

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Webb County, Texas, we offer readers of the County's financial statements, this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2006. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter (beginning on page ix) and the County's financial statements (beginning on page 19).

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

- The assets of the County exceeded its liabilities at the close of the fiscal year 2006 by \$96,111,825 (*total net assets*). Of this amount, \$20,893,576 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$10,506,371 (12.3%) from the previous year. The most significant change that led to this increase was revenues in excess of expenses of \$4,491,079 from infrastructure and environmental services function in the governmental activities.
- The governmental net assets increased by \$10,671,050 (13.1%) and the business-type net assets decreased by \$164,679 (4.0%) from the previous year.

Highlights for Fund Financial Statements

- As of the close of the current fiscal year, the County's governmental funds reported a combined ending fund balance of \$44,344,993, an increase of \$10,139,706 from the prior year.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$11,731,590, or 21.4% of total general fund expenditures.

General Financial Highlight

- In July 2006, Webb County issued \$12,405,000 of Certificates of Obligation, Series 2006. These bonds were issued for the purpose of various capital expenditures of which \$720,025 is for business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management Discussion and Analysis is intended to serve as an introduction to Webb County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances in a matter similar to the private business sector.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the *financial position* of the County is improving or deteriorating. During 2006, the net assets of the County increased by \$10.5 million.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*, thus being consistent with *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

The Statement of Net Assets and the Statement of Activities, present information about the two types of County activities:

- **Governmental activities** - All of the County's basic services that are principally supported by property taxes, charges for services, and intergovernmental revenues are considered to be governmental activities. The governmental activities of Webb County include general government, public safety, justice system, health and human services, infrastructure and environmental services, correction and rehabilitation, and community and economic development.
- **Business-type activities** - Other functions of the County that are intended to recover all or a significant portion of their costs through user fees and charges are considered to be business-type activities. This includes the Webb County Water Utility Fund.

The government-wide financial statements can be found on pages 19 – 21 of this report.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds and not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes other funds to help it control and manage money for particular purposes or to show that it is meeting the requirements for the use of certain taxes, grants, and other money. The County's three categories of funds – *governmental, proprietary and fiduciary* use different accounting approaches.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. That information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 159 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Head Start Fund, and Juvenile Youth Village Fund, each of which are considered to be major funds. Information for the other 156 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *schedules* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 22 - 29 of this report.

Proprietary Funds - The County maintains two different types of proprietary funds, enterprise and internal service funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses an enterprise fund to account for its Water Utility operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for support services provided to other departments, which includes the employees' health benefits and worker compensation funds. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements elsewhere* in this report.

The basic proprietary fund financial statements can be found on pages 30 - 33 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statements can be found on pages 34 - 35 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 - 80 of this report.

Required Supplementary Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes a schedule concerning the County's progress in funding its obligation to provide pension benefits to county employees, and budgetary comparison schedules for the general fund and major special revenue fund (Head Start Program). Required supplementary information can be found on pages 81 - 87 of this report.

Other Information: The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 89 - 469 of this report.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the County's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the County's assets exceeded its liabilities by \$96,111,825 at September 30, 2006.

Webb County's Net Assets
(in Thousands)

