

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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Independent Auditor's Report on Internal Control over Financial Reporting and  
On Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With Government Auditing Standards

City Council  
City of Levelland, Texas  
1709 Avenue H  
Levelland, Texas 79336

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Levelland, Texas's basic financial statements, and have issued our report thereon dated February 05, 2014.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1, that we consider to be significant deficiencies.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Levelland, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Levelland, Texas's Response to Findings**

The City of Levelland, Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Levelland, Texas's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Respectfully submitted,

*Pate, Downs & Pinkerton, LLP*

Pate, Downs & Pinkerton, LLP

Levelland, Texas  
February 05, 2014

**CITY OF LEVELLAND, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	___ Yes	<u> X </u> No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u> Yes	___ None Reported	
Noncompliance material to financial statements noted?	___ Yes	<u> X </u> No	

2. Federal Awards

Total Federal Awards were less than \$500,0000.

B. Financial Statement Findings

Finding 2013-1

In October of 2012 when the new hourly rates for FY 2012-2013 budget were being entered into the computer payroll system an incorrect amount was entered for the six paid firefighters. The amount entered a year ago was the same amount entered for the Assistant Fire Chief and as a result these employees have been overpaid for a year. Based upon varying amounts of overtime for each of the firefighters, the total amounts overpaid by the City varies from \$4,571.79 to \$5,469.05 per employee, with the total overpayment for all six firefighters being \$30,051.84.

C. Federal Award Findings and Questioned Costs

NONE

**CITY OF LEVELLAND, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
NOT APPLICABLE		

**CITY OF LEVELLAND, TEXAS**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

Finding 2013-1

On October 14, 2013, when entering revised pay rates from the new FY2013-2014 budget into the payroll system, the Director of Human Resources discovered that for the previous year the City of Levelland had over paid its full time paid firefighters. When the new pay rates were entered into the payroll system in October of 2012 the pay for firefighters was inadvertently entered at the rate the Assistant Fire Chief is paid. Upon discovery of this error the City Manager, Director of Human Resources, and the Director of Finance immediately began to evaluate ways to resolve the issue. The City Attorney and the City's Auditor were soon included in this effort and a plan to recapture the overpayments was developed using a combination of future payroll deductions and the limited use of accrued vacation and sick leave.

As a result of this problem the City has implemented two verification processes to help reduce the likelihood that a mistake such as this will happen again in the future. First, the pay plan spreadsheet which calculates the hourly rates based on the newly adopted budget has been revised to include a special highlighted section on firefighters pay. This highlighted section will draw attention to the fact that firefighter's pay is calculated differently and will show the correct amounts based on the adopted pay plan. The second new verification is a detailed report from the computer payroll system when the first payroll is run under a new budget. This payroll change report compares the previous and new pay rates in a side by side manner for each employee. The City Manager, Director of Finance, and the Director of Human Resources will all review this report to verify that the new pay rates have been correctly entered into the payroll system for all employees, and all three officials will sign off on the report. This was done prior to the second payroll for the payroll changes made in October 2013.

**CITY OF LEVELLAND, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**EXHIBIT D-1**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U. S. DEPARTMENT OF JUSTICE</u></b>			
Direct Program:			
BJA Recovery Act Edward Byrne Memorial Justice Assistance Grant *	16.804	--	\$ 13,063
Passed Through Texas Criminal Justice Division:			
DJ-Edward Byrne Memorial Justice Assistance Grant Program *	16.738	DJ-09-A10-25771-01	9,902
Total U. S. Department of Justice			<u>22,965</u>
<b><u>U. S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
Passed Through Texas Department of Agriculture:			
Texas Community Development Block Grant *	14.228	711301	265,335
Total U. S. Department of Housing & Urban Development			<u>265,335</u>
<b><u>DEPARTMENT OF HOMELAND SECURITY FEMA</u></b>			
Passed Through Texas Department of Public Safety:			
State Homeland Security Program	97.073	10-GA42448-03	21,890
Total Department of Homeland Security FEMA			<u>21,890</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 310,190</u>

\* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

**CITY OF LEVELLAND, TEXAS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Levelland and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is included for informational purposes only. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

*Continuing Disclosure Under  
SEC Rule 15C2-12 (Unaudited)*

**CITY OF LEVELLAND, TEXAS**

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT AND CERTIFICATES OF OBLIGATION (TAX DEBT)

