601
Due in more than one year	<u>5,376,920</u>
Total liabilities	<u>9,473,657</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,143,123
Unrestricted	<u>5,045,578</u>
Total net assets	\$ <u>6,188,701</u>

The notes to the financial statements are an integral part of this statement.

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Statement of Activities

For the Fiscal Year Ended December 31, 2011

Functions/Programs	<u>Expenses</u>	<u>Program Revenue</u> Charges <u>For Services</u>	Net (Expense) Revenue and <u>Changes in Net Assets</u>
			<u>Primary Government</u> Business-type <u>Activities</u>
Primary Government:			
Business-type activities:			
Appraisal service	\$ <u>9,587,695</u>	<u>10,522,800</u>	<u>935,105</u>
Total business-type activities	<u>9,587,695</u>	<u>10,522,800</u>	<u>935,105</u>
Total primary government	\$ <u>9,587,695</u>	<u>10,522,800</u>	<u>935,105</u>

General revenues:	
Unrestricted investment earnings	22,118
Miscellaneous revenue	<u>33,899</u>
Total general revenues	<u>56,017</u>
Extraordinary item:	
Building repair	<u>(1,928,319)</u>
Change in net assets	(937,197)
Net assets - beginning	<u>7,125,898</u>
Net assets - ending	\$ <u>6,188,701</u>

The notes to the financial statements are an integral part of this statement.

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Statement of Net Assets

Proprietary Fund

December 31, 2011

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 5,766,068
Investments	3,014,088
Other receivable	1,274
Prepaid items	<u>197,198</u>

Total current assets 8,978,628

Noncurrent assets:

Capital assets:

Land	1,387,232
Building	5,442,962
Computer equipment	1,724,104
Furniture and equipment	777,529
Software	852,405
Less accumulated depreciation	<u>(3,500,502)</u>

Total capital assets (net of accumulated depreciation) 6,683,730

Total noncurrent assets 6,683,730

Total assets 15,662,358

**LIABILITIES**

Current liabilities:

Accounts payable	857,542
Accrued wages payable	110,556
Accrued interest payable	141,840
Unearned revenues	2,648,198
Compensated absences payable	131,185
Note payable	<u>207,416</u>
Total current liabilities	<u>4,096,737</u>

Noncurrent liabilities:

Compensated absences payable	43,729
Note payable	<u>5,333,191</u>
Total noncurrent liabilities	<u>5,376,920</u>

Total liabilities 9,473,657

**NET ASSETS**

Invested in capital assets, net of related debt	1,143,123
Net assets - designated	3,347,431
Net assets - undesignated	<u>1,698,147</u>

Total net assets \$ 6,188,701

The notes to the financial statements are an integral part of this statement.

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Fiscal Year Ended December 31, 2011**

	<u>Business-Type Activities</u>
<b>OPERATING REVENUES</b>	
Local support	\$ 10,522,800
Miscellaneous revenue	<u>33,899</u>
Total revenues	<u>10,556,699</u>
<b>OPERATING EXPENSES</b>	
Salaries	5,053,130
Auto allowance	425,996
Workman's compensation	21,115
Group insurance	741,881
Employee retirement	799,769
Overtime	7,900
Aerial photography	99,451
Rent-equipment	45,606
Computer maintenance	221,756
Legal services	481,824
Audit	11,400
General insurance	19,773
Legal notices and advertising	10,009
Professional computer service	100,222
Board of review	178,843
Utilities	106,138
Postage	178,985
Building maintenance	19,989
Equipment repair and maintenance	7,854
Supplies and materials	192,709
Registration and dues	11,111
Travel and education	53,129
Board of Directors meeting	3,099
Miscellaneous expense	25
Contract labor	60,638
Telephone	82,965
Capital outlay	142,663
Depreciation	<u>221,986</u>
Total expenses	<u>9,299,966</u>
Operating income (loss)	<u>1,256,733</u>
<b>NONOPERATING REVENUES &amp; EXPENSES</b>	
Interest income	22,118
Interest expense	<u>(287,729)</u>
Total nonoperating revenues & expenses	<u>\$ (265,611)</u>

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**  
 Statement of Revenues, Expenses and Changes in Fund Net Assets  
 - Proprietary Fund  
 For the Fiscal Year Ended December 31, 2011  
 -continued-

	<u>Business-Type Activities</u>
<b>EXTRAORDINARY ITEM</b>	
Building repair	\$ <u>(1,928,319)</u>
Change in net assets	(937,197)
Net assets, beginning	<u>7,125,898</u>
Net assets, ending	<u>\$ 6,188,701</u>

The notes to the financial statements are an integral part of this statement.

