

Comprehensive Annual Financial Report

For Fiscal Year Ended

September 30, 2013

KLEBERG COUNTY, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Prepared by:
Melissa S. Munoz
County Auditor

Kleberg County, Texas
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 For The Year Ended September 30, 2013

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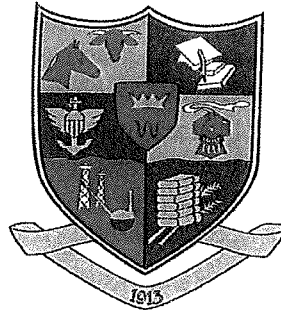
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Introductory Section

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County Auditor

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August 28, 2014

COUNTY of KLEBERG
KINGSVILLE, TEXAS

Honorable Juan M. Escobar, County Judge
Honorable Members of the Kleberg County Commissioners' Court

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the County of Kleberg for the fiscal year ended September 30, 2013.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and compiled sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statement will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Raul Hernandez & Co., P.C. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County, for the fiscal year ended September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended September 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statement, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the other supplementary information section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

History of Kleberg County

Kleberg County was part of the Spanish province of Nuevo Santander, which encompassed the area between Tampico, Mexico and the Guadalupe River in Texas. After Mexico secured her independence in 1821, additional land in the area was granted to various individuals. In 1846, the land that is now in Kleberg County was designated a part of Nueces County and it remained so for many years.

In 1853, Richard King purchased the Santa Gertrudis grant in Kleberg County from the heirs of the original Spanish grantees and started the King Ranch. The history of Kleberg County during the next fifty years is almost indistinguishable from that of the ranch. In 1903, however, the St. Louis, Brownsville, and Mexico Railway was built through South Texas to Brownsville, and Henrietta King, owner of the King Ranch, opened for sale a large tract of her land. A surveyor employed by the ranch laid out the town of Kingsville in a pasture three miles east of the ranch headquarters. Even before the railroad reached the town, numerous lots were sold. By 1912, the population of the town was approximately 4,000. In 1908 Ricardo, located on the railroad six miles south of Kingsville, was started as a trading center for farmers living nearby. Nine miles farther down the tracks, Theodore F. Koch, who had purchased around 20,000 acres from Mrs. King in 1907, established Riviera. On Baffin Bay, a few miles to the east, Koch soon organized Riviera Beach as a vacation resort. Vattman, several miles to the northeast of Riviera, was settled in 1908 by German American families sponsored by the Catholic Colonization Society.

Kingsville grew much more rapidly than the other towns, largely because the railroad placed its general offices and shops there. The railroad employees made up a third of the population of the town and were the main source of income. As the population in the area increased, the citizens of Kingsville and the other communities began to break away from Nueces County. In 1913, the Texas legislature responded to this pressure and organized Kleberg County, named for Robert Justus Kleberg, whose son, also named Robert Justus Kleberg, was manager of the King Ranch. The law setting up the county named five residents to take care of organizing it, including hiring a surveyor and arranging for the first election. Anton Felix H. von Blucher was employed to do the surveying, and within a short time he delineated the boundaries of the county and drew the lines of the precincts.

At an election on June 27, 1913, the precinct and county officers were chosen, and Kingsville was designated the county seat. The new public officials met in rented offices in downtown Kingsville and began their work. The commissioners' court proposed that a courthouse and hospital be built; the voters approved bond issues for their construction, and both were completed by 1914. Oil exploration began early

in the county; with the first producing well discovered in 1919. During the next fifty years county wells produced around 178 million barrels of oil. The first industry in the county was a cotton mill started in Kingsville in 1921. An additional stimulus occurred in 1925, when South Texas Teachers College (now Texas A&M University-Kingsville) was established.

In 1935, Loyola Beach was developed on the Callo del Grullo, three miles east of Vattman, as a recreational spot for vacationers and fishermen. The 1940's witnessed a period of spectacular growth similar to that of the 1920's. The population rose from 7,782 in 1940 to 16,857 in 1950. This growth was due primarily to the location of the Naval Auxiliary Station (later the Naval Air Station, Kingsville) three miles southeast of Kingsville.