2012/13 Market Valuation Established by Hockley County Appraisal District (excluding totally exempt property)	\$ 537,607,808
Less Exemptions/Reductions at 100% Market Value:	
Disabled Veterans	\$ 1,510,100
Agriculture Use Reductions	<u>2,273,292</u>
	<u>3,783,392</u>
2012/13 Taxable Assessed Valuation	\$ 533,824,416
General Obligation Debt and Certificates of Obligation Payable (As of 9/30/13)	\$ 11,430,000
General Obligation Debt and Certificates of Obligation Payable from Ad Valorem Taxes	\$ 11,430,000
Interest and Sinking Fund as of 9/30/13	\$ 73,108
Ratio Tax Debt to Taxable Assessed Valuation	2.14%

Estimated Population - 13,542  
Per Capita Taxable Assessed Valuation - \$ 39,420  
Per Capita Debt Payable from Ad Valorem Taxes - \$ 844

TABLE 2 - VALUATION AND DEBT HISTORY

Fiscal Year Ended 9-30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax Debt <sup>(2)</sup>	Per Capita Tax Debt	Ratio Tax Debt To Taxable Assessed Valuation
2009	12,866	368,310,335	28,626	4,670,000	363	1.27%
2010	12,866	469,932,860	36,525	8,535,000	663	1.82%
2011	12,866	480,034,590	37,310	7,920,000	615	1.65%
2012	12,866	494,159,162	38,408	7,430,000	577	1.50%
2013	13,542	533,824,416	39,420	11,430,000	844	2.14%

<sup>(1)</sup>Source: City Officials.

<sup>(2)</sup>Does not include self-supporting debt for years ended 2009-2013.

TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9-30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2009	0.7240	0.6110	0.0800	3,146,683	97.48%	91.85%
2010	0.7240	0.6110	0.077	3,318,881	96.93%	98.89%
2011	0.752	0.6345	0.08	3,499,692	97.15%	94.35%
2012	0.752	0.6345	0.08	3,632,144	96.16%	91.26%
2013	0.726	0.6165	0.072	3,795,981	97.71%	92.89%

**CITY OF LEVELLAND, TEXAS**

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE 4 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2012 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Occidental Permian LTD	Oil Production	\$ 17,604,750	3.29%
CHI Operating Inc	Oil Production	17,552,220	3.28%
Post-Montgomery	Oil Production	12,331,890	2.31%
Butchs Trucking Inc	Oil Production	12,108,350	2.26%
Butchs Rat Hole & Anchor Serv	Oil Production	10,509,000	1.96%
Wal-Mart Stores Inc #01-1051	Retail	7,154,250	1.34%
R&B Leasing Co	Rental	6,873,890	1.28%
Southern Cotton Oil Co	Agriculture	6,036,620	1.13%
Levelland Compress & Whse Co	Agriculture	4,843,430	0.91%
Wal-Mart Stores East Inc	Retail	4,211,070	0.79%
		<u>\$ 99,225,470</u>	<u>18.55%</u>

GENERAL OBLIGATION DEBT LIMITATION....No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "Tax Rate Limitation").

TABLE 5 - TAX ADEQUACY

Principal and Interest Requirements.....	\$ 689,479
\$0.08 Tax Rate at 95% Collection Produces.....	\$ 427,059
Average Annual Principal and Interest Requirements, 2014-2033.....	\$ 731,444
\$0.08 Tax Rate at 95% Collection Produces.....	\$ 427,059

TABLE 6 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowing to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas and the Hockley County Appraisal District. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2012-13 Taxable Assessed Value	2012-13 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt as of 9-30-13	Authorized But Unissued Debt as of 9-30-13
Levelland, City of	\$ 533,824,416	\$ 0.726	\$ 11,430,000	100.00%	\$ 11,430,000	-0-
Levelland ISD	1,858,635,279	1.10944	19,089,992	100.00%	19,089,992	-0-
Hockley County	4,306,271,160	0.316670	-0-	-0-	-0-	-0-
South Plains JCD	5,074,540,432	0.24795	-0-	-0-	-0-	-0-

**CITY OF LEVELLAND, TEXAS**

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total Direct and Overlapping Tax Debt .....	<u><u>30,519,992</u></u>
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation .....	5.71%
Per Capita Overlapping Tax Debt .....	\$ 2,254