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Statement of Cash Flows

Proprietary Fund

For the Year Ended December 31, 2011

Cash flows from operating activities:	
Cash received from customers	\$10,928,680
Cash paid to suppliers	(3,723,322)
Cash paid to employees	(5,474,787)
Net cash provided (used) by operating activities	<u>1,730,571</u>
Cash flows from noncapital financing activities:	
Building repair	(1,072,469)
Net cash provided by noncapital financing activities	<u>(1,072,469)</u>
Cash flows from capital and financing activities:	
Acquisition of capital assets	(80,406)
Principal paid on notes	(158,220)
Interest paid on debt	(291,779)
Net cash provided (used) by capital activities	<u>(530,405)</u>
Cash flows from investing activities:	
Proceeds from maturities of investments	8,927,589
Purchase of investments	(7,928,893)
Interest on deposits	22,118
Net cash provided/(used) by investing activities	<u>1,020,814</u>
Net increase (decrease) in cash and equivalents	1,148,511
Cash and cash equivalents, beginning of year	<u>4,617,557</u>
Cash and cash equivalents, end of year	<u>\$ 5,766,068</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 1,256,733
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	221,986
(Increase)/decrease in other receivables	(1,274)
(Increase)/decrease in prepaids	1
Increase/(decrease) in accounts payables	(131,095)
Increase/(decrease) in unearned revenues	371,981
Increase/(decrease) in compensated absences payable	12,239
Net cash provided by operating activities	<u>\$ 1,730,571</u>

The notes to the financial statements are an integral part of this statement.

CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY

Notes to Financial Statements

December 31, 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Central Appraisal District of Collin County have been prepared in conformity 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 of the government's accounting policies are described below.

**A. Reporting Entity**

The Central Appraisal District of Collin County (District) is a political subdivision of the State of Texas created on January 1, 1980, by authority of the 1979 State Legislature, to provide uniform ad valorem appraisals to the various taxing entities within Collin County. Operations began on April 1, 1980. All cities, school districts, special districts such as hospitals, community college districts, etc. within Collin County which levy an ad valorem tax are required to fund the annual budget of the District. Senate Bill 621 specifies that the formula for determining each member's contribution to the District's budget will be based on the percent of tax levy each unit collects to the total tax levy of the county.

**B. Government-wide and Fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Business-type activities* rely to a significant extent on fees and charges for support.

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Interest and other items not properly included among program revenues are reported instead as *general revenues*.

Separate fund financial statements are provided for proprietary funds.

**C. Measurement focus, basis of accounting, and financial statement presentation**

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 District has no governmental funds.

The District reports the following proprietary fund:

CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation  
(continued)**

The *Proprietary fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District's proprietary fund is for appraisal service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include charges to customers for services provided.

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 proprietary fund are charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits and Investments**

Cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments. Investments are stated at cost.

**2. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond year end are recorded as prepaid items.

**3. Capital Assets**

Property and equipment is recorded at cost. The District capitalizes all assets with a cost greater than \$5,000. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis beginning when the asset is placed in service as follows:

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, liabilities, and net assets or equity (continued)**

**3. Capital Assets (continued)**

<u>Class of Property</u>	<u>Estimated Lives</u>
Furniture and equipment	3-10 yrs
Building	40 yrs
Computer equipment	3-5 yrs
Software	2 yrs

**4. Income Taxes**

The District, a political subdivision of the State of Texas, is exempt from Federal Income Taxes.

**5. Unearned Revenues**

Unearned revenues represent payments by users for services to be rendered during the next fiscal year that were received by the District prior to the current year end.

**6. Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

**7. 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 business-type activity, or proprietary fund type statement of net assets.

**8. Designated Net Assets**

Designated net assets represent tentative plans for future use of financial resources.

**9. Use of Estimates**

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

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The District adopts an annual budget on the cash basis of accounting. This departs from accounting principles generally accepted in the United States of America by not budgeting depreciation expense and by budgeting for capital assets.

The budget process begins in April each year and the budget is formally approved by the Board in June for the following fiscal year. The budget was amended once during the year within expense category, however, total expenses were not changed.

**NOTE 3. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits, for safekeeping and trust with the District's agent bank, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance.

At December 31, 2011, the District's carrying amount of deposits was \$5,765,936 and the bank balance was \$6,107,887. Of the bank balance, \$250,000 was covered by federal depository insurance and \$5,857,887 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **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 policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The District is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. **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 is not exposed to custodial credit risk for its investments, as all are covered by depository insurance and pledged securities.
- c. **Credit Risk -** This is the risk that an issuer of an investment will be unable to fulfill its obligations. The District is not exposed to credit risk for its investments.

-continued-

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**A. Deposits and Investments (continued)**

- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The District is not exposed to concentration of credit risk.

