Forensic Audit Report

Forensic Audit of Hood Central Appraisal District (HCAD)

Final Report Prepared For:
HCAD Board of Directors

December 1, 2025

weaver
Assurance • Tax • Advisory

Contents

A. Executive Summary

I. Introduction & Background

Hood County Appraisal District ("HCAD") is a political subdivision of the State of Texas organized in 1979 for purposes of performing property tax appraisal services and administer exemptions for the taxing entities of Hood County. HCAD is financially supported by 11 taxing jurisdictions ("Taxing Entities")[1], who provide funding as specified in the annual budget based on allocations specified in Section 6.06 of the Texas Property Tax Code ("Tax Code").

HCAD's operations are governed by the Tax Code. The Tax Code specifies proper operating activities in relation to HCAD's fund balance management, allowable expenditures, communications with the Taxing Entities, among other items.

In conversations with HCAD leadership and HCAD's auditors and legal counsel, two methods for adjusting HCAD's adopted budget mid-year were mentioned:

- "Budget Amendment" – According to HCAD leadership, legal counsel, and auditors, a budget amendment entails an increase in the total budgeted amount to be spent in a given year.
- "Line-Item Adjustment" – According to HCAD leadership, legal counsel, and auditors, a line-item adjustment entails the shifting of spending from one budgeted category to another, without an overall increase in the total budgeted amount to be spent in a fiscal year.

The Texas State Property Tax Code does not provide language or guidance defining a budget amendment or a line-item adjustment, nor does it grant the power to the Taxing Entities to disapprove of a budget adjustment like they hold regarding the initial adopted budget of a CAD. The Texas State Property Tax Code only states that the Board can amend the budget at any time but must communicate any amendment to the taxing entities.[2]

[1] The 11 Taxing Entities served by HCAD include: City of Granbury, City of Lipan, City of Tolar, Hood County, AMUD Defined Area, Granbury ISD, Lipan ISD, Tolar ISD, Bluff Dale ISD, Glen Rose ISD and Godley ISD.

[2] Texas Tax Code, Chapter 6, Section 6.06(c) – "The board may amend the approved budget at any time, but the secretary of the board must deliver a written copy of a proposed amendment to the presiding officer of the governing body of each taxing unit participating in the district not later than the 30th day before the date the board acts on it."

II. Scope of Work

On April 8, 2025, Weaver was engaged by HCAD to perform a forensic audit of certain financial practices during the period 2016 – 2023. A summary of the scope of work of the forensic audit is outlined below:

- Review of HCAD's Expenditures for New Facilities. ***(Section C.I)***
- Review of HCAD's Contributions to the Texas County and District Retirement System ("TCDRS") Pension Fund. **(Section C.II)**
- Review of HCAD's Fund Balance Management Practices. ***(Section C.III)***
- Review of HCAD's Policies and Procedures. ***(Section C.IV)***
- Review of HCAD's Fund Balance Allocations, Communications and Transparency. **(Section C.V)**

Weaver's investigation involved collecting and reviewing various physical and digital documents, including accounting ledgers, banking records, audit reports, HCAD Board of Directors (the "Board") meeting minutes, and pension account statements for HCAD. Weaver interviewed current and former HCAD Board members, auditors, and legal advisors. We also analyzed expenditures related to the prospective construction of new HCAD facilities and traced related financial transactions. Additionally, our procedures included assessing Board communications and approvals, evaluating fund management practices, and determining if remaining unassigned funds were returned to the Taxing Entities in proportion to their contributions. Refer to **Section B.III – Procedures Performed** for details.

III. Summary of Findings

We identified the following findings related to the sections specified in the scope of work through the course of our investigation:[3]

Section C.I - Review of HCAD's Expenditures for New Facilities:

- **Section C.I.A** - HCAD did not Receive Approval from the Taxing Entities Before Purchasing Land for New Facilities in 2019.

  HCAD purchased land for $83,545 on January 15, 2019, and then sold it for $78,567 on May 17, 2019. This resulted in a net expense of $4,978 on HCAD's FY 2019 financial statements.

[3] For more details regarding each of the findings, see the specified report sections.

However, we were unable to determine communications or approval from the Taxing Entities regarding HCAD's expenditure for the purchase of land in 2019. [4]

- **Section C.I.B** - HCAD Expended $397,078 on "Capital Outlay - Land and Building" Items During the Period of Analysis.

  According to HCAD general ledger reports obtained for the period of analysis, HCAD spent $397,078 on the prospective new HCAD facilities. This amount was supported by invoices and traced through HCAD's bank statements to the stated recipients.

- **Section C.I.C** - HCAD Appropriated a Subset of the Funds for Land and Building Expenditures in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.[5]

  Of the total funds budgeted for new facilities between 2019 and 2023, $800,000 was included in the original budgets and communicated to the Taxing Entities for potential disapproval. However, HCAD added an extra $2,004,451 to the "Capital Outlay – Land and Building" account through mid-year adjustments. These mid-year adjustments were approved by the Board but were not communicated to the Taxing Entities.

- **Section C.I.D** - HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.

  HCAD retained excess funds of approximately $1.4 million throughout the Period of Analysis and did not commit the balances to a particular use in the HCAD general ledger. This amount was instead classified in a "Unassigned Fund Balance" on the audited financial statements, but not on HCAD's general ledger, where the cash was recorded in a general cash account. These funds were eventually returned to the Taxing Entities in 2023.

- **Section C.I.E** - HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.

[4] Texas Tax Code, Chapter 6, Section 6.051(b): The purchase, acquisition, construction, or renovation of real property by a CAD "must be approved by the governing bodies of three-fourths of the taxing units entitled to vote on the appointment of board members."

[5] Texas Tax Code, Chapter 6, Section 6.06(b): "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

HCAD returned excess funds held for expenditures related to new facilities to the Taxing Entities during FY 2023. The amounts returned were returned substantially in the same proportion that the Taxing Entities contributed funds to HCAD for the period the refund was for.

Section C.II - Review of HCAD's Contributions to the TCDRS Pension Fund:

- **Section C.II.A** - HCAD Appropriated a Subset of the Funds Used for Pension Fund Contributions in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.[6]

  Of the total funds budgeted for TCDRS contributions between 2015 and 2024, $2,010,198 was included in the original budgets and communicated to the Taxing Entities for potential disapproval. However, HCAD added an extra $818,502 using an account designated as "Use of Prior Year Fund Balance" through mid-year adjustments. We understand this approach was recommended by their external Auditor at the time, Snow Garrett Williams. These mid-year adjustments were approved by the Board but were not communicated to the Taxing Entities.

- **Section C.II.B** - HCAD's Recorded TCDRS Contributions Were Traced to Reports Provided by TCDRS.

  Through a tracing analysis starting at retirement contribution expenses booked on HCAD accounting records, to HCAD bank statements, then to TCDRS account reports, we traced the majority of the funds deposited in HCAD's pension fund held with TCDRS.[7]

- **Section C.II.C** - "Retirement/NACO" or "Prior Year Service Credits" Contributions to the Pension Fund Were Not In Lieu of HCAD Employee's Personal Contributions.[8]

  HCAD's retirement contribution amounts budgeted and reported do not include contributions made by HCAD employees from their own pay. HCAD contributions and HCAD employees' contributions were accurately separated and reported.

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[6] Texas Tax Code, Chapter 6, Section 6.06(b) "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

[7] Our analysis resulted in an unexplained variance of $26 out of $2,833,062. This variance was not significant to warrant additional tracing work. Refer to Section C.II.B for details.

[8] Since our analysis, this account has been renamed to "Retirement."

- **Section C.II.D** - TCDRS Determines HCAD's "Required Plan Rate" of Contributions in a Given Year Based on Independent Actuarial Calculations.