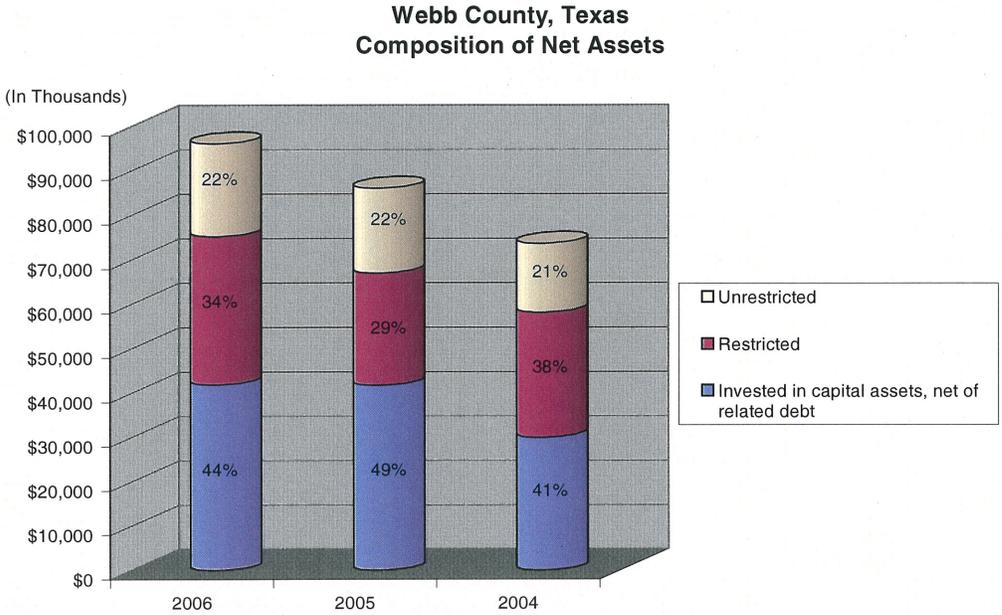
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 72,007	\$ 60,932	\$ 613	\$ 597	\$ 72,620	\$ 61,529
Capital Assets	111,910	107,474	10,448	6,444	122,359	113,918
Total assets	<u>183,918</u>	<u>168,406</u>	<u>11,061</u>	<u>7,041</u>	<u>194,978</u>	<u>175,446</u>
Long-term liabilities outstanding	78,272	69,635	6,829	6,249	85,100	75,884
Other liabilities	13,505	13,177	261	300	13,767	13,477
Total liabilities	<u>91,777</u>	<u>82,812</u>	<u>7,090</u>	<u>6,548</u>	<u>98,867</u>	<u>89,360</u>
Net assets:						
Invested in capital assets, net of related debt	38,299	41,561	3,619	177	41,918	41,738
Restricted	32,891	24,911	409	352	33,301	25,263
Unrestricted	<u>20,950</u>	<u>19,122</u>	<u>(57)</u>	<u>(36)</u>	<u>20,894</u>	<u>19,086</u>
Total net assets	<u>\$ 92,141</u>	<u>\$ 85,593</u>	<u>\$ 3,971</u>	<u>\$ 492</u>	<u>\$ 96,112</u>	<u>\$ 86,086</u>

By far, the largest portion of the County's net assets, \$41,917,600 (43.6%) reflects investment in buildings, vehicles, equipment, infrastructure and construction and infrastructure in progress, less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$33,300,649 (34.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$20,893,576 (21.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Webb County as a whole is able to report positive balances in all three categories (invested in capital assets - net of related debt, restricted and unrestricted) of net assets. However, the business-type activities did report a deficit balance of \$56,722 in the unrestricted portion of net assets.

The following chart represents the composition of net assets for Webb County as a whole for the past three years.



The following table demonstrates the County's net assets increased by \$10,506,371 from the prior year.

Webb County, Texas						
Changes in Net Assets						
(in Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	\$ 14,483	\$ 12,485	\$ 1,346	\$ 1,364	\$ 15,829	\$ 13,848
Operating grants and contributions	25,210	25,379			25,210	25,379
Capital grants and contributions	6,077	10,684			6,077	10,684
General revenues:						
Property taxes	42,410	38,674			42,410	38,674
Other taxes	12,220	11,567			12,220	11,567
Other	4,188	2,932	59	60	4,247	2,991
Total Revenues	\$ 104,588	\$ 101,721	\$ 1,405	\$ 1,423	\$ 105,994	\$ 103,144
EXPENSES						
Program activities						
Primary government:						
Governmental activities:						
General Government	\$ 17,296	\$ 15,830			\$ 17,296	\$ 15,830
Public Safety	10,936	9,948			10,936	9,948
Justice System	22,456	22,537			22,456	22,537
Health and Human Services	16,878	17,015			16,878	17,015
Infrastructure and Environmental Services	6,586	6,412			6,586	6,412
Correction and Rehabilitation	13,602	13,233			13,602	13,233
Community and Economic Development	2,799	2,230			2,799	2,230
Interest on Long-term Debt	3,199	3,107			3,199	3,107
Business-type Activities						
Webb County Water Utility			\$ 1,736	\$ 1,393	1,736	1,393
Total Expenses	\$ 93,751	\$ 90,312	\$ 1,736	\$ 1,393	\$ 95,487	\$ 91,705
Increase (decrease) in net assets						
before transfers	\$ 10,837	\$ 11,409	\$ (331)	\$ 30	\$ 10,506	\$ 11,439
Transfers	(166)	(80)	166	80		
Increase in net assets	\$ 10,671	\$ 11,329	\$ (165)	\$ 110	\$ 10,506	\$ 11,439
Net assets - beginning of year (restated)	81,470	74,264	4,136	383	85,605	74,647
Net assets - end of year	\$ 92,141	\$ 85,593	\$ 3,971	\$ 492	\$ 96,112	\$ 86,086