The District's investment balances at December 31, 2011 are:

<u>Description</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of deposit	\$ <u>3,014,088</u>	<u>3,014,088</u>

**B. Capital Assets**

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 1,387,232			1,387,232
Building	5,442,962			5,442,962
Computer equipment	1,649,228	74,876		1,724,104
Furniture and equipment	777,529			777,529
Software	846,875	5,530		852,405
Less: accumulated depreciation	<u>(3,278,516)</u>	<u>(221,986)</u>		<u>(3,500,502)</u>
Total property and equipment	\$ <u>6,825,310</u>	<u>(141,580)</u>		<u>6,683,730</u>

**C. Compensated Absences**

A summary of changes in compensated absences follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>162,675</u>	<u>254,869</u>	<u>(242,630)</u>	<u>174,914</u>	<u>131,185</u>

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**D. Notes Payable**

On July 3, 2006, the District borrowed \$5,652,500 for a building purchase and \$539,500 for furniture and equipment from American National Bank of Texas. The notes are payable annually with interest at 5.12 percent. The building note has one annual payment including interest of \$343,045 due July 1, 2012. At that time, the interest rate changes to 3.5%, and annual payments of \$488,364 will be due from July 1, 2013 through July 1, 2026. The equipment note has one final payment of \$105,017 due July 1, 2012. Interest expense for the year was \$287,729.

Note payable activity for the year ended December 31, 2011 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Building Note	\$ 5,502,045		(61,340)	5,440,705	107,514
Equipment Note	<u>196,782</u>		<u>(96,880)</u>	<u>99,902</u>	<u>99,902</u>
Total	\$ <u>5,698,827</u>		<u>(158,220)</u>	<u>5,540,607</u>	<u>207,416</u>

The annual requirements to amortize the notes payable as of December 31, 2011 are as follows:

Building Note			
<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 107,514	235,531	343,045
2013	301,702	186,662	488,364
2014	312,262	176,102	488,364
2015	323,191	165,173	488,364
2016	334,503	153,861	488,364
2017	346,211	142,153	488,364
2018	358,328	130,037	488,365
2019	370,869	117,495	488,364
2020	383,850	104,514	488,364
2021	397,285	91,079	488,364
2022	411,190	77,174	488,364
2023	425,581	62,783	488,364
2024	440,477	47,888	488,365
2025	455,893	32,471	488,364
2026	<u>471,849</u>	<u>16,515</u>	<u>488,364</u>
Total	\$ <u>5,440,705</u>	<u>1,739,438</u>	<u>7,180,143</u>

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**D. Notes Payable (continued)**

Equipment Note

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ <u>99,902</u>	<u>5,115</u>	<u>105,017</u>
Total	\$ <u>99,902</u>	<u>5,115</u>	<u>105,017</u>

**E. Designated Net Assets**

Certain net assets have been designated for the following purposes:

Building repair	\$ 1,072,431
Operating budget	900,000
Litigation	300,000
Capital assets	358,761
Technology	200,000
Retirement liability	200,000
Debt restructuring	141,239
Emergency operations	<u>175,000</u>
Total designated net assets	\$ <u>3,347,431</u>

**NOTE 4. OTHER INFORMATION**

**A. Retirement Plan**

**Plan Description**

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 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 8 years of service but must leave their accumulated contributions in the plan to receive any employer financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 4. OTHER INFORMATION (continued)**

**A. Retirement Plan (continued)**

**Plan Description (continued)**

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer'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 employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy**

The employer has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 15% for calendar year 2011. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Annual Pension Cost**

For the District's accounting year ended December 31, 2011, the annual pension cost for the TCDRS plan for its employees was \$337,771 and the District contributions were \$799,769.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2009, the basis of determining the contribution rate for calendar year 2011. The December 31, 2010 actuarial valuation is the most recent valuation, which will be used in determining the contribution rate for calendar year 2012.

**Actuarial Valuation Information**

Actuarial valuation date	12/31/08	12/31/09	12/31/10
Actuarial cost method	entry age	entry age	entry age
Amortization method	level % of payroll, closed	level % of payroll, closed	level % of payroll, closed
Amortization period	13.0 years	12.9 years	16.3 years
Asset valuation method	10 year smoothed value	10 year smoothed value	10 year smoothed value

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**

Notes to Financial Statements

December 31, 2011

-continued-

**NOTE 4. OTHER INFORMATION** (continued)

**A. Retirement Plan** (continued)

**Actuarial Valuation Information** (continued)

Actuarial assumptions:

Investment return*	8.0%	8.0%	8.0%
Projected salary increases*	5.3%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

\* Includes inflation at the stated rate.

