

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, 2007. 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 2007 by \$107,430,937 (*total net assets*). Of this amount, \$22,109,871 (*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 \$10,458,943 (10.8%) from the previous year. The most significant change that led to this increase was collection of property taxes levied for general purposes; the increase compared from the previous year is \$8,022,669 (22.2%).
- The governmental net assets increased by \$10,140,216 (11.0%) and the business-type net assets increased by \$318,727 (6.4%) 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 \$38,600,370, a decrease of \$5,672,388 from the prior year.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$11,937,403, or 19.2% of total general fund expenditures.

General Financial Highlight

- In January 2007, Webb County issued \$1,680,000 of Tax Notes, Series 2007. These tax notes were issued for the purpose of buying the Casa Ortiz. Casa Ortiz will be used as a cultural center as part of the Villa Antigua Cultural Center, a museum site, for community meeting, and for educational outreach in cooperation with Texas A&M International University.

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 2007, the net assets of the County increased by \$10.4 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 152 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, which is considered to be major fund. Information for the other 151 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 - 25 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 26 - 29 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 30 - 31 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 33 - 78 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. Required supplementary information can be found on pages 79 - 84 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 85 - 455 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 \$107,430,937 at September 30, 2007.

Webb County's Net Assets
(in Thousands)

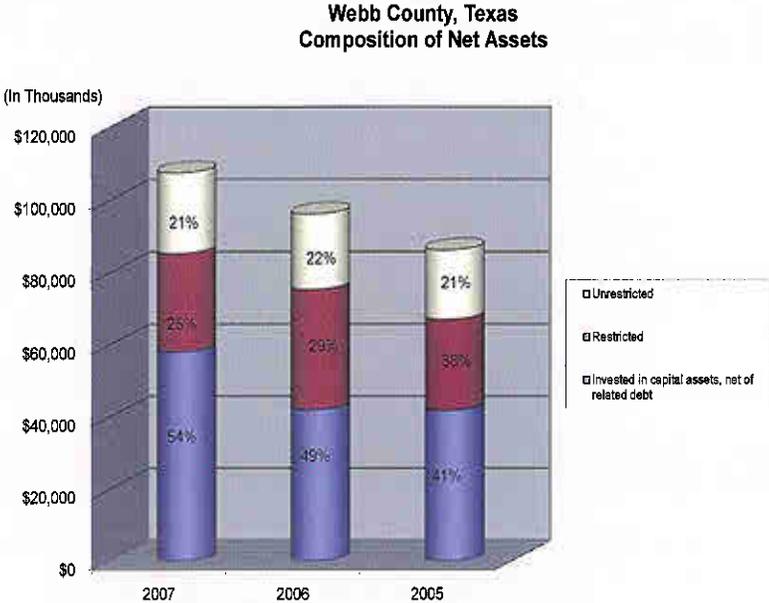
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 71,180	\$ 72,007	\$ 866	\$ 613	\$ 72,046	\$ 72,620
Capital Assets	124,879	111,910	11,387	10,448	136,267	122,359
Total assets	<u>196,059</u>	<u>183,918</u>	<u>12,253</u>	<u>11,061</u>	<u>208,312</u>	<u>194,978</u>
Long-term liabilities outstanding	76,194	78,272	6,619	6,829	82,812	85,100
Other liabilities	17,761	13,505	308	261	18,069	13,767
Total liabilities	<u>93,954</u>	<u>91,777</u>	<u>6,927</u>	<u>7,090</u>	<u>100,881</u>	<u>98,867</u>
Net assets:						
Invested in capital assets, net of related debt	53,269	38,299	4,786	3,619	58,055	41,918
Restricted	26,825	32,891	440	409	27,266	33,301
Unrestricted	<u>22,010</u>	<u>20,950</u>	<u>100</u>	<u>(57)</u>	<u>22,110</u>	<u>20,894</u>
Total net assets	<u>\$ 102,105</u>	<u>\$ 92,141</u>	<u>\$ 5,326</u>	<u>\$ 3,971</u>	<u>\$ 107,431</u>	<u>\$ 96,112</u>

By far, the largest portion of the County's net assets, \$58,055,154 (54%) 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, \$27,265,912 (25.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$22,109,871 (20.6%) 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.

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 \$10,458,943 from the prior year.