  The Required Plan Rate, set by TCDRS, is the minimum employer contribution needed to fully fund retirement benefits in a county or district's plan. This rate is calculated annually by independent TCDRS' actuaries based on various factors. This rate is set to ensure all retirement liabilities, including any unfunded amounts, are covered. HCAD does not have the ability to modify the "Required Plan Rate".

- **Section C.II.E -** TCDRS Employee Deposit Rates and Employer Matching Percentages are in a Comparable Range to Other Participating CADs and Hood County.

  HCAD's selected employee deposit rate, employer matching percentages, and prior service credit rates are generally within the same range as those of other participating CADs and Hood County in TCDRS.

Section C.III - Review of HCAD's Fund Balance Management Practices:

- **Section C.III.A** - HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.

  See **Section C.I.D** for further details and information.

- **Section C.III.B** - HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.

  See **Section C.I.E** for further details and information.

- **Section C.III.C** - HCAD Appropriated a Subset of the Funds for Land and Building Expenditures & Pension Fund Contributions in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.[9]

  See **Section C.I.C** and **Section C.II.A** for further details and information.

Section C.IV - Review of HCAD's Policies and Procedures:

- **Section C.IV.A** – Consistent with Other CAD's, HCAD has Little Fund Balance Management Policies and Procedures Documented.

[9] Texas Tax Code, Chapter 6, Section 6.06(b): "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

HCAD has a limited number of formal, standalone policy documents related to fund balance management practices. To compare the state of HCAD's policies and procedures to other Central Appraisal Districts, Weaver searched other Central Appraisal District websites to identify documented fund balance management policies and procedures. We were unable to identify any documented policies or procedures specific to fund balance management practices for any of the selected Central Appraisal Districts. This suggests that it is not uncommon for Central Appraisal Districts to rely primarily on the Texas Tax Code and relevant regulations for fund balance management practices, as opposed to specific internal policies and procedures.

Section C.V - Review of HCAD's Fund Balance Allocations Communications and Transparency:

- **Section C.V.A** - HCAD has Presented Financial Statement Audits During Board Meetings.

  After our review of the HCAD audit reports issued during the period of analysis, HCAD has presented their audit reports to the public during Board meetings. HCAD only posted the 2023 audit report to the public on their website.

- **Section C.V.B** - HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.

  See **Section C.I.D** for further details and information.

- **Section C.V.C** - HCAD has Returned Excess Funds Held in a "Unassigned Funds" Account.

  See **Section C.I.E** for further details and information.

IV. Recommendations

Based on our findings discussed in **Section C** of the report, we recommend the following:

- **Section D.I** – Consult Legal and Accounting Professionals to Assist with Complex Transactions and Expenditures Related to Items Such as Buying Land or Buildings to Ensure Regulatory Compliance.

- **Section D.II** - All Retained Funds from Previous Fiscal Years Should Be Recorded In GL Accounts, With Each Amount Committed to A Designated Purpose, Even If These Figures Are Estimates.

- **Section D.III** - Include a List of Reasonably Estimated Amounts in the Budget Submitted for Potential Disapproval, Especially for Multi-Year Commitments Like TCDRS Contributions or Major Capital Purchases.[10]

- **Section D.IV** – Continue to Periodically Reconcile Transfers to TCDRS with HCAD's Accounting Records.

- **Section D.V** - Publish HCAD Audit Reports to the HCAD Website.

[10] Texas Tax Code, Chapter 6, Section 6.06(b): "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

B. Introduction, Background, Scope, and Procedures

I. Introduction & Background

History and Establishment of HCAD/CADs

Hood County Appraisal District ("HCAD") is a political subdivision of the State of Texas organized in 1979 for purposes of performing property tax appraisal services and administer exemptions for the taxing entities of Hood County. HCAD is financially supported by 11 taxing jurisdictions ("Taxing Entities"), who provide funding as specified in the annual budget based on allocations specified in Section 6.06 of the Texas Property Tax Code ("Tax Code"). HCAD is governed by a Board of Directors (the "Board") consisting of five (5) members appointed by the Taxing Entities, and a Chief Appraiser appointed by the Board.

Between 2016 and 2024, the following individuals served as Chief Appraiser of HCAD:

Appraiser	Start	Through
Greg Stewart	2008	2019
Eddie Roe	2020	May, 2023
Richard Petree	June, 2023	September, 2023
Jeff Law	September, 2023	Present

Weaver Hired to Conduct a Forensic Audit

On April 8, 2025, Weaver was hired by HCAD to conduct a forensic audit of financial practices from 2016 to 2023, focusing on fund balance management for a potential facility purchase and reviewing contributions to the TCDRS retirement fund.

As HCAD's fund management activities are subject to the regulations outlined in the Tax Code, we have supplemented our core forensic accounting procedures with a general overview of the pertinent Tax Code provisions, which are summarized in the following paragraphs. Please note, we are not legal practitioners; therefore, the subsequent sections are intended solely to offer contextual information regarding the relevant Tax Code sections within the scope of our work, and do not constitute legal advice.

Central Appraisal District ("CAD") Budgeting and Funding Laws and Regulations

According to the State of Texas Property Tax Code, "*each year the chief appraiser shall prepare a proposed budget for the operations of the district for the following tax year and shall submit* *copies to each taxing unit participating in the district and to the district board of directors.*"[11] The Taxing Entities have the option to disapprove an adopted budget by "*[adopting] resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption*."[12] If a simple majority of Taxing Entities file these resolutions, "*the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval.*"[13]

Regarding changes and amendments to the budget once approved, the State of Texas Property Tax Code sets forth that "*the board may amend the approved budget at any time, but the secretary of the board must deliver a written copy of a proposed amendment to the presiding officer of the governing body of each taxing unit participating in the district not later than the 30th day before the date the board acts on it*."[14]

In the event HCAD runs a budget surplus for the year, the Tax Code states, "*the chief appraiser shall credit the excess amount against each taxing unit's allocated payments for the following year in proportion to the amount of each unit's budget allocation for the fiscal year for which the payments were made.*"[15]

The Texas State Property Tax Code does not define or differentiate funds that are spent, obligated, or committed to be spent in a given year. Instead, the Texas Attorney General Opinion #1040 states that "*funds that are committed to meet or secure an obligation, those funds are within the scope of subsection 6.06(j)'s phrase 'obligated to be spent.'*"[16] Thus, if the Board decides to commit funds for a specific expenditure, even if that payment will not be made in the fiscal year the funds are committed, the funds can be considered spent according to the Texas State Property Tax Code 6.06(j). The same Texas Attorney General Opinion also indicates "*that where the appraisal district sees it will have unobligated funds left at the end of the budget year, [if] instead of refunding or crediting the funds to the entities, the board votes to move the funds into [its] reserves for replacement account, or disaster fund account, or some similar account, then the funds become obligated…*"

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[11] Texas Tax Code, Chapter 6, Section 6.06(a)
[12] Texas Tax Code, Chapter 6, Section 6.06(b)
[13] Texas Tax Code, Chapter 6, Section 6.06(b)
[14] Texas Tax Code, Chapter 6, Section 6.06(c)
[15] Texas Tax Code, Chapter 6, Section 6.06(j)
[16] Exhibit #00 – "Texas District Attorney Opinion No. GA-1040.pdf"

CAD Real Property Acquisition Laws and Regulations

The Texas State Property Tax Code does allow for the Board of a CAD to "*purchase or lease real property and may construct improvements as necessary to establish and operate the appraisal office or a branch appraisal office.*"[17] However, the purchase, acquisition, construction, or renovation of real property by a CAD "*must be approved by the governing bodies of three-fourths of the taxing units entitled to vote on the appointment of board members.*"[18]

In the event real property that is owned by a CAD is conveyed by the CAD, and the conveyance is approved by the Taxing Entities, the proceeds shall "*be credited to each taxing unit that participates in the district in proportion to the unit's allocation of the appraisal district budget in the year in which the transaction occurs.*"[19]

The Texas State Property Tax Code Does Not Specify Language or Guidelines for Budget Amendments or Line-Item Adjustments

The Texas State Property Tax Code does not provide language or guidance defining a budget amendment or a line-item adjustment, nor does it grant the power to the Taxing Entities to disapprove of a budget adjustment like they hold regarding the initial adopted budget of a CAD. The Texas State Property Tax Code only states that the Board can amend the budget at any time but must communicate any amendment to the taxing entities.[20]

In conversations with HCAD leadership and HCAD's legal counsel, two methods for adjusting the adopted budget mid-year were mentioned:

- "Budget Amendment" – According to HCAD leadership, legal counsel, and auditors, a budget amendment entails an increase in the total budgeted amount to be spent in a given year. For example, if HCAD found themselves needing to pay more in a given year for legal expenses and could not afford to reallocate funds from other categories to compensate, a budget amendment would increase the budgeted amount to be spent in the year to allow for the greater-than-expected spending.