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9-30	The Bonds			% Of Principal Retired
	Principal	Interst	Total	
2014	\$ 545,000	\$ 399,855	\$ 944,855	
2015	660,000	318,241	978,241	
2016	680,000	298,841	978,841	
2017	700,000	278,791	978,791	
2018	725,000	258,041	983,041	28.95%
2019	615,000	238,716	853,716	
2020	635,000	221,391	856,391	
2021	660,000	203,801	863,801	
2022	680,000	184,985	864,985	
2023	705,000	165,073	870,073	57.78%
2024	735,000	143,932	878,932	
2025	765,000	121,323	886,323	
2026	525,000	100,984	625,984	
2027	540,000	83,254	623,254	
2028	560,000	64,778	624,778	85.12%
2029	575,000	45,228	620,228	
2030	270,000	30,938	300,938	
2031	275,000	22,422	297,422	
2032	285,000	13,672	298,672	
2033	295,000	4,609	299,609	100.00%
	<u>\$ 11,430,000</u>	<u>\$ 3,198,875</u>	<u>\$ 14,628,875</u>	

(1) Average life of the issues - 10.8 years. Interest on the Debt has been calculated at the rates contained in the debt covenants which average 3.8125%.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-14		\$ 944,855
Interest and Sinking Fund, 9-30-13	\$ 73,108	
Interest and Sinking Fund Tax Levy @ 95% Collection	427,059	
Transfer from Levelland Economic Development Corporation	323,710	
Transfer from Levelland Community Development Corporation	<u>255,833</u>	<u>1,079,710</u>
Estimated Balance, 9-30-14		<u>\$ 134,855</u>

**CITY OF LEVELLAND, TEXAS**

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OR CERTIFICATES OF OBLIGATION

The City has no authorized but unissued general obligation bonds or certificates of obligation as of September 30, 2013

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT OR CERTIFICATES OF OBLIGATION... The City does not anticipate the issuance of additional general obligation debt or certificates of obligation within the next twelve months.

PENSION FUND...The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see "Notes from the City's Annual Financial Report" - Note I.)

FINANCIAL INFORMATION

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
<b>Revenues:</b>					
Ad Valorem Taxes	\$ 3,227,681	\$ 3,007,770	\$ 2,957,665	\$ 2,779,009	\$ 2,677,079
Franchise Fees	918,532	964,432	878,318	922,472	840,848
Sales Tax	2,438,453	2,399,638	2,178,342	2,007,094	2,097,247
Licenses and Permits	32,185	48,080	66,925	22,221	8,040
Fines and Fees	209,800	257,242	263,892	264,071	213,549
Rents	53,062	42,421	25,862	27,955	28,234
Royalties	53,672	56,098	55,550	48,586	40,275
Interest	58,207	63,189	74,590	77,819	98,886
State & Federal	41,409	40,697	530,123	243,922	39,947
Local	456,483	327,679	414,124	-	213,557
Miscellaneous	65,036	239,325	235,919	173,840	381,298
<b>Total Revenues</b>	<b>\$ 7,554,520</b>	<b>\$ 7,446,571</b>	<b>\$ 7,681,310</b>	<b>\$ 6,566,989</b>	<b>\$ 6,638,960</b>
<b>Expenditures:</b>					
City Council	\$ 148,911	\$ 136,643	\$ 217,635	\$ 126,163	\$ 130,823
City Manager	167,760	171,513	158,519	161,910	160,317
City Secretary	123,596	117,642	108,992	106,927	96,490
Finance	137,432	146,552	140,346	140,765	141,863
Municipal Judge	121,833	118,437	110,762	81,354	101,061
Fire Department	1,013,690	860,228	852,254	871,399	818,043
Police Department	2,879,908	2,779,042	2,501,156	2,431,204	2,231,387
Inspection	293,508	307,034	317,076	264,287	302,921
Health Services	101,495	100,906	207,715	91,844	87,079
Streets	1,020,301	835,716	767,533	909,986	824,505
Shop	79,432	78,118	72,532	71,731	71,782
Parks	427,279	650,097	391,744	398,963	495,882
Building Services	154,920	185,657	133,903	120,239	134,755
Grant Administration	135,475	110,726	114,656	190,103	196,248
Legal	89,842	74,927	78,688	73,566	69,582
Airport	96,543	96,548	839,417	34,729	89,873
Engineering	4,414	15,123	47,971	1,934	429
Miscellaneous	322,509	305,304	291,063	432,404	69,225
<b>Total Expenses</b>	<b>\$ 7,318,848</b>	<b>\$ 7,090,213</b>	<b>\$ 7,351,962</b>	<b>\$ 6,509,508</b>	<b>\$ 6,022,265</b>