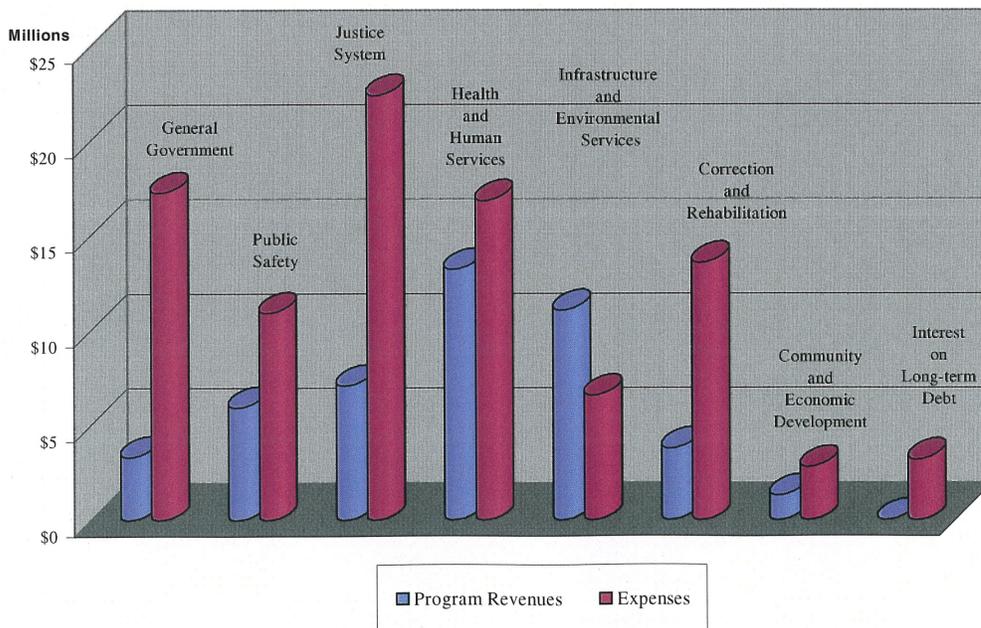
During the current fiscal year, the County's total revenues increased by \$2,849,498 (2.8%) and total expenses increased by \$3,781,893 (4.1%). Total revenues for this year were more than total expenses resulting in an increase in *total net assets* of \$10,506,371. Most of the growth reflects an increase in revenues from property taxes and charges for services as compared to the previous year.

Governmental Activities

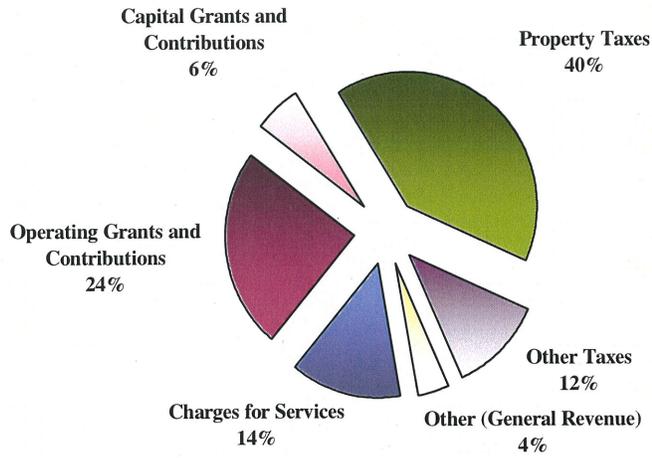
Governmental activities increased the County's net assets by \$10,671,050, resulting in 101.6% of the total growth in net assets. Key elements of this increase are as follows:

- Property taxes collected increased by \$3.7 million (9.7%) from the previous fiscal year. The increase in revenues is the result of higher assessed taxable property values and residential growth.
- Revenues from charges for services increased by \$1,980,547 (14.3%).
- Special revenue taxes (sales and hotel/motel tax) increased by \$652,607 from the previous fiscal year.
- Expenses of governmental activities increased by \$3.4 million which is a 3.8% increase from the prior year. County-wide salary increases of 5% and a 20% increase in health and life insurance fringe benefits contributed to the increase.
- The most significant increases in expenses were evident in the functions of general government and public safety by \$1.5 million (9.3%) and \$988,351 (9.9%) from the previous fiscal year expenses, respectively.
- Adjustments to beginning net assets had a total effect of \$4,123,924 decrease. A significant adjustment was for reclassifications of capital assets that should have been transferred to the business-type activities in prior years in the amount of \$4,099,802.