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[17] Texas Tax Code, Chapter 6, Section 6.051(a)

[18] Texas Tax Code, Chapter 6, Section 6.051(b)

[19] Texas Tax Code, Chapter 6, Section 6.051(c)

[20] Texas Tax Code, Chapter 6, Section 6.06(c) – "The board may amend the approved budget at any time, but the secretary of the board must deliver a written copy of a proposed amendment to the presiding officer of the governing body of each taxing unit participating in the district not later than the 30th day before the date the board acts on it."

- "Line-Item Adjustment" – According to HCAD leadership, legal counsel, and auditors, a line-item adjustment entails the shifting of spending from one budgeted category to another, without an overall increase in the total budgeted amount to be spent in a fiscal year. For instance, if actual expenditures for legal expenses are anticipated to be lower than the budgeted amount within a given year, a line-item adjustment would involve reallocating the surplus funds from the legal expenses category to another area, such as pension fund contributions. This allows for increased spending in other categories by utilizing the available budget resulting from the reduced legal expense outlays.

HCAD legal counsel and auditors noted that other CAD clients typically understand budget amendments and line-item adjustments as described above.

The terms "Budget Amendment" and "Line-Item Adjustment" are referenced throughout this Report.

II. Mapping of Scope of Work Tasks to Report Sections

HCAD hired Weaver to perform a forensic audit into HCAD's operations during the period 2016-2024 (the "Period of Analysis"). The following tables present the objectives outlined in the scope of work for the investigation and indicate how these tasks are mapped to the corresponding sections of the report where they are discussed:

Scope of Work Item #	Report Section	Scope of Work Sub-Item	Report Sub-Section
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Assessment of funding approval by the board and communication to the funding entities.	**C.I.A.** HCAD did not Receive Approval from the Taxing Entities Before Purchasing Land for New Facilities in 2019.
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Analysis of the HCAD's fund balance, year-end balance allocations, and management of funds as they may relate to the construction or purchase of new facilities for HCAD, such review may consider whether fund balances were retained in compliance with policies, legal advice, or financial accounting advice.	**C.I.D.** HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Determine if the funding of the new facility was communicated in accordance with applicable policies and procedures.	**C.I.C.** HCAD Appropriated a Subset of the Funds for Land and Building Expenditures in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Analyze contracts related to the new building, including scope, invoicing, payments, and communications to the Taxing Entities.	**C.I.B** HCAD Expended $397,078 on "Capital Outlay - Land and Building" Items During the Period of Analysis.
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Investigate fund transfers and payments to vendors, corporations or other entities.	**C.I.B** HCAD Expended $397,078 on "Capital Outlay - Land and Building" Items During the Period of Analysis.
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Determine the total spend associated with the new facility.	**C.I.B** HCAD Expended $397,078 on "Capital Outlay - Land and Building" Items During the Period of Analysis.
1. New Facilities Funding	**C.I.** Review of HCAD's Expenditures for New Facilities	Calculate if the remaining balance of the new facility fund was transferred proportionally to the inflows from the sources of funding.	**C.I.E** HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.
2. Texas County & District Retirement System (TCDRS) Contributions	**C.II** Review of HCAD's Contributions to TCDRS Pension Fund	Analysis of the HCAD's fund balance, year-end balance allocations, and management of funds as they may relate to contributions to TCDRS, such review may consider whether fund balances were retained in compliance with policies, legal advice, or financial accounting advice.	**C.II.A.** HCAD Appropriated a Subset of the Funds Used for Pension Fund Contributions in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.

Scope of Work Item #	Report Section	Scope of Work Sub-Item	Report Sub-Section
		Investigate contributions to TCDRS from 2016 to 2024, including board approvals and compliance with HCAD policies and procedures.	**C.II.B.** HCAD's Recorded TCDRS Contributions Were Traced to Reports Provided by TCDRS.
		Determine if contributions paid by HCAD were in lieu of HCAD employees' contributions.	**C.II.C.** "Retirement/NACO" or "Prior Year Service Credits" Contributions to the Pension Fund Were Not In Lieu of HCAD Employee's Personal Contributions.
		Compare contribution levels to actuarial determined amounts.	**C.II.D.** TCDRS Determines HCAD's "Required Plan Rate" of Contributions in a Given Year Based on Independent Actuarial Calculations.
		Compare HCAD contributions to determine if HCAD contributions are higher or lower when compared to: 1. Hood County to Hood CAD benefit levels. 2. Benefit levels for all appraisal districts that participate in TCDRS and other appraisal districts.	**C.II.E.** TCDRS Employee Deposit Rates and Employer Matching Percentages are in a Comparable Range to Other Participating CADs and Hood County.
3. Fund Balance Management from 2016 - 2023	**C.III** Review of HCAD's Fund Balance Management Practices	Examine financial records, meeting minutes, and accounts payable from 2016 to 2023.	**C.III.A.** HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.
		Evaluate fund balance management practices, including year-end balance allocations and compliance with HCAD policies and procedures.	**C.III.B.** HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.
		Identify potential discrepancies, improprieties, or inefficiencies related to fund balance management.	**C.III.C.** HCAD Appropriated a Subset of the Funds for Land and Building Expenditures & Pension Fund Contributions in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.
4. Internal Policies and Procedures	**C.IV.** Review of HCAD's Policies and Procedures	Identify gaps between policies and procedures vs. historical fund balance management practices and provide recommendations for potential improvements and transparency.	**C.IV.A.** Consistent with Other CAD's, HCAD has Little Fund Balance Management Policies and Procedures Documented.

Scope of Work Item #	Report Section	Scope of Work Sub-Item	Report Sub-Section
		Evaluate the internal processes for managing fund balances to prevent potential inefficiencies, errors, mismanagement, or fraud.	
		Identify gaps between policies and procedures vs. historical practices for the period 2016 to 2023 and provide recommendations for potential improvements.	
		Collaborate with the Board of Directors to address potential governance issues.	
5. Transparency and Communication of Fund Allocations	**C.V.** Review of Fund Balance Allocations, Communications and Transparency	Evaluate if HCAD transparently presented financial audit results, including a public presentation and access for all relevant stakeholders: 1. For the last audit period (12/31/2023). 2. For any of the previous seven years (2016-2022). 3. For the years 2016 and 2023, are they in compliance with HCAD policies and procedures.	**C.V.A.** HCAD has Presented Financial Statement Audits During Board Meetings.
		For the 2023 auditor change, analyze financial statements to determine if there were undisclosed or unexplained changes in assets and liabilities for Tax year 2023 that should have triggered excess payment to Taxing Entities that weren't made.	**C.V.B.** HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.
		Determine if excess funds (if any) were in compliance with HCAD policies and procedures.	**C.V.C.** HCAD has Returned Excess Funds Held in a "Unassigned Funds" Account.