Webb County, Texas Changes in Net Assets (in Thousands)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program revenues:						
Charges for services	\$ 11,451	\$ 14,483	\$ 1,399	\$ 1,346	\$ 12,851	\$ 15,829
Operating grants and contributions	24,633	25,210			24,633	25,210
Capital grants and contributions	2,606	6,077	546		3,152	6,077
General revenues:						
Property taxes	51,157	42,410			51,157	42,410
Other taxes	13,624	12,220			13,624	12,220
Other	7,256	4,188	47	59	7,303	4,247
Total Revenues	\$ 110,728	\$ 104,588	\$ 1,992	\$ 1,405	\$ 112,720	\$ 105,994
EXPENSES						
Program activities						
Primary government:						
Governmental activities:						
General Government	\$ 18,549	\$ 17,296			\$ 18,549	\$ 17,296
Public Safety	12,788	10,936			12,788	10,936
Justice System	23,113	22,456			23,113	22,456
Health and Human Services	17,248	16,878			17,248	16,878
Infrastructure and Environmental Services	7,490	6,586			7,490	6,586
Correction and Rehabilitation	15,350	13,602			15,350	13,602
Community and Economic Development	2,226	2,799			2,226	2,799
Interest on Long-term Debt	3,540	3,199			3,540	3,199
Business-type Activities						
Webb County Water Utility			\$ 1,956	\$ 1,736	1,956	1,736
Total Expenses	\$ 100,305	\$ 93,751	\$ 1,956	\$ 1,736	\$ 102,261	\$ 95,487
Increase (decrease) in net assets						
before transfers	\$ 10,422	\$ 10,837	\$ 36	\$ (331)	\$ 10,459	\$ 10,506
Transfers	(282)	(166)	282	166		
Increase in net assets	<u>\$ 10,140</u>	<u>\$ 10,671</u>	<u>\$ 319</u>	<u>\$ (165)</u>	<u>\$ 10,459</u>	<u>\$ 10,506</u>
Net assets - beginning of year (restated)	91,965	81,470	5,007	4,136	96,972	85,605
Net assets - end of year	<u>\$ 102,105</u>	<u>\$ 92,141</u>	<u>\$ 5,326</u>	<u>\$ 3,971</u>	<u>\$ 107,431</u>	<u>\$ 96,112</u>

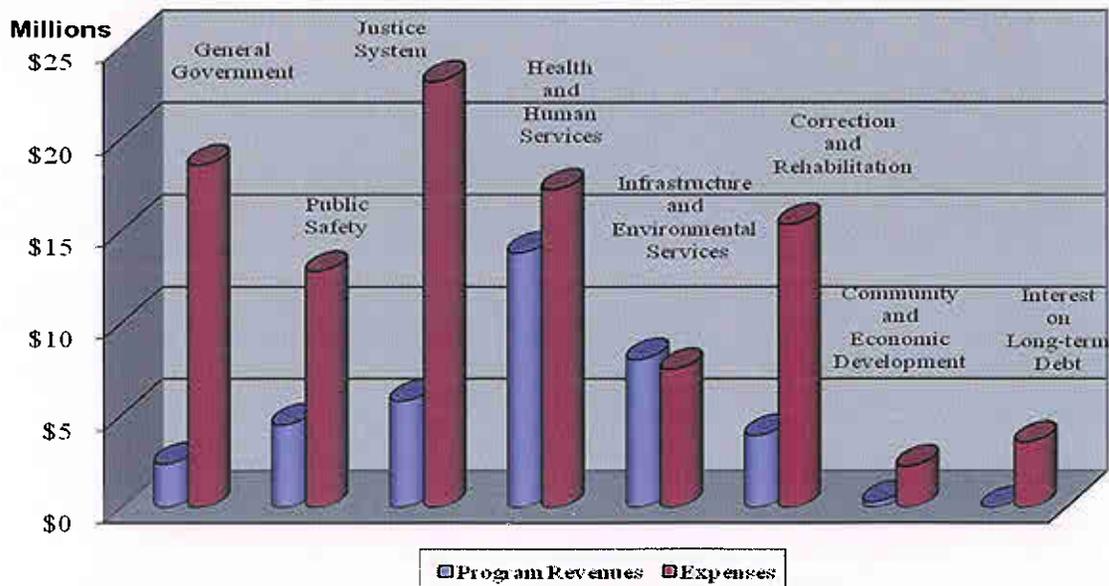
During the current fiscal year, the County's total revenues increased by \$6,726,360 (6.3%) and total expenses increased by \$6,773,788 (7.1%). Total revenues for this year were more than total expenses resulting in an increase in *total net assets* of \$10,458,943. Most of the growth reflects an increase in revenues from property taxes and charges for services as compared to the previous year.

