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March 31, 2009

Hon. County Judge and Commissioners
Hon. Auditors Board of District Judges

Texas Local Government Code, 114.025, requires that the County Auditor 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 (CAFR) of the County of Webb for the fiscal year ended September 30, 2008.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. To provide a reasonable basis for making these representations, County management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile 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 statements will be free from material misstatements. As management, we assert, to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The firm of Garza, Martinez & Co., L.L.P., an independent certified public accounting firm has audited the County's financial statements. 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, 2008, are free of material misstatements. 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 a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended September 30, 2008, 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.

Additionally, the independent audit of the basic 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 representation of the financial statements 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 County's separately issued Single Audit report.

GAAP requires management to 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. MD&A can be found immediately following the independent auditor's report.

COUNTY GOVERNMENT OVERVIEW

The County of Webb was created in 1848 as a political subdivision of the State of Texas. It is located in the southwest part of the state along the Rio Grande River bordering Mexico. It occupies 3,366 square miles of land area, making it the 5th largest county in the State. The County operates under judicial and administrative powers explicitly afforded counties by the State Constitution and by State Statutes. It is governed by a County Judge and four (4) County Commissioners.

The Child Welfare Unit and the Community Action Agency (CAA) are County components that operate with advisory boards. Operational authority, however, remains with Commissioner's Court. Both units are included in the Special Revenue Funds section. The Child Welfare Unit is funded by the state and provides child protective services. CAA is funded by Federal and State Grants and by County contributions and provides health and welfare services for the needy.

FINANCIAL POLICIES AND LONG-TERM FINANCIAL PLANNING

The County continued to enjoy a favorable financial environment during the fiscal year ended September 30, 2007. The growth of the community and available resources are always considered when Commissioners Court appropriates funds for community related services.

Current long-term financial planning policies of the County are:

- Control, maintain, and monitor expenditures so they do not exceed resources;
- Monitor department expenditures so they stay within their allocated budget;
- Implement technological solutions to improve operations;
- Provide an equitable justice system that is responsive to the needs of the County;
- Promote efficiency and effectiveness in delivering services to constituents;
- Encourage flexibility and accountability in all offices and departments;
- Promote diversity in the workforce; and
- Maintain a General Fund balance at no less than 15% of the annual budget.

MAJOR INITIATIVES

The Economic Development Department actively pursues funding via federal and state grants and via inter-local agreements with other governmental entities. Focus is primarily on quality of life issues for communities in rural areas that are under-developed settlements with no access to utilities or potable water. The Economic Development Department acquires grants tailored to strengthen areas of law enforcement, child development programs, and to support affordable housing programs.

ACCOUNTING SYSTEM

Webb County uses a modified accrual basis of accounting to account for all governmental fund types. Revenues are recorded when they become available and are measured in exact amounts. Liabilities are incurred through the use of a purchase order system and recorded in the general ledger as encumbrances when a purchase order is issued. Encumbrances are later recorded as expenditures when payment is disbursed. Encumbrances outstanding at the end of a year are carried forward to the next fiscal year. Accounts of the county are organized on the basis of funds and account groups. Each is considered a separate accounting entity (fund) and reported with a set of revenues and expenditures. Resources generated from governmental entities are allocated to and accounted for in individual funds according to the intended purpose.

Governmental Accounting Standards Board (GASB) issued Statement No. 34 which establishes a new financial reporting model for state and local governments. The new model requires that, at a minimum, the basic financial statements of a government will include: (1) MD&A as a component of required supplementary information; (2) both government-wide financial statements and fund financial statements; (3) notes to the financial statements; and (4) supplementary information other than MD&A. The CAFR will still need to include appropriate combining and individual fund statements and schedules as part of the financial section, as well as separate introductory and statistical sections.

The implementation of GASB Statement No. 34 was mandated for Webb County as phase 2 which includes governments with total annual revenues of $10 million or more but less than $100 million for periods beginning after June 15, 2002. GASB Statement No. 34 also set the retroactive reporting of major networks and subsystems of general infrastructure assets in phase 2 for years beginning after June 15, 2006. Finally, a component unit must implement GASB Statement 34 no later than its primary government, regardless of the amount of the component unit's own total revenues. Webb County was not required to implement GASB 34 until September 30, 2003, but the requirements were implemented as of fiscal year ended September 30, 2002.

BUDGETARY CONTROLS

As the budget officer, the County Judge submits a budget to Commissioners Court in a manner prescribed by state statute. The court can adopt the budget as submitted or propose changes that will require a majority vote of the court to get adopted. The county's fiscal year begins October 1st and ends September 30th, but a different fiscal year period for a department may be prescribed by its funding source. Oversight authority and responsibility for county funds rests with Commissioners Court. Fiscal activity is recorded on one mainframe computer that county departments utilize to prepare monthly reports as required by law. The County Auditor has access to the budgetary accounting program and monitors balances before approving disbursements. The Auditor provides monthly financial reports to Commissioners Court and to the Auditor's Board of District Judges.

CASH MANAGEMENT

County funds are placed on deposit at the officially designated County depository. The County Treasurer has statutory custody, accountability, and investment authority, pursuant to investment policies, of all monies received by the county.

DEBT ADMINISTRATION

The County's property tax rate for the calendar year ending December 31, 2008 was $.420055 per $100 of assessed value. The debt service portion of the tax rate is $.056055 and is used to service principal and interest payments on certificates of obligation, general obligation bonds, and equipment lease/purchase obligations.