III. Procedures Performed

Weaver performed the following procedures during our investigation. The following list of procedures is not comprehensive as to all steps we have performed:

- Obtained physical and digital files and documentation. These documents include, but are not limited to, the list below. For a detailed list of documents reviewed during our investigation, please see **Appendix A**:

- HCAD accounting records and supporting invoices/documentation for the Period of Analysis.
- HCAD banking records for the Period of Analysis.
- HCAD audit reports for the period 2014-2022.
- HCAD Board meeting minutes the Period of Analysis.
- HCAD's TCDRS account statements for the Period of Analysis.

- Conducted information gathering interviews with key HCAD employees, auditors, and legal advisors that worked for HCAD during the Period of Analysis. These interviews included, but were not limited to, the following people/entities:
  - Eddie Rodriquez, HCAD's Board of Directors Chairman (past).
  - Rick Frye, HCAD's Board of Directors Chairman (current).
  - Rod Litke, HCAD's Board of Directors Secretary.
  - Scott Bradley, HCAD's Board of Directors Member.
  - Roberts & McGee, HCAD's current auditor.
  - Snow Garret Williams, HCAD's previous auditor.
  - Nichols Jackson, current legal advisors to HCAD.
  - Low Swinney Evans & James, previous legal advisors to HCAD.
  - TCDRS, manager of HCAD's pension plan.
- Reviewed applicable Texas State Laws and Regulations that govern the operations of CADs.
- Analyzed contracts related to the construction of new HCAD facilities, including scope, invoicing, payments, and communications to the Taxing Entities.

- Traced HCAD funds either sent to TCDRS or used to pay expenses related to the construction of new facilities from HCAD accounting records to HCAD bank account records/recipient records.
- Assessed funding approvals and communication between the Board and the Taxing Entities regarding expenditures for the construction of new HCAD facilities or contributions to HCAD's pension plan to determine if they were done so in accordance with applicable policies and procedures.
- Analyzed HCAD's fund balance, year-end balance allocations, and management of funds related to the construction of new HCAD facilities or contributions to HCAD's pension fund, including a review to evaluate whether fund balances were retained in compliance with policies, legal advice, or financial accounting guidance.
- Performed analyses to determine if the remaining balance of funds for construction of new HCAD facilities were returned/transferred proportionally back to the Taxing Entities.

C. Findings

I. Review of HCAD's Expenditures for New Facilities.

We identified the following findings related to HCAD's spending on new facilities through the course of our investigation:

A. HCAD did not Receive Approval from the Taxing Entities Before Purchasing Land for New Facilities in 2019.

The Texas State Property Tax Code does allow for the Board of a CAD to "purchase or lease real property and may construct improvements as necessary to establish and operate the appraisal office or a branch appraisal office." However, the purchase, acquisition, construction, or renovation of real property by a CAD "must be approved by the governing bodies of three-fourths of the taxing units entitled to vote on the appointment of board members."[21]

During our investigation, we were unable to determine communications to, or approvals from, the Taxing Entities regarding HCAD's purchase of land for new facilities in 2019. In conversations with current HCAD leadership, HCAD leadership was not aware of any communications or approvals to/from the Taxing Entities.

According to HCAD leadership, HCAD financial records, as well as Jim Evans, previous legal advisor to HCAD, the land was originally purchased for $83,545 on January 15th, 2019, and then sold for $78,567 on May 17th, 2019. This resulted in a net outflow of $4,978 on HCAD's FY 2019 financial statements. During interviews with Mr. Evans, Mr. Evans stated that the land was purchased before obtaining approval from the Taxing Entities. Mr. Evans advised HCAD that they would either need to obtain approval for the purchase or sell the land. Current HCAD leadership agreed that the land was purchased prematurely.

B. HCAD Expended $397,078 on "Capital Outlay - Land and Building" Items During the Period of Analysis.

According to HCAD general ledger reports obtained for the Period of Analysis, HCAD spent $397,078 on items related to prospective HCAD facilities. These expenses are recorded under

[21] Texas Tax Code, Chapter 6, Section 6.051(b)

the general ledger account #6132, "Capital Outlay – Land & Building". As part of our investigation, we traced funds from the general ledger to invoices and HCAD bank statements. The chart below details the amounts supported by each of these sources:[22]

Fiscal Year	General Ledger - Capital Outlay Expenditures	Bank Statements - Capital Outlay Expenditures	Invoices - Capital Outlay Expenditures
2016	$ -	$ -	$ -
2017	$ -	$ -	$ -
2018	$ -	$ -	$ -
2019	$ 4,978	$ 4,978	$ -
2020	$ -	$ -	$ -
2021	$ 75,292	$ 75,292	$ 75,292
2022	$ 87,729	$ 87,729	$ 87,729
2023	$ 229,080	$ 229,080	$ 229,080
2024	$ -	$ -	$ -
	$ 397,079	**$ 397,079**	**$ 392,101**

As discussed in **Section C.I.A,** the 2019 expense amount of $4,978 that is not supported by invoices represents the purchase, then subsequent sale, of land at a loss, intended to be used for new HCAD facilities. The land was originally purchased for $83,545 on January 15th, 2019, and then sold for $78,567 on May 17th, 2019.[23] The land was quickly sold after purchase as it determined that HCAD did not receive the approvals required by the Tax Code to purchase the land.

During 2021-2023, expenditures were limited to planning and design for prospective new facilities, not construction or land acquisition costs. Supporting invoices obtained include the following amounts billed by the following Vendors:

[22] General Ledger numbers are based off un-audited general journal reports for the Period of Analysis. The reports provided by HCAD were physical documents, printed contemporaneously on a monthly basis. It is our understanding that HCAD also maintained an electronic BusinessWorks accounting database, access to which was not obtained by Weaver. The general ledger amounts detailed are subject to change if there were updates to the source electronic accounting database after the records were printed.

[23] According to meeting resolution of HCAD's Board of Directors dated January 10, 2019, the plot of land was described as Granbury Conference Centre, Phase One B Block 3. Lot 2R1.

Vendor	Invoiced Amount
CHA - Cauble Hoskins Architects	$ 333,200
Baird Hampon & Brown Inc.	$ 39,600
Brookes Baker Surveyors, Inc.	$ 7,026
Building & Earth Sciences	$ 6,250
McRoberts & Co.	$ 4,725
Amy Winters	$ 1,089
Drone Services	$ 211
	$ 392,101

Invoices issued by Cauble Hoskins Architects included 3 invoices, all pertaining to "*architectural services through [XX]% of construction documents on the HOOD COUNTY APPRAISAL DISTRICT'S new offices.*"[24] Invoices issued by Baird Hampton & Brown Inc. included 5 invoices, all describing the services provided as "*CIVIL DESIGN - NEW HOOD COUNTY APPRAISAL DISTRICT OFFICES - GRANBURY - Engineering Services.*"[25]

HCAD leadership indicated that these expenditures were incurred as part of the process to formulate a budget for facility construction, which would subsequently be presented to the Taxing Entities for approval.

C. HCAD Appropriated a Subset of the Funds for Land and Building Expenditures in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.[26]

HCAD budgeted expenditures for land and building expenditures on their yearly budgets under the general ledger account #6132, "Capital Outlay – Land and Building," starting in 2019, and continued to do so through 2023.[27] An amount of $800,000 in total was incorporated into the original budgets for 2019-2023, which were communicated to the Taxing Entities and were not-disapproved. Subsequently, an additional $2,004,451 was added to the budgeted amounts for the "Capital Outlay – Land and Building" account by HCAD through mid-year "line-item adjustments" during HCAD Board meetings. These line-item adjustments were not communicated to the Taxing Entities.