Profile of Kleberg County

Kleberg County is a political subdivision of the State of Texas. It has no legislative powers, and very restricted judicial and administrative powers. The governing body of the County is its Commissioners' Court of which there are five members. The county judge is its chairman and the commissioner from each of the four road and bridge precincts is also a member. The Court has only such powers as are conferred upon it by the Constitution and the Statutes or by necessary implication there from. The county government provides many varied services for the public it serves. Among these services are maintenance and minor construction work on county owned and operated roads and bridges, recording functions related to property rights and vital statistics of the county, operation of the county and district judicial system, operation of the county jail, operation of the county welfare department, operation of the county agriculture extension service, and the operation and maintenance of the city/county library and county fairgrounds.

The Commissioners' Court sets the tax rates, establishes policies for County operations, approves contracts for the County and develops and adopts the County budget within the resources as estimated by the County Auditor. The Commissioners' Court is also responsible for development of policies and order, approving financial commitments and appointment of various department heads. The management and leadership provided by members of the Commissioners' Court and the elected and appointed officials of other departments are crucial to the success of the County's financial management and growth.

The County Auditor has responsibilities for prescribing the systems and procedures for handling the finances of the County and "examining, auditing and approving" disbursements from County funds prior to their submission to Commissioners' Court for approval.

The County provides many varied services to the public it serves. These services include operation of the district, county and justices of the peace judicial systems, voting operations for national, state and some local elections, maintenance on and construction of county owned roads and bridges, recording functions relating to property rights and vital statistics, operation of the law enforcement agencies (sheriff and constables), operation of the county jail, operation of the public health department in conjunction with the City of Kingsville, operation of the park services department, operation of the county libraries, assistance to indigents, the provision of juvenile, health, education and welfare services involving the care and correction of dependent or delinquent children as well as property tax collections for multiple agencies.

The annual budget serves as the foundation for the County's financial planning and control. All departments of the County are required to submit requests for appropriation to the Commissioner's Court on or before June 30 of each year. The Commissioner's Court uses these requests as the starting point for developing a

base line budget, but without any tax increases or personnel changes. The Commissioners' Court holds several budget workshops to discuss priorities. The County Auditor then reviews the proposed budget with all the revisions as directed by Commissioners' Court. A copy of the proposed budget is filed with the County Clerk and County Auditor. The Commissioners' Court then must hold a public hearing on a day within seven calendar days after the date the proposed budget is filed, but before October 31 of the current year. The Commissioners' Court must take action on the proposed budget at the conclusion of the public hearing.

The appropriated budget is prepared by fund, department, and budget category. On some items of greater importance, the budget is prepared by line item. All transfers between budget categories and departments require the special approval of the Commissioners' Court with the exception of the special revenue funds other than the road fund and park fund. The appropriate department head can make budget transfers for those special revenue funds other than just previously mentioned.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the Supplemental-Nonmajor Governmental Funds subsection of this report. Also included in the governmental fund subsection is project-length budget-to-actual comparison for each governmental fund for which a project length budget has been adopted (road & bridges, law library and capital projects fund).

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local Economy

Government The importance of the government sector across all geographic areas in South Texas, but especially in Kleberg County. Government workers are made up of local (K-12 education), state (Texas A&M University-Kingsville), Federal civil (border patrol), and military (NAS-Kingsville). Not only is the government sector the top industry of the economy of Kleberg County, the government is the largest employer for the County with a majority of the workforce being found in the state, federal and military sectors. With the presence of a large university within the County, the state government level of employment is the largest sector of government.

Agriculture and Services Since the 1800's, agribusiness has been a heavy contributor to the economy of the Kingsville area and South Texas. Agribusiness is the second most important source of property tax income for Kleberg County. The majority of the County's land lies within the famed King Ranch.