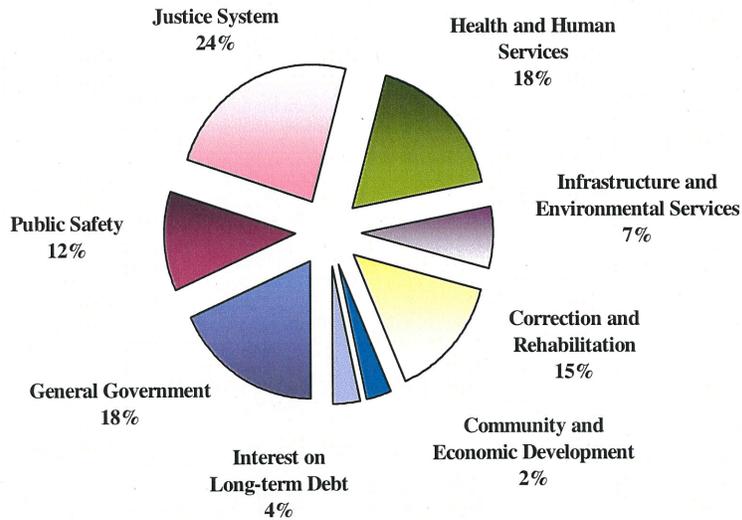
Program Revenue and Expense- Governmental Activities



Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities

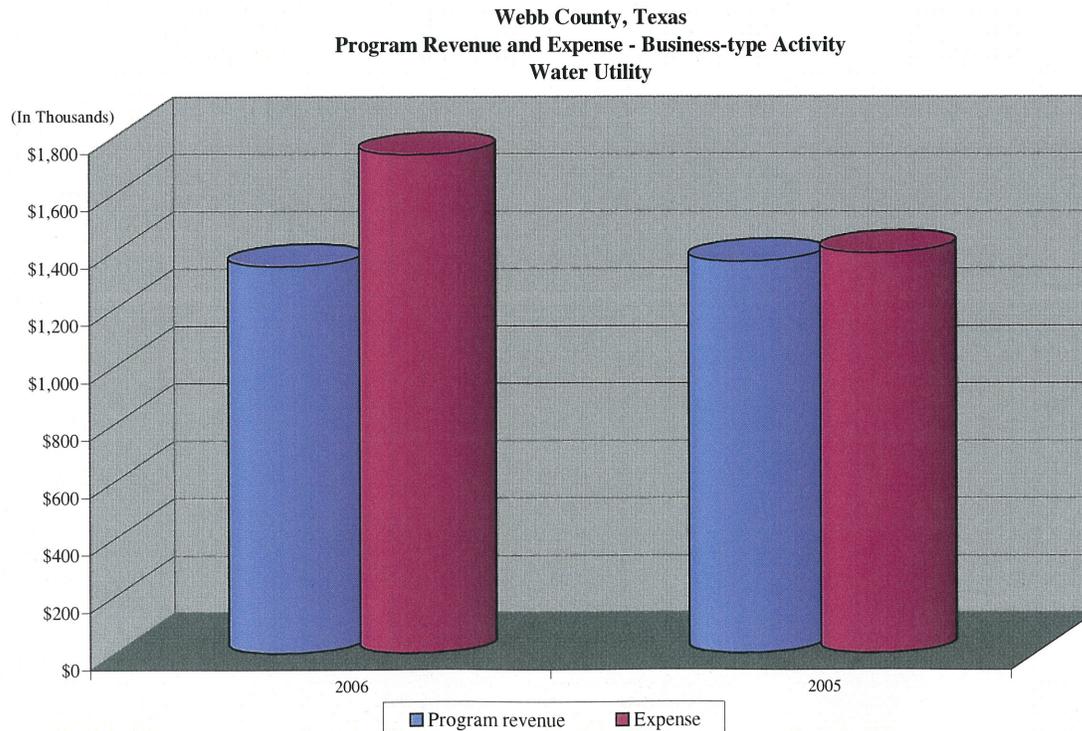


Business-type Activities

Business-type activities decreased the County's net assets by \$164,679 and had an ending net asset balance of \$3,971,215. Key elements of the current year ending net asset balance are as follows:

- Adjustments for \$3,643,487 were made to beginning net assets. A significant adjustment in the amount of \$4,099,802 was a transfer from governmental activities for the construction of the Rio Bravo, Texas wastewater treatment plant and sanitary sewer collection system. Also, adjustments to beginning net assets for \$456,315 were made for capital assets that were reclassified and depreciated accordingly.
- Transfers in of \$166,414 from the general fund were made to assist with normal operations.
- Charges for services decreased by \$17,315 (1.3%), compared to the prior year. The decrease in collections was primarily due to a fraud scheme perpetrated by an employee. The amount of the fraud is estimated at \$60,000.
- Investment earnings, which are restricted for debt service payments, decreased by \$531 (0.9%) from the previous year.

The following charts represent the fiscal year trends for the business-type activity.



FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR FUNDS

As noted earlier, Webb County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$44,344,993, an increase of \$10,139,706 from the prior year.

The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved balance of the General Fund was \$11,731,590, while the total fund balance was \$11,931,861. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 21.4 % of total General Fund expenditures.

The Fund Balance of the Webb County's General Fund increased by \$1,806,779 from the previous fiscal year. Key differences between last year's General Fund activities and this year's include:

- An increase in property values increased property tax revenues by \$3.6 million.
- Sales and miscellaneous taxes increased by \$1.5 million from the previous year. This represents an increase of \$1,434,100 or 13.47% for sales tax; an increase of \$39,219 for mixed drink tax and an increase of \$13,837 for bingo tax.
- Charges for services increased by \$846,621 from the previous year. The most significant increase was for electronic recording fees by \$439,266.
- Intergovernmental revenue increased by \$1,164,740, when compared to the previous year. The most significant increase is attributed to an increase in the per diem rate to house federal inmates in the Webb County Jail. The new rate is at \$56.84 compared to \$49.43 from the previous contract.
- Fines and forfeits increased by \$113,774 from the previous year, primarily as a result in an increase of non-traffic fines.

The **Head Start Fund** accounts for resources received by the Department of Health and Human Services - Administration for Children and Families. These resources are used for student's education, nutrition, physical and mental health, disability and medical services as well as parent's literary services. This fund does not contribute to the governmental fund balance at year end as the revenues received directly offset the expenses incurred. In addition to this, Webb County provided in-kind contributions (non-federal share) which exceeded the amount required by \$60,742. DHHS Appropriations Act 2006 authorized a 2007 budget of 1% less than the previous fiscal year ended August 31, 2006. In addition, the 2007 budget includes an award of one-time funds of \$252,500 for equipment purchases.

The **Juvenile Youth Village Fund** accounts for the \$11.3 million construction project which will house a juvenile detention center and possibly a juvenile justice alternative education program at a later date. Investment earnings earned increased by \$193,594 from the previous year. Current year capital outlay expenditures of \$1,241,101 represent 11% of the total project authorization.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- Total *net assets* of the Water Utility Fund at year end totaled \$3,918,153. Of this amount, 92.4% is invested in capital assets net of related debt. Factors relating to the Water Utility fund have already been addressed in the discussion of the Webb County's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

At year end, general fund expenditures were less than budget estimates by \$2,333,222. General fund revenues were also less than budgeted estimates by \$328,375 resulting in a positive variance of \$2,004,847. The most significant variance was for sales and miscellaneous taxes revenues with a \$1.5 million positive variance. In addition, the Webb County Commissioner's Court approved transfers between functions which had no effect in the total appropriated budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental and business type activities as of September 30, 2006, amounted to \$122,358,756 (net of accumulated depreciation). The total increase in the County's net investment in capital asset for the

current fiscal year was 7.41%. The investments in capital assets include land, infrastructure, infrastructure in progress, buildings, equipment, furniture and construction in progress.

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

- Infrastructure in progress costs for a water and wastewater project, an international bridge, rail road bridge, and for drainage and paving roads in colonias. The total costs are \$5,744,370. Also, road upgrades in the amount of \$358,105.
- Various ongoing construction projects with a total cost of \$2,812,220. The most significant increases were for the Juvenile Youth Village and Villa Antigua Cultural Center with approximately \$1.2 million and \$933,785 in costs respectively.
- Life Down Administration Building and Records Management Building for a combined cost of \$383,061.
- Addition of new law enforcement vehicles at a cost of \$825,775 and two brush master fire apparatus trucks at a cost of \$447,716.