24 Exhibit #01 – "2021 - 2023 - CHA Architects Invoices.pdf"

25 Exhibit #02 – "2021 - 2023 - Baird Hampton & Brown Invoices.pdf"

26 Texas Tax Code, Chapter 6, Section 6.06(b): "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

27 HCAD did not budget any expenditures under the "Capital Outlay – Land and Building" account for the fiscal year 2021.

The chart below represents the amounts originally budgeted by HCAD and not-disapproved by the Taxing Entities for the "Capital Outlay – Land and Building" account, and amounts added to the budgeted amount mid-year through "line-item adjustments":

Fiscal Year	Original Budgeted "Capital Outlay - Land & Building" Expenditures	Mid-Year Adjustments	Total Budgeted "Capital Outlay - Land & Building" Expenditures
2016	$ -	$ -	$ -
2017	$ -	$ -	$ -
2018	$ -	$ -	$ -
2019	$ 200,000	$ -	$ 200,000
2020	$ 200,000	$ 605,623	$ 805,623
2021	$ -	$ 805,000	$ 805,000
2022	$ 200,000	$ 547,928	$ 747,928
2023	$ 200,000	$ 45,900	$ 245,900
2024	$ -	$ -	$ -
	$ 800,000	**$ 2,004,451**	**$ 2,804,451**

The amounts detailed under the "Mid-Year Adjustments" column in the above chart were primarily budget surpluses from prior fiscal years. The Board meeting minutes for the Period of Analysis indicate that an account labeled "Use of Prior Year Fund Balance" served as the base account for facilitating line-item adjustments during a given year. These adjustments were typically applied outside the fiscal year in which the funds originated. For instance, the 2020 figure in the "Mid-Year Adjustments" column was approved for retention from 2020 excess proceeds during the Board meeting conducted on May 19, 2021.[28]

HCAD leadership delayed using surplus funds from previous years until after the audit report was released. For instance, at the May 19th, 2021 Board meeting, both the 2020 "Mid-Year Adjustments" and the audit report were presented.

However, the $2,004,451 of additional amounts under the "Mid-Year Adjustments" column were not communicated to the Taxing Entities during the budgeting process. Instead, this amount was budgeted for under HCAD's planned expenditures through mid-year adjustments.

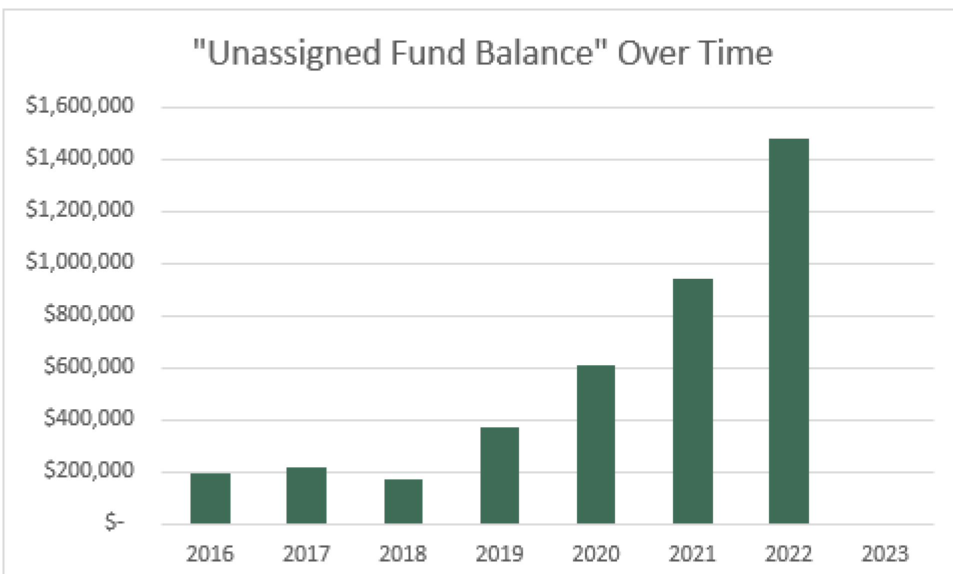
[28] Exhibit #03 – "2021-05-19 - HCAD Board Meeting Minutes.pdf"

These additional amounts under the "Mid-Year Adjustments" column were documented in the audit reports at the end of the fiscal year. The additional mid-year amounts were approved at HCAD Board meetings, but were not communicated to the Taxing Entities.[29]

As discussed in **Section C.I.B**, only $397,078 of the $800,000 budgeted funds communicated and approved by the Taxing Entities were expended on capital outlay items. The rest of the unused funds were returned to the Taxing Entities as described later in subsequent sections of this Report.

D. HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.

According to HCAD audit reports, HCAD retained excess funds in an "Unassigned Fund Balance" throughout the Period of Analysis. The "Unassigned Fund Balance" was approximately $1.4 million in 2022. See the chart below for details on the "Unassigned Fund Balance" as reported on HCAD audit reports over time:[30, 31]



The "Unassigned Fund Balance" was ultimately returned to the Taxing Entities. Although the "Unassigned Fund Balance" is presented in the audit reports for the Period of Analysis, we were unable to identify a corresponding account for these amounts within the general ledger reports

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[29] Exhibit #04 – "2016 - 2023 Audit Reports - Budgeted v Final Amounts.pdf"

[30] See Appendix C for additional details on the balances shown in the chart.

[31] Exhibit #05 – "2016 - 2023 Audit Reports - Unassigned Fund Balances.pdf"

provided. HCAD leadership and financial statements indicated that these unassigned funds existed in the bank and HCAD's general ledger cash balances in a general cash account but were not classified in HCAD's general ledger during the Period of Analysis.

E. HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.

HCAD returned the funds classified under the "Unassigned Fund Balance" described in **Section C.I.D** (i.e., excess funds held for expenditures related to new facilities) to the Taxing Entities during FY 2023. The amounts returned represented excess amounts retained by HCAD during the period FY 2020-2022. During our investigation, we traced the amounts returned to the Taxing Entities through HCAD bank statements and compared the proportions each Taxing Entity received as part of the refund to the proportion each Taxing Entity contributed to HCAD during FY 2020 – 2022 according to the general ledger reports provided. The following table shows the results of the analysis:[32], [33], [34]

Taxing Entity	FY 2020-2022 % of Refund Received	FY 2020-2022 % of Revenue Contributed	Difference in % of Refund Received v. % of Revenue Contributed
AMUD	0.06%	0.04%	0.02%
Bluff Dale ISD	0.12%	0.08%	0.05%
City of Granbury	5.46%	5.62%	-0.16%
City of Lipan	0.13%	0.11%	0.02%
City of Tolar	0.25%	0.24%	0.01%
Glen Rose ISD	1.44%	0.75%	0.69%
Godley ISD	1.12%	0.55%	0.57%
Granbury ISD	60.04%	59.70%	0.34%
Hood County	27.40%	28.40%	-1.00%
Lipan ISD	1.30%	1.40%	-0.09%
Tolar ISD	2.68%	3.12%	-0.44%

To value the amount that Hood County was underpaid in return, the 1% difference in the percentage of the refund received versus the percentage of revenue contributed to HCAD

[32] See Appendix C for additional details on the balances shown in the chart.