**Trend Information**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/09	\$ 725,089	100%	\$ 0
12/31/10	\$ 728,275	100%	\$ 0
12/31/11	\$ 799,769	100%	\$ 0

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b - a)/(c)</u>
12/31/08	\$ 12,848,216	15,562,601	2,714,385	82.56%	\$ 4,378,562	61.99 %
12/31/09	\$ 12,929,261	15,564,698	2,635,437	83.07%	\$ 4,833,929	54.52 %
12/31/10	\$ 13,667,151	16,520,688	2,853,537	82.73%	\$ 4,699,176	60.72 %

**B. Extraordinary Item**

In November, 2010, the District settled litigation with contractors regarding the construction of the building. The District received \$3,000,750. During 2011, structural improvements to the building totaling \$1,938,319 were incurred. Additional contractor costs of \$703,085 will be incurred in 2012 to complete the project.

**C. Subsequent Event**

On January 6, 2012, the District restructured the debt on the building. See Note 3.D. for terms.

**NOTE 5. EVALUATION OF SUBSEQUENT EVENTS**

The District has evaluated subsequent events through January 25, 2012, the date which the financial statements were available to be issued.

**INDIVIDUAL FUND STATEMENT**

**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Budget and Actual - Proprietary Fund  
For the Fiscal Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>OPERATING REVENUES</b>				
Local support	\$ 10,522,500	10,522,500	10,522,800	300
Miscellaneous revenue			<u>33,899</u>	<u>33,899</u>
 Total revenues	 <u>10,522,500</u>	 <u>10,522,500</u>	 <u>10,556,699</u>	 <u>34,199</u>
 <b>OPERATING EXPENSES</b>				
Salaries	5,632,500	5,632,500	5,053,130	579,370
Auto allowance	448,000	448,000	425,996	22,004
Workman's compensation	28,000	28,000	21,115	6,885
Group insurance	950,000	950,000	741,881	208,119
Employee retirement	879,500	879,500	799,769	79,731
State unemployment	5,000	5,000		5,000
Overtime	45,000	45,000	7,900	37,100
Aerial photography	120,000	120,000	99,451	20,549
Rent-equipment	40,000	46,000	45,606	394
Computer maintenance	222,000	222,000	221,756	244
Legal services	400,000	490,000	481,824	8,176
Audit	12,000	13,000	11,400	1,600
Bond insurance	1,000	1,000		1,000
General insurance	29,000	29,000	19,773	9,227
Legal notices and advertising	15,000	15,000	10,009	4,991
Professional computer service	135,000	135,000	100,222	34,778
Board of review	185,000	190,000	178,843	11,157
Utilities	116,000	116,000	106,138	9,862
Postage	305,000	305,000	178,985	126,015
Building maintenance	133,000	133,000	19,989	113,011
Equipment repair and maintenance	20,000	20,000	7,854	12,146
Supplies and materials	300,000	300,000	192,709	107,291
Registration and dues	30,000	30,000	11,111	18,889
Travel and education	55,000	58,000	53,129	4,871
Board of Directors meeting	4,000	4,000	3,099	901
Miscellaneous expense	500	500	25	475
Contract labor	80,000	80,000	60,638	19,362
Telephone	110,000	110,000	82,965	27,035
Computer equipment	208,000	208,000	100,853	107,147
Computer software	30,000	30,000	29,857	143
Capital outlay	34,000	34,000	11,953	22,047
Contingency	<u>200,000</u>	<u>95,000</u>		<u>95,000</u>
Total expenses	<u>10,772,500</u>	<u>10,772,500</u>	<u>9,077,980</u>	<u>1,694,520</u>
 Operating income (loss)	 \$ <u>(250,000)</u>	 <u>(250,000)</u>	 <u>1,478,719</u>	 <u>1,728,719</u>

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**CENTRAL APPRAISAL DISTRICT OF COLLIN COUNTY**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Budget and Actual - Proprietary Fund**  
**For the Fiscal Year Ended December 31, 2011**  
-continued-

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>NONOPERATING REVENUES &amp; EXPENSES</b>				
Interest income	\$		22,118	22,118
Interest expense		<u>(450,000)</u>	<u>(287,729)</u>	<u>162,271</u>
Total nonoperating revenues		<u>(450,000)</u>	<u>(265,611)</u>	<u>184,389</u>
<b>EXTRAORDINARY ITEM</b>				
Building repair			<u>(1,928,319)</u>	<u>(1,928,319)</u>
Change in net assets		(700,000)	(715,211)	(15,211)
Net assets, beginning		<u>7,125,898</u>	<u>7,125,898</u>	
Net assets, ending	\$	<u>6,425,898</u>	<u>6,410,687</u>	<u>(15,211)</u>

**Budget/GAAP Reconciliation**

The following schedule reconciles the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Assets - Budget and Actual to the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund:

Net assets (budget)	\$ 6,410,687
Depreciation	<u>(221,986)</u>
Net assets (GAAP)	<u>\$ 6,188,701</u>

The notes to the financial statements are an integral part of this statement.