Webb County's Capital Assets
(net of depreciation)
(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Capital assets, not being depreciated:						
Land and improvements	\$ 6,577	\$ 6,577	\$ 216	\$ 216	\$ 6,794	\$ 6,794
Infrastructure in progress	29,810	31,945	3,864	5,452	33,675	37,398
Construction in progress	3,772	1,637			3,772	1,637
Total capital assets, not being depreciated	<u>40,160</u>	<u>40,159</u>	<u>4,081</u>	<u>5,669</u>	<u>44,240</u>	<u>45,828</u>
Capital assets, being depreciated, net:						
Infrastructure	18,184	13,062	5,975	364	24,158	13,426
Buildings	47,973	48,831	393	405	48,366	49,236
Furniture, fixtures and equipment	5,594	5,422	1	6	5,594	5,428
Total capital assets, being depreciated, net	<u>71,751</u>	<u>67,315</u>	<u>6,368</u>	<u>775</u>	<u>78,119</u>	<u>68,090</u>
Total	<u>\$ 111,910</u>	<u>\$ 107,474</u>	<u>\$ 10,448</u>	<u>\$ 6,444</u>	<u>\$ 122,359</u>	<u>\$ 113,918</u>

Additional information on the County's capital assets can be found in note IV C on pages 54 - 56 of this report.

Debt Administration

At the end of the current fiscal year, the County had total bond debt outstanding of \$80,844,791. The governmental bond debt is payable from the levy of a direct ad valorem tax on all taxable property located within the County and the business-type debt is payable from Webb County Water Utility self-supporting fees.

The County's total debt increased by \$8,636,106 (12%) from the previous fiscal year.

New borrowing during the year was \$12,405,000 in Certificates of Obligation, Series 2006 and lease purchases of \$37,790. These bonds were issued for the purpose of various capital expenditures. \$720,025 of the Certificates of Obligation, Series 2006, was allocated to business-type activities.

Webb County's Outstanding Debt
General Obligation
(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Certificates of obligation	\$ 34,274	\$ 23,736	\$ 1,256	\$ 629	\$ 35,530	\$ 24,365
General obligation refunding bonds	7,465	7,540			7,465	7,540
Limited tax refunding bonds	21,627	23,183	1,956	1,949	23,583	25,132
Limited tax improvement bonds	9,670	10,095			9,670	10,095
Other lending requirements	830	1,250	3,520	3,580	4,350	4,830
Total	\$ 73,865	\$ 65,805	\$ 6,733	\$ 6,157	\$ 80,598	\$ 71,962

The presently outstanding ad valorem tax supported debt of Webb County has an underlying rating of "A2" by Moody's, "A" by Standard & Poor's, and "A" by Fitch. By virtue of an insurance policy, the Certificates of Obligations, Series 2006, have received a rating of "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch.

Texas Statutes limit the amount of general obligation debt a government entity may issue up to 25% of its total assessed value of real property. The current debt limitation for the County of Webb is \$2,451,574,750 which is significantly in excess of the County's outstanding general obligation debt.

Additional information on the County's long-term debt can be found in note IV G on pages 59 - 67 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors were known as of the printing of this report:

- The unemployment rate for the County of Webb is currently 5.4%, which is a decrease from a rate of 5.6% a year ago. Although this is good news, Webb County's unemployment rate was still higher than the state and national average.
- Webb County employer's retirement contribution rate increased from 6.99% to 8.79% effective January 1, 2007.
- The real property assessed value for calendar year 2006 increased by \$959,480,200 (9.8%) from the previous calendar year.
- Webb County's and City Officials are now working together on various projects such as the construction of a fifth international bridge and a Juvenile Youth Village.
- The Juvenile Youth Village was originally estimated to cost about \$11.3 million in 2001 when funding was approved, but since it has risen to \$13.2 million because of increased construction costs. Investment earnings and the sale of a building are going to be used to offset most of the increase costs.
- The Webb County is constructing a 2nd railroad bridge connecting Mexico and the United States. This would be the 2nd railroad bridge built for Webb County in almost 100 years.
- Webb County issued Tax Notes, Series 2007, in the amount of \$1,000,680 to buy the Villa Antigua property.

All of these factors were considered in preparing the Webb County's budget for the 2007 fiscal year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Webb County Auditor's Office, 1110 Washington Street, Suite 201, Laredo, Texas 78040 or call (956) 523-4016. This report can also be found on the County's website at www.webbcountytexas.gov.



This page is intentionally left blank