[33] Exhibit 06 - "HCAD GL Refund Detail.pdf"

[34] "FY 2020 – 2022 % of Revenue Contributed" numbers are based off un-audited general journal reports for the Period of Analysis. The reports provided by HCAD were physical documents, printed contemporaneously on a monthly basis. It is our understanding that HCAD also maintained an electronic BusinessWorks accounting database, access to which was not obtained by Weaver. The general ledger amounts detailed are subject to change if there were updates to the source electronic accounting database after the records were printed.

represents $19,083. According to HCAD leadership, these variances observed are explained by errors made in the original revenue contribution numbers used to calculate the refund percentages. These revenue numbers were stated to have since been updated in HCAD's general ledger and refund calculations, but the updates were not reflected in the general ledger reports provided to Weaver due to timing differences between when the reports provided to Weaver were generated and when the corrections were made.[35],[36]

II. Review of HCAD's Contributions to TCDRS Pension Fund.

We have identified the following findings related to HCAD's contributions to their pension fund, managed by TCDRS, through the course of our investigation:

A. HCAD Appropriated a Subset of the Funds Used for Pension Fund Contributions in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.[37]

HCAD did budget expenditures for contributions to their TCDRS-managed pension fund on their yearly budgets under the general ledger Account #6050, "Retirement/NACO,"[38] and general ledger Account #6051, "Prior Service Credit," during every year of the period of analysis.[39] $2,010,198 was included in the original budgets for the period of analysis that were proposed and approved by the Board at the beginning of each of the fiscal years. These budgets were communicated to the Taxing Entities and were not-disapproved. An additional $818,502 was added to both the "Retirement/NACO"[40] and "Prior Service Credit" budgeted amounts by HCAD through mid-year "line-item adjustments" that were not communicated to the Taxing Entities.

For more information regarding a formal "Budget Amendment" versus a "Line-Item Adjustment," see **Section C.I – Introduction & Background**.

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[35] Exhibit 07 – "HCAD FY 2020 – 2022 Refund Worksheets.pdf

[36] For more information on HCAD's final refund calculations, see Exhibit 07 – "HCAD FY 2020 – 2022 Refund Worksheets.pdf"

[37] Texas Tax Code, Chapter 6, Section 6.06(b): "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

[38] Since our analysis, this account has been renamed to "Retirement."

[39] HCAD did not budget any expenditures under the "Capital Outlay – Land and Building" account for the fiscal year 2021.

[40] Since our analysis, this account has been renamed to "Retirement."

The chart below details the original budgeted retirement contributions, mid-year line-item adjustments to the budgeted amounts, and the final amounts budgeted:

Fiscal Year	Original Budgeted TCDRS Contributions	Mid-Year Adjustments	Total Budgeted TCDRS Contributions
2016	$ 52,660	$ 204,691	$ 257,351
2017	$ 75,640	$ 213,433	$ 289,073
2018	$ 396,200	$ 200,378	$ 596,578
2019	$ 420,820	$ 200,000	$ 620,820
2020	$ 355,390	$ -	$ 355,390
2021	$ 147,673	$ -	$ 147,673
2022	$ 210,000	$ -	$ 210,000
2023	$ 176,815	$ -	$ 176,815
2024	$ 175,000	$ -	$ 175,000
	$ 2,010,198	**$ 818,502**	**$ 2,828,700**

The amounts shown under the "Mid-Year Adjustments" column in the above schedule represent retained funds from prior fiscal years. According to the Board meeting minutes for the Period of Analysis, an account designated as "Use of Prior Year Fund Balance" served as the base account to facilitate line-item adjustments in a given year. We understand this approach was recommended by HCAD's external Auditor at the time, Snow Garrett Williams. These adjustments were typically executed outside of the fiscal year in which the funds were originally retained. For example, the 2016 value under the column "Mid-Year Adjustments" was retained from 2015 prior year budget excess proceeds in a Board meeting held on May 12th, 2016.[41]

These additional amounts under the "Mid-Year Adjustments" column were documented in the audit reports at the end of the fiscal year. The additional mid-year amounts were approved at Board meetings, but were not communicated to the Taxing Entities.[42]

HCAD leadership delayed using prior year excess funds until after that year's audit report was released. For instance, the 2015 "Mid-Year Adjustments" were discussed at the May 12th, 2016, Board meeting alongside the 2015 audit report.[43] These mid-year adjustments were approved by the Board but were not communicated to the Taxing Entities prior to the fiscal year's end.

[41] Exhibit #08 – "2016-05-12 - HCAD Board Meeting Minutes.pdf"

[42] Exhibit #04 – "2016 - 2023 Audit Reports - Budgeted v Final Amounts.pdf"

[43] Exhibit #04 – "2016 - 2023 Audit Reports - Budgeted v Final Amounts.pdf"

B. HCAD's Recorded TCDRS Contributions Were Traced to Reports Provided by TCDRS.

Through a tracing analysis starting at retirement contribution expenses booked on HCAD accounting records, to HCAD bank statements, then to TCDRS account reports, except for a $26 variance, we traced most of the funds deposited in HCAD's pension fund held with TCDRS. The amounts tracked through all three document levels are detailed in the schedule below: [44]

Fiscal Year	General Ledger - HCAD Retirement Expenses		Bank Statements - HCAD Retirement Contributions		TCDRS Statements - HCAD Retirement Contributions	
2016	$	321,584	$	321,584	$	321,584
2017	$	266,625	$	266,625	$	266,625
2018	$	636,444	$	625,579	$	625,579
2019	$	588,214	$	588,214	$	588,214
2020	$	523,329	$	531,878	$	531,878
2021	$	84,414	$	81,637	$	81,637
2022	$	78,283	$	112,768	$	112,768
2023	$	136,179	$	156,689	$	156,689
2024	$	174,091	$	148,089	$	148,089
	$	**2,809,162**	**$**	**2,833,062**	**$**	**2,833,062**

The difference between the bank statements/TCDRS report contributions and HCAD's general ledger are explained by the following items:[45]

	Dollar Amount	
TCDRS Statements - HCAD Retirement Contributions	$	2,833,062
General Ledger - HCAD Retirement Expenses	$	2,809,162
Variance - TCDRS Statements to General Ledger	$	23,901
Adjustments to "General Ledger - HCAD Retirement Expenses":		
Transactions on general ledger, but voided by TCDRS and not on bank statements	$	(23,244)
Transactions not on general ledger, but on bank statements and TCDRS Report	$	17,237
Misclass of Employee contributions as an HCAD expense	$	(26,672)
Innacurate reversal of regular contributions	$	56,554
Total Adjustments to "General Ledger - HCAD Retirement Expenses":	$	23,874
Unexplained Variance	**$**	**26**

[44] The 2024 amounts were cutoff in November because Weaver did not obtain the January 2025 bank statements showing December 2024 TCDRS contributions. This would result in a timing difference for the December 2024 reconciliation.

[45] "FY 2020 – 2022 % of Revenue Contributed" numbers are based off un-audited general journal reports for the Period of Analysis. The reports provided by HCAD were physical documents, printed contemporaneously on a monthly basis. It is our understanding that HCAD also maintained an electronic BusinessWorks accounting database, access to which was not obtained by Weaver. The general ledger amounts detailed are subject to change if there were updates to the source electronic accounting database after the records were printed.

C. "Retirement/NACO" or "Prior Year Service Credits" Contributions to the Pension Fund Were Not In Lieu of HCAD Employee's Personal Contributions.[46]

HCAD's retirement contribution amounts budgeted and reported do not include contributions made by HCAD employees from their own pay. HCAD accounting practices separate TCDRS contributions between multiple accounts in the general ledger depending on who or what the contribution is for. There are three accounts that HCAD uses:

- Account #2240, "Retirement Payable TCDRS" – This payable account is used to accrue amounts withheld from HCAD employee paychecks tagged for contribution to the pension fund. This payable reflects the required contributions of an HCAD employee and does not constitute HCAD's required contributions. Employee contributions are not an expense to HCAD and do not show up under HCAD's budget or expenses.

- Account #6050, "Retirement" – This expense account is used to record HCAD's required contributions to the pension fund. These HCAD's contributions are made with the same frequency of an employee's payroll payments and reported under HCAD expenses.