**CITY OF LEVELLAND, TEXAS**

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Other Resources (Uses)

Sale of Assets	\$ 3,086	\$ 68,606	-0-	\$ 8,850	-0-
Loan Proceeds	-0-	-0-	-0-	-0-	-0-
Transfers (Net)	18,621	115,000	(905,764)	62,667	35,000
Total Other Resources (Uses)	<u>21,707</u>	<u>183,606</u>	<u>(905,764)</u>	<u>71,517</u>	<u>35,000</u>

Excess (deficiency) of

Revenues over Expenditures	257,379	539,964	(576,416)	128,998	651,695
Other Sources(Uses)	-0-	-0-	-0-	-0-	-0-
Beginning Fund Balance	5,061,745	4,521,781	5,098,197	4,969,199	4,531,061
Ending Fund Balance	<u>\$ 5,319,124</u>	<u>\$ 5,061,745</u>	<u>\$ 4,521,781</u>	<u>\$ 5,098,197</u>	<u>\$ 5,182,756</u>

TABLE 11 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1/8 of 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Debt. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9-30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita <sup>(1)</sup>
2009	2,097,247	66.65%	0.4825	163.01
2010	2,007,094	60.47%	0.4378	156.00
2011	2,178,342	62.24%	0.4538	169.31
2012	2,399,638	66.07%	0.4856	186.51
2013	2,438,453	64.23%	0.4568	180.07

<sup>(1)</sup>Based on population estimates.

**CAPITAL IMPROVEMENT PROGRAM...** Currently there are no capital projects with a "multi-year" process which utilize budget activities ending at the end of the project and crossing fiscal years. All capital projects are handled through the normal operating budgets which expire every September 30.

**FINANCIAL POLICIES**

Basis of Accounting...The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt (see Note A.3 to Annual Financial Report).

The accrual basis of accounting is utilized by proprietary funds. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

General Fund Balance...The City's unwritten policy is to maintain surplus and unencumbered funds equal to three months of expenditures combined in the General Fund and other funds of the City. This allows the City to avoid interim borrowing pending tax receipts.

## **CITY OF LEVELLAND, TEXAS**

**CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED  
FOR THE YEAR ENDED SEPTEMBER 30, 2013)**

Use of Bond Proceeds, Grants, etc ...The City's policy is to use bond proceeds, grants, revenue sharing or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures ...Prior To September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted with public notice being given within statutory limits for the purpose of obtaining taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. The City Manager may at any time with the approval of the Council transfer any unencumbered appropriation balance or portion thereof between general classifications of expenditures within an office, department, or agency. At the request of the City Manager, the Council may transfer any unencumbered appropriation balance or portion thereof from one office, department, or agency to another at any time. Budget appropriations lapse at year-end.

### **INVESTMENTS**

The City of Levelland invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City of Levelland. Both state law and the City's investment policies are subject to change.

**LEGAL INVESTMENTS** ...Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) certificates of deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits, (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporations or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES** ...Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversifications, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

**CITY OF LEVELLAND, TEXAS**

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12 (UNAUDITED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS... Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities and deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 12 – CURRENT INVESTMENTS

As of September 30, 2013, the following percentages of the City's investible funds were invested in the following categories of Investments:

Type of Investment	Amount	Interest Rate	Percent of Portfolio	Maturity
Certificates of Deposit	\$ 5,745,761	0.65% to 1.14%	59.86%	< 12 months
Investment Pools	3,701,748	0.09%	38.56%	N/A
Savings Accounts	119,522	0.01% to 0.65%	1.25%	N/A
U.S. Treasury Stripes	31,965	N/A	0.33%	08/15/2014
Total	\$ 9,598,996		100.00%	

As such date, the market value of such investments (as determined by the City reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value.