King Ranch is one of the largest ranches in the world. It comprises 825,000 acres and was founded in 1853 by Richard King and Gideon R. Lewis. The King Ranch, in addition to cattle farming, operates a local museum, maintains other property concerns and works with Texas A&M University-Kingsville to perform agricultural research and development.

The King Ranch is a major employer of Kleberg County, Texas under different categories, Agriculture and Services. The Services are considered the everyday management of the ranch and the Agriculture would be raising cattle, as well as, quarter horses, cutting horses and thoroughbreds.

Unemployment Rate The current unemployment rate of Kleberg County, Texas is 5.1%, which is lower than the national unemployment rate of 7.0% and the statewide average rate is 6.1%.

Healthcare Kleberg County is serviced by a branch of CHRISTUS Spohn Hospital. It provides medical care services for the entire family, from infants to seniors. As a community hospital, it provides advanced, comprehensive health care services using the latest technology and procedures that is just a short drive away. It provides health care from OB-GYN care through birthing services. It is committed to the overall health of everyone in our area with fitness, health and wellness classes and provides complete rehab services to promote recovery after injury or surgery. CHRISTUS Spohn Hospital Kleberg is home to the only Level IV Trauma Center within several counties, which means we are equipped to provide advanced medical care for everything from traumatic injuries and emergency situations to broken bones and allergic reactions. Healthcare is the third most important sector of the economy of Kleberg County, Texas.

Major Highways US Highway 77 provides a major north-south trade corridor between the Port of Corpus Christi, Brownsville, Mexico and all points south.

Airports Kleberg County Airport provides a 6,000-foot runway. Corpus Christi International Airport, 35 minutes northeast of Kingsville, provides daily passenger, commercial and cargo service.

Professional Sports During May 2005, a 21.5 million dollar baseball stadium named "Whataburger Field" was completed in Corpus Christi, Texas, (which is 35 miles northeast of Kingsville, Texas) and is the home of the Corpus Christi Hooks, Houston Astros AA league affiliate. The addition of a professional baseball team has provided a positive impact to the economy throughout all of South Texas.

Long-term Financial Planning

The County's elected and appointed officials and citizens considered many factors when setting the 2013 fiscal year budget and tax rates, and the fees that will be charged for services. The main driver is the Kleberg County economy. The County's employment growth has mirrored its population growth for the last several years.

These indicators were taken into account when adopting the general fund budget for 2014. Amounts available for appropriation in the general fund budget are expected to be slightly over \$15 million. Property taxes (benefiting from increases in assessed valuations), public service taxes, and grant revenue (boosted by increased state and federal funding in several of our current programs) are expected to lead this increase. The County plans to use these revenues to finance programs currently provided and to restore its General Fund fund balance to a respectable level of surplus.

The county had several capital outlay projects that were started in 2010 with the sale of certificate of obligation bonds. This allowed the county to fund six million dollars in projects for the county as follows: two million dollars went to the expansion of the county jail, two million dollars went to the renovation of a county building, one million dollars went to the improvement of the parks system, one million dollars were unrestricted. A majority of the projects have been completed and the rest are still in the construction phase.

Cash Management and Policies and Practices

The County's primary investment objective is safety of principal. Secondly, the County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Therefore, the County generally limits its investments to time accounts and requires that all deposits be either insured by federal depository insurance or collateralized. All collateral on deposits is held by third party banks acting as agent for the County and is held in the County's name. The County also has funds deposited with Tex-Pool. At September 30, 2013, all deposits of the County were classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board.

Risk Management

Kleberg County maintains third party insurance coverage for potential losses, including insurance on most of its major fixed assets for risks most likely to occur. In addition, the County implemented a Safety Program and created a safety committee to assist in mitigation of all types of risk.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kleberg County, Texas for its Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose content conforms to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation and execution of this audit could not have been accomplished without the efforts and cooperation of my staff, other County officials, their staffs, and Commissioners' Court. I wish to thank them all.

Respectfully submitted,



KLEBERG COUNTY AUDITOR
Melissa S. Muñoz



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Kleberg County
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

Kleberg County, Texas Organizational Chart