Governmental Activities

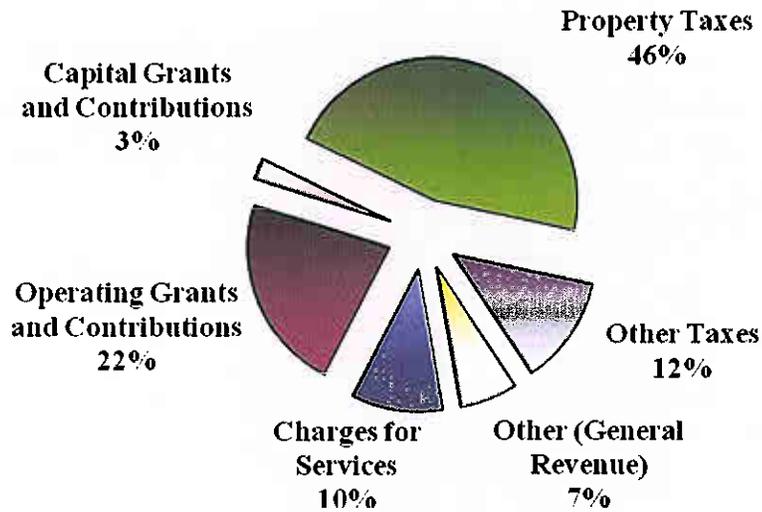
Governmental activities increased the County’s net assets by \$10,140,216, resulting in 97% of the total growth in net assets. Key elements of this increase are as follows:

- Property taxes collected increased by \$8.7 million (20.6%) 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 decreased by \$3,031,540 (20.9%). The most significant decreases are for public safety and justice system functions.
- Special revenue taxes (sales and hotel/motel tax) increased by \$1,404,634 (11.5%) from the previous fiscal year.
- Expenses of governmental activities increased by \$6.6 million which is a 7.0% increase from the prior year.
- The most significant increases in expenses were evident in the functions of public safety and corrections and rehabilitation by \$1.9 million (16.9%) and \$1.7 million (12.9%) from the previous fiscal year expenses, respectively.
- Adjustments to beginning net assets had a total effect of \$175,753 decrease. A significant adjustment of \$116,299 was for reclassifications of infrastructure in progress that should have been placed in service during prior years and depreciated, accordingly.

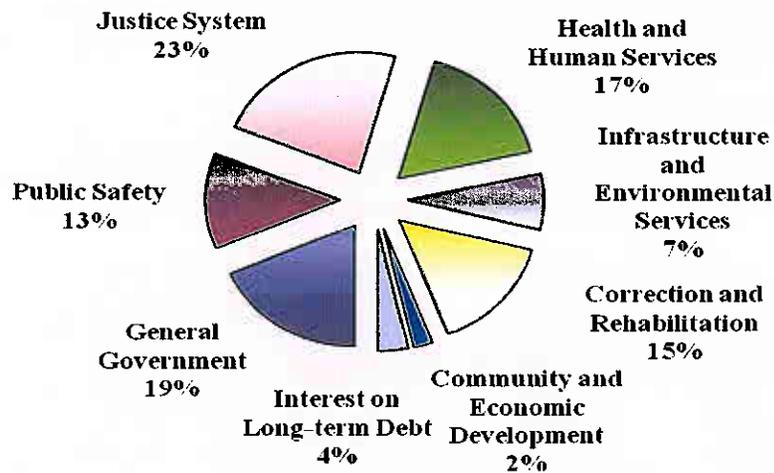
Program Revenue and Expense- Governmental Activities



Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities

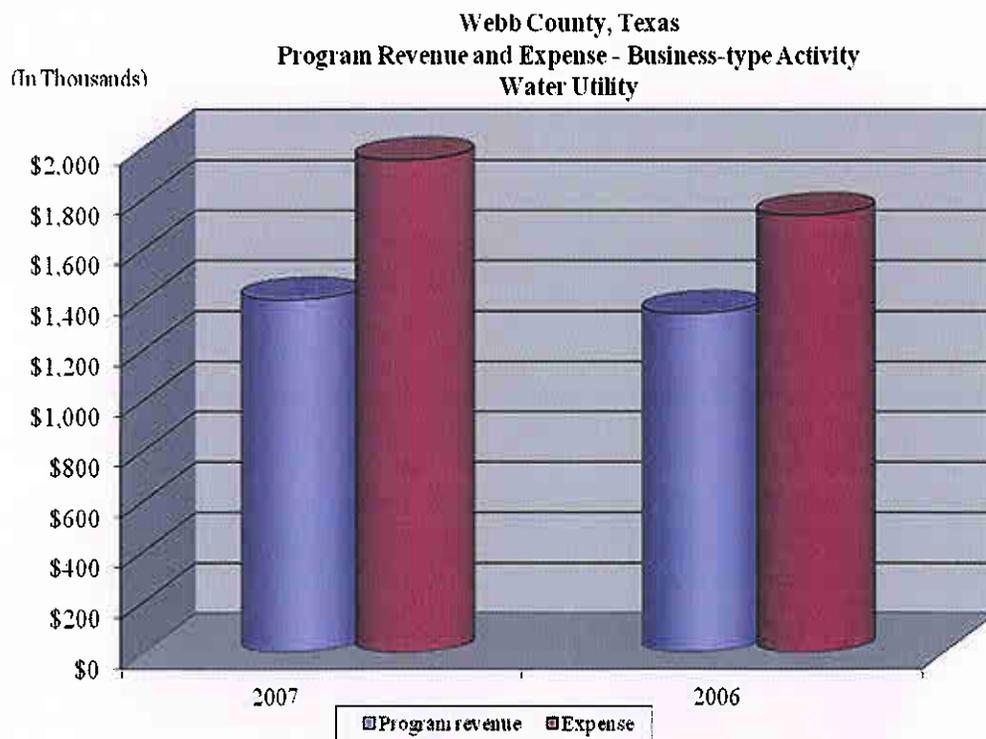


Business-type Activities

Business-type activities increased the County's net assets by \$318,727 and had an ending net asset balance of 5,325,864. Key elements of the current year ending net asset balance are as follows:

- An adjustment for \$1,035,922 was made to beginning net assets. The significant adjustment was for interest not being capitalized during the construction phase for Rio Bravo and El Cenizo, Texas water and wastewater system improvements
- Transfers in of \$282,260 from the general fund were made to assist with normal operations.
- Charges for services increased by \$53,172 (3.9%), compared to the prior year. The increase in collections was primarily due to a rate increase in January 2007.
- Capital grants and contributions of \$545,586 was a one time contribution from GEO Group Inc. for water and wastewater requirements.

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 \$38,600,370, a decrease of \$5,672,388 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 \$11,937,403, while the total fund balance was \$12,125,558. 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 19.2 % of total General Fund expenditures.

The Fund Balance of the Webb County's General Fund increased by \$595,057 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 \$7.5 million.
- Sales and miscellaneous taxes increased by \$690,892 from the previous year. This represents an increase of \$668,188 (5.5%) for sales tax; an increase of \$23,025 (7.2%) for mixed drink tax and a decrease of \$321 for bingo tax.
- Charges for services increased by \$211,701 (5.5%) from the previous year. The most significant increases were for County Clerk and District Clerk by \$120,478 and \$68,425, respectively.
- Fines and forfeits increased by \$40,638 from the previous year, primarily as a result of revenue collection efforts by Tax Department for the District Clerk and County Clerk's own outstanding judicial fines.
- The County planned and executed a onetime transfer out of \$3 million to create a Building and Maintenance Construction Fund.

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 \$5,256,193. Of this amount, 91% 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 \$847,418. General fund revenues were also more than budgeted estimates by \$36,480 resulting in a positive variance of \$883,898. The most significant variance was in the health and human services expenditures with an \$846,926 positive variance. In contrast, intergovernmental revenues from the federal prisoners-jail were less than budgeted estimates by \$1.1 million.

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, 2007, amounted to \$136,266,500 (net of accumulated depreciation). The total increase in the County's net investment in capital asset for the current fiscal year was 11.4%. 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 and for drainage and paving roads in colonias total costs is \$639,961. Also, road upgrades in the amount of \$249,207 and rail road and international bridges in the amount of \$346,817.
- Various ongoing construction projects with a total cost of \$6,152,919. The most significant increases were for the Juvenile Youth Village, Girls Scout Center, and Rio Bravo South Activity Center with approximately \$4.9 million, \$504,840 and \$464,919 in costs respectively.