- Account #6051, "Prior service Credit" – This expense account is used to record HCAD's contributions to the pension fund to reward HCAD employees for time spent at HCAD before HCAD became a participant in the TCDRS system. These contributions are not recurring like in the case of HCAD's contributions with the frequency of the payroll cycle. Amounts booked under this account are budgeted and reported under HCAD expenses.

D. TCDRS Determines HCAD's "Required Plan Rate" of Contributions in a Given Year Based on Independent Actuarial Calculations.

The Required Plan Rate, set by TCDRS, is the minimum employer contribution needed to fully fund retirement benefits in a county or district's plan. This rate is calculated annually by independent actuaries based on (1) plan options that are selected by a participating employer, but only within a certain range that is controlled by TCDRS and Texas Statute, (2) year-end financial data regarding plan assets, and (3) demographic data of a plan's participating employees. This rate is set to ensure all retirement liabilities, including any unfunded amounts, are covered.[47] State law requires participating employers to fund 100% of

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[46] Since our analysis, this account has been renamed to "Retirement."

[47] Yearly Review | TCDRS and Controlling Plan Costs | TCDRS

the actuarially determined rate, and this rate must be approved annually by the TCDRS Board of Trustees. TCDRS representatives stated during interview that, while employers may elect to contribute above the required rate, they may not contribute less than the actuarially determined amount.

The “Basic Plan Options” specify the contributions required from HCAD and its employees, as well as the resulting benefits to be paid out to employees in the future. The “Basic Plan Option” criteria below are sample options that the Board can customize within the predetermined ranges:[48],[49],[50]

- Employee Deposit Rate: 4% - 7%, the “Employee Deposit Rate” represents the percentage of gross pay that an HCAD employee must contribute to the pension plan, at their own cost. The contributions reported by TCDRS were traced to the amounts booked under HCAD general ledger account #2240, “Retirement Payable TCDRS” as discussed in **Section C.II.C** above.

- Employer Matching Rate: 100% - 250%, the “Employer Matching Rate” represents the percentage of employee deposits that HCAD must contribute to the pension plan. The contributions reported by TCDRS were traced to the amounts booked under HCAD general ledger account #6050, “Retirement” as discussed in **Section C.II.C** above.

- Prior Service Credit: 0% - 180%, the “Prior Service Credit” represents a percentage of the amount an employee would have contributed on their own for time spent at HCAD while HCAD was not participating in TCDRS. The contributions reported by TCDRS were traced to the amounts booked under HCAD general ledger account #6051, “Prior Service Credit” as discussed in **Section C.II.C** above.

More information can be found regarding the details behind HCAD’s pension plan in the Audit Reports issued 2016-2022, under the section titled “Notes to the Financial Statements”.

During the period HCAD made additional contributions through the “Prior Service Credit” account, HCAD elected to change the “Prior Service Credit” rate plan option. While TCDRS considers many factors when calculating the required rate of contribution for a participating

[48] Exhibit #09 – “EmployerComparison_AppraisalDistricts 8.2025.pdf”
[49] https://www.tcdrs.org/employers/yearly-review/
[50] Exhibit #10 – “2024 - TCDRS Annual Report.pdf”

employer, our understanding is that this is the only factor controlled and changed by HCAD during the Period of Analysis.

E. TCDRS Employee Deposit Rates and Employer Matching Percentages are in a Comparable Range to Other Participating CADs and Hood County.

HCAD's selected employee deposit rate, employer matching percentages, and prior service credit rates are generally within the same range as those of other participating CADs and Hood County in TCDRS, as shown in the chart below:[51],[52],[53]

Employer Name	Plan Year	Employee Deposit Rate (4% - 7%)	Employer Matching Rate (100% - 250%)	Prior Service Credit (0% - 175%)
Hood Central Appraisal District	2025	7.00%	200.00%	90.00%
Average of All TCDRS CAD	2025	6.82%	200.10%	68.45%
Hood County	2025	7.00%	250.00%	125.00%

HCAD's plan mainly differs in its "Prior Service Credit" rate, offering 90% compared to the overall average of 68.45%. This average applies to the rest of the TCDRS participant CADs in Texas regardless of whether a "Prior Service Credit" is offered. Among 131 CADs granting prior service credit, the average is 106.07%, with Hood County at 125%. Thus, HCAD's 90% rate remains within the typical range for such plans.

III. Review of HCAD's Fund Balance Management Practices.

We identified the following findings related to HCAD's fund balance management practices during the Period of Analysis:

A. HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.

As discussed in **Section C.I.D**, HCAD retained a steadily growing amount of funds throughout the period 2016 - 2022. This amount was held in a "Unreserved Funds" balance that was not recorded on HCAD's general ledger records, but were instead reported on the audited

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[51] Exhibit #09 – "EmployerComparison_AppraisalDistricts 8.2025.pdf"

[52] Exhibit #11 – "2023-06-06 - Milliman's TCDRS Actuarial Report.pdf"

[53] https://www.tcdrs.org/members/find-an-employer/

financial statements during the period. The funds were returned during FY 2023, and no "Unreserved Funds" balance has been reported on HCAD's audit reports since.

B. HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.

As discussed in **Section C.I.E**, HCAD returned leftover funds to the Taxing Entities in proportion to how the Taxing Entities contributed revenues to HCAD for the period 2020-2022.

C. HCAD Appropriated a Subset of the Funds for Land and Building Expenditures & Pension Fund Contributions in the Budgets that were Communicated to and Not-Disapproved by the Taxing Entities.[54]

As discussed in **Section C.I.C** and **Section C.II.A**, only a portion of the amounts budgeted for expenditure on new HCAD facilities and contributions to HCAD's pension fund were listed on the original HCAD budgets as not-disapproved by the Taxing Entities at the beginning of a given fiscal year. Instead, a portion of the amounts allocated for the new facilities and pension fund contributions were budgeted for through mid-year adjustments approved by the Board but were not communicated to the Taxing Entities.

IV. Review of HCAD's Policies and Procedures.

We identified the following findings related to HCAD's policies and procedures:

A. Consistent with Other CADs, HCAD has Little Fund Balance Management Policies and Procedures Documented.

HCAD has a limited number of formal, standalone policy documents related to fund balance management practices. During conversations with HCAD leadership, HCAD leadership stated they were not aware of any formal documents containing formal HCAD policies and procedures related to fund balance management practices, and that they primarily followed the Texas Tax Code and other applicable regulations.

[54] Texas Tax Code, Chapter 6, Section 6.06(b): "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

The only documentation related to HCAD's fund balance management policies and procedures was from a Board meeting held on July 14th, 2011, where the Board voted to adopt the policies listed. Items of note in the two-page document include:[55]

- Definitions for "Non-Spendable Fund Balance," "Restricted Fund Balance," "Committed Fund Balance," "Assigned Fund Balance," and "Unassigned Fund Balance."
- "Unassigned Fund Balances" are defined as "amounts not classified as non-spendable, restricted, committed or assigned."
- The HCAD board must approve a resolution to establish, modify, or rescind committed funds.
- The HCAD board authorizes the Chief Appraiser to assign fund balances to a specific purpose.

To compare the state of HCAD's policies and procedures to other Central Appraisal Districts, Weaver selected a sample of Central Appraisal Districts in Texas and searched their websites to identify documented fund balance management policies and procedures. We were unable to identify any documented policies or procedures specific to fund balance management practices for any of the selected Central Appraisal Districts. This suggests that it is not uncommon for Central Appraisal Districts to rely primarily on the Texas Tax Code and relevant regulations for fund balance management practices, as opposed to specific internal policies and procedures.