Debt payments for FY 2007-2008 Governmental Funds totaled $7,897,115. Principal payments on bonds and certificates of obligation were $4,766,800; interest and other charges totaled $2,888,519; lease payments on equipment notes totaled $81,268; and $155,648 was paid on the LoanSTAR energy savings note.

Debt payments for FY 2007-2008 Enterprise Funds totaled $613,464, of which $264,827 were principal payments and $348,637 were interest payments.

INTERNAL CONTROLS

Internal controls are the single most important element in the accounting system to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of internal controls is no greater than the benefit to be derived and that the amount of such costs versus the benefits is based on estimates and decisions made by management. The County's internal controls are regularly examined and changes are adopted when necessary to maintain their effectiveness in safeguarding public funds and assets.

ADMINISTRATIVE SERVICES

Administrative Services administers employee health and life insurance benefits, workers compensation benefits, IRS section 125 Cafeteria Plan, COBRA plan benefits, and Property Casualty and Liability Insurance. There are safety programs to help reduce workers compensation claims and liability exposures. The month of May is recognized as "Health & Safety Month" with training courses in CPR and first aid, health fairs, video presentations about safety in the workplace, and a conference addressing personnel and liability issues. The director employs the services of insurance professionals to better meet the needs of the County. Case management is contracted to an outside entity to contain costs and to encourage employee rehabilitation. Periodic reports on loss control and loss occurrence are provided to Commissioners Court by the Administrative Services director.

PROPRIETARY OPERATIONS

Proprietary Fund types are organized to be self-supporting through user charges of outside parties (Enterprise Fund) or through other departments or agencies primarily within the governing unit (Internal Service Funds). The Webb County Water Utility Fund was initiated in August 1993 as an Enterprise Fund. The County purchased the Rio Bravo Water Plant from the original developer with funds provided by a grant from the Texas Department of Housing and Community Affairs. Special legislation was passed by the State of Texas to statutorily allow the County to operate a water utility system, making it the first County in the state to do so. The Webb County Health Benefits Fund and the Webb County Worker's Compensation Reserve Fund are Internal Service Funds.

FIDUCIARY OPERATIONS

Trust and Agency Funds used to record assets held by the County in a trustee capacity or as an agent for others are included in the fiduciary grouping. Webb County has two Fiduciary Trust Funds, one Pension Trust Fund and eight Agency Funds which include the District Clerk Fund (Escrow), the County Clerk Fund (Escrow), the Tax Assessor-Collector Fund, the Sheriff Inmate Fund, the District Attorney Hot Check Processing Fund, the District Attorney Pool Forfeiture Fund, Cash Bonds Fund, and the Unclaimed Money Fund.

THE COMMUNITY AND THE ECONOMY

At the center of the primary trade route connecting Canada, the United States and Mexico, the City of Laredo (county seat) offers markets, business opportunities and profit potential which business and industry cannot find anywhere else. Laredo has an annual average of 320 sunny days, mild winters and high summer daytime temperatures with low humidity. Laredo is the U.S. principal port of entry into Mexico, located at the southern most end of IH 35, 154 miles of San Antonio, 145 miles west of the Gulf Coast and 147 miles north of Monterrey, Mexico.

In the 1900's Laredo's population grew three times faster than the State; it created new jobs at a rate twice as fast as the State; and it outpaced the State in terms of per capita income growth. Since the implementation of NAFTA (1994), trade between the U.S. and Mexico has increased by 200 percent. Laredo's port of entry accounts for one third of U.S.-Mexico overland (truck and rail) merchandise trade. Laredo stands today as the largest land port on the United States-Mexico border. New businesses continue to make Laredo their home, capitalizing on the thriving markets on both sides of the border.

At Texas A&M International University, campus facilities are expanding to meet the demands of the growing student population. The University is home to an innovative Ph.D. in International Business that capitalizes on Laredo's historical position as a crossroads of commerce and culture. A fifth international bridge is close to getting a presidential permit for construction in south Laredo. The Laredo Entertainment Center, home to professional ice hockey, has had overwhelming success. Laredo is the seat of a new Catholic Diocese that covers seven counties (11,000 square miles) headquartered at the historic San Agustin Cathedral in downtown Laredo.

CERTIFICATE OF ACHIEVEMENT

Webb County was awarded a ***"Certificate of Achievement for Excellence in Financial Reporting"*** by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report for the year ended September 30, 2007. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of government financial reports.

To be honored with the Certificate of Achievement award, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The 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. Webb County has received a Certificate of Achievement for the last seventeen consecutive years (1991 thru 2007). This year's Comprehensive Annual Financial Report was also prepared to meet with the requirements of the Certificate of Achievement program and will be submitted to GFOA for that consideration.

ACKNOWLEDGEMENTS

Clearly, preparing a report of this dimension is not an easy task. The successful completion could not have been possible without the hard work, dedication, and long hours willingly given by the entire County Auditor's staff. Personal and special appreciation is extended to each of them and most notably to Chief Deputy Auditor Rafael Perez. Particular appreciation is also extended to all county officials for their cooperation, particularly to the County Judge and Commissioners. In addition, very sincere and grateful appreciation is extended to the Auditor's Board of District Judges for the leadership role they provide and for supporting the goals and mission of the office of the Webb County Auditor.

Respectfully submitted,

Leo Flores
Webb County Auditor