- Villa Antigua Historic Casa Ortiz Building and Life Downs Administration Building for a cost of \$1,636,354 and \$304,470, respectively. Various community centers for a combined cost of \$1,548,556. Also, a Self-Help Community Park for \$641,158.
- Addition of new law enforcement vehicles at a cost of \$675,537 and heavy machinery for road and bridge at a cost of \$917,862.

Webb County's Capital Assets

(net of depreciation)

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Capital assets, not being depreciated:						
Land and improvements	\$ 7,512	\$ 6,577	\$ 216	\$ 216	\$ 7,729	\$ 6,794
Infrastructure in progress	12,799	29,810	1	3,864	12,800	33,675
Construction in progress	8,643	3,772			8,643	3,772
Total capital assets, not being depreciated	<u>28,954</u>	<u>40,160</u>	<u>218</u>	<u>4,081</u>	<u>29,172</u>	<u>44,240</u>
Capital assets, being depreciated, net:						
Infrastructure	36,649	18,184	10,721	5,975	47,370	24,158
Buildings	52,106	47,973	449	393	52,555	48,366
Furniture, fixtures and equipment	7,170	5,594		1	7,170	5,594
Total capital assets, being depreciated, net	<u>95,925</u>	<u>71,751</u>	<u>11,170</u>	<u>6,368</u>	<u>107,095</u>	<u>78,119</u>
Total	<u><u>\$ 124,879</u></u>	<u><u>\$ 111,910</u></u>	<u><u>\$ 11,387</u></u>	<u><u>\$ 10,448</u></u>	<u><u>\$ 136,267</u></u>	<u><u>\$ 122,359</u></u>

Additional information on the County's capital assets can be found in note IV C on pages 50 - 51 of this report.

Debt Administration

At the end of the current fiscal year, the County had total bond debt outstanding of \$76,531,346. 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 debt total decreased by \$4,313,445 (5.3%) from the previous fiscal year.

New borrowing during the year was \$1,680,000 in Tax Notes, Series 2007. These notes were issued for the purpose of purchasing Casa Ortiz.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Certificates of obligation	\$ 32,607	\$ 34,274	\$ 1,123	\$ 1,256	\$ 33,730	\$ 35,530
General obligation refunding bonds	7,290	7,465			7,290	7,465
Limited tax refunding bonds	20,067	21,627	1,966	1,956	22,033	23,583
Limited tax improvement bonds	9,230	9,670			9,230	9,670
Other lending requirements	2,276	830	3,430	3,520	5,706	4,350
Total	\$ 71,470	\$ 73,865	\$ 6,519	\$ 6,733	\$ 77,989	\$ 80,598

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 \$3,077,993,996 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 54 - 62 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 5.3%, which is a decrease from a rate of 5.4% a year ago. Webb County's unemployment rate was still higher than the state but lower than national average.

- Webb County employer's retirement contribution rate decreased from 8.79% to 8.35% effective January 1, 2008.
- The real property assessed value for calendar year 2008 increased by \$2,457,146,000 (25%) from the previous calendar year.
- Webb County has been working together with the City of Laredo for the future planning, financing, construction and operation of a proposed Fifth International and Railroad Bridges connecting Mexico and the United States. This would be the 2nd railroad bridge built for Webb County in almost 100 years.
- Webb County issued limited tax refunding bonds, series 2007, for \$6,985,000 and tax notes, series 2007A, for \$1,125,000.
- Webb County approved the Sheriff's Collective Bargaining Agreement for October 1, 2007 thru September 30, 2009.
- Webb County is also constructing a regional county medical examiner facility. Webb County will have agreements with other counties to provide autopsy/medical services from our Chief Medical Examiner
- GEO Group will construct a new private jail which will house 1,500 beds in South Laredo; in addition to the current C.C.A. facility of 500 beds.
- Webb County took action to institute a Civil Service Commission for all County employees. The 80th Legislative session adopted bill HB 831, which allows counties with a population of 190,000 or more to create a civil service system.

All of these factors were considered in preparing the Webb County's budget for the 2008 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.