V. Review of HCAD's Fund Balance Allocations, Communications and Transparency.

We identified the following findings related to HCAD's transparency and communications regarding HCAD's fund management:

A. HCAD has Presented Financial Statement Audits During Board Meetings.

After our review of the HCAD audit reports issued during the period of analysis, HCAD has presented their audit reports to the public during Board meetings. The following presentations

[55] Exhibit #12 – "2011-07-14 - HCAD Board meeting Minutes - Fund Balance Policies.pdf"

and approvals of HCAD audit reports were observed in the HCAD Board meeting minutes provided:[56]

Fiscal Year	Audit Report Year	Date Approved by Board
2017	2016	May 11th, 2017
2018	2017	May 10th, 2018
2019	2018	May 9th, 2019
2020	2019	May 14th, 2020
2021	2020	May 19th, 2021
2022	2021	May 12th, 2022
2023	2022	June 7th, 2023
2024	2023	July 11th, 2024

While Weaver obtained HCAD's audit reports for the Period of Analysis, HCAD's public website included audit reports for FY 2023 and FY 2024.[57] Weaver was unable to locate historical HCAD audit reports on HCAD's website for the Period of Analysis. According to conversations held with HCAD leadership, historical audit reports before FY2023 were lost during a website migration made by HCAD in 2022. Historical audit reports were noted to be available to the public in physical formats as desired.

B. HCAD Retained Funds from Previous Fiscal Years Without Properly Committing Them for a Specific Use.

As discussed in **Section C.I.D**, HCAD retained excess funds in an account kept off their accounting records labeled as "Unassigned Funds" on the HCAD audit reports. This "Unassigned Fund Balance" was eventually returned to the Taxing Entities. Even though HCAD's "Unassigned Fund Balance" carried a balance, the account was not listed in HCAD's general ledger from 2014 to 2022.

C. HCAD has Returned Excess Funds Held in a "Unassigned Funds" Account.

As discussed in **Section C.I.E**, HCAD returned surplus funds related to the new facilities to the Taxing Entities during FY 2023. The amounts returned represented surplus amounts retained by HCAD during the period FY 2020-2022. The refunds to the Taxing Entities were made generally

[56] Exhibit #13 – "2016-2023 Audit Report Approvals - HCAD Board Meeting Minutes.pdf"

[57] "https://hoodcad.net/wp-content/uploads/2024/07/2023-Finanical-Audit.pdf"

in proportion to how the Taxing Entities contributed funds to HCAD's operations during the same period, FY 2020-2022.

Hood County received 1% less of the refund proportion compared to the percentage of revenues they contributed. The 1% difference represents approximately $19,083.

D. Recommendations

Based on our findings discussed in Section C of the report, we recommend the following

I. Consult Legal and Accounting Professionals to Assist with Complex Transactions and Expenditures Related to Items Such as Land or Buildings to Ensure Regulatory Compliance.

Given the complex regulatory environment surrounding HCAD, HCAD should consult legal and accounting professionals regarding complex transactions such as in the case of land and building expenditures before those expenditures are made. This will ensure HCAD structures transactions according to the Texas State Property Tax Code or other applicable regulations, and avoid the expenditure of funds without proper approvals as discussed in **Section C.I.A**.

II. All Retained Funds from Previous Fiscal Years Should Be Recorded In GL Accounts, With Each Amount Committed to A Designated Purpose, Even If These Figures Are Estimates.

All committed funds should be recorded and tracked on HCAD's accounting records, including unassigned funds. This will ensure those that are in charge of directing and overseeing HCAD's operations, including both the Taxing Entities and the Chief Appraiser, will have an accurate and up to date picture on the funds HCAD has committed to what purposes, and avoid funds being kept in HCAD accounts without a designated use as discussed in **Section C.I.D**.

III. Include a List of Reasonably Estimated Amounts in the Budget Submitted for Potential Disapproval, Especially for Multi-Year Commitments Like TCDRS Contributions or Major Capital Purchases.[58]

For expenditures related to projects or plans that will span multiple years, such as the TCDRS contributions discussed in **Section C.II**, when feasible, a general cost estimate should be calculated before expenditures are made. This helps ensure yearly budgets reflect the entire project's scope and estimated costs.

[58] Texas Tax Code, Chapter 6, Section 6.06(b): : "…If governing bodies of a majority of the taxing units entitled to vote on the appointment of board members adopt resolutions disapproving a budget and file them with the secretary of the board within 30 days after its adoption, the budget does not take effect, and the board shall adopt a new budget within 30 days of the disapproval."

IV. Continue to Periodically Reconcile Transfers to TCDRS with HCAD's Accounting Records.

While we were able to reconcile HCAD's contribution amounts from their general ledger, bank statements, and TCDRS reports, HCAD's general ledger had discrepancies to the other two sources of information (bank and TCDRS reports), most of these discrepancies were reconciled as discussed in **Section C.II.B**. To ensure HCAD's general ledger continues to be an accurate and up to date record of HCAD's financial position, regular reconciliations and reviews of the HCAD general ledger with TCDRS expenditures should be performed.

V. Publish HCAD Audit Reports to the HCAD Website.

As discussed in **Section C.V.A**, HCAD should continue to publish their audit reports on their public website, as done in 2023. Other than 2023, the rest of HCAD's audit reports during the Period of Analysis do not appear to be available on HCAD's website. This will give Taxing Entities and oversight officials the information needed to ensure transparency in HCAD operations.

E. Appendices

I. Appendix A – Documents Reviewed

See attached "Appendix A – Documents Reviewed.pdf" for more information.

II. Appendix B – Report Exhibits

See attached "Appendix B – Report Exhibits.pdf" for more information.

III. Appendix C – Additional Schedules

C.I.B - HCAD Retained Funds from Previous Fiscal Years Without Committing Them for a Specific Use.

Fiscal Year	Unassigned Fund Balance	Committed for Contingencies & Emergencies	Other Committed Funds	Total Fund Balance
2016	$ 195,711	$ 387,807	$ -	$ 583,518
2017	$ 213,433	$ 387,807	$ -	$ 601,240
2018	$ 173,566	$ 387,807	$ -	$ 561,373
2019	$ 366,860	$ 387,807	$ -	$ 754,667
2020	$ 605,623	$ 554,667	$ -	$ 1,160,290
2021	$ 937,761	$ 554,667	$ -	$ 1,492,428
2022	$ 1,480,373	$ 554,667	$ 5,316	$ 2,040,356
2023	$ -	$ 316,467	$ 110,000	$ 426,467

C.I.E - HCAD Returned Fiscal Year 2020-2022 Funds to the Taxing Entities in Proportion to How the Funds Were Received.

Taxing Entity	FY 2020-2022 Refunded Amount	% of Refund Received	FY 2020-2022 Contributed Amount	% of Revenue Contributed	Difference in % of Refund Received v. % of Revenue Contributed
AMUD	$ 1,107	0.06%	$ 3,150	0.04%	0.02%
Bluff Dale ISD	$ 2,372	0.12%	$ 6,208	0.08%	0.05%
City of Granbury	$ 104,228	5.46%	$ 449,813	5.62%	-0.16%
City of Lipan	$ 2,405	0.13%	$ 8,486	0.11%	0.02%
City of Tolar	$ 4,755	0.25%	$ 19,075	0.24%	0.01%
Glen Rose ISD	$ 27,477	1.44%	$ 60,281	0.75%	0.69%
Godley ISD	$ 21,396	1.12%	$ 43,761	0.55%	0.57%
Granbury ISD	$ 1,145,785	60.04%	$ 4,779,899	59.70%	0.34%
Hood County	$ 522,871	27.40%	$ 2,274,025	28.40%	-1.00%
Lipan ISD	$ 24,859	1.30%	$ 111,738	1.40%	-0.09%
Tolar ISD	$ 51,064	2.68%	$ 249,673	3.12%	-0.44%
	$ 1,908,318	**100.00%**	**$ 8,006,109**	**100.00%**	