

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, 2002.

It is designed to:

- assist the reader in focusing on significant financial issues
- provide an overview of the County's financial activity
- identify changes in the County's financial position (its ability to address the next and subsequent year challenges)
- identify any material deviations from the financial plan (the approved budget) and
- identify individual fund issues or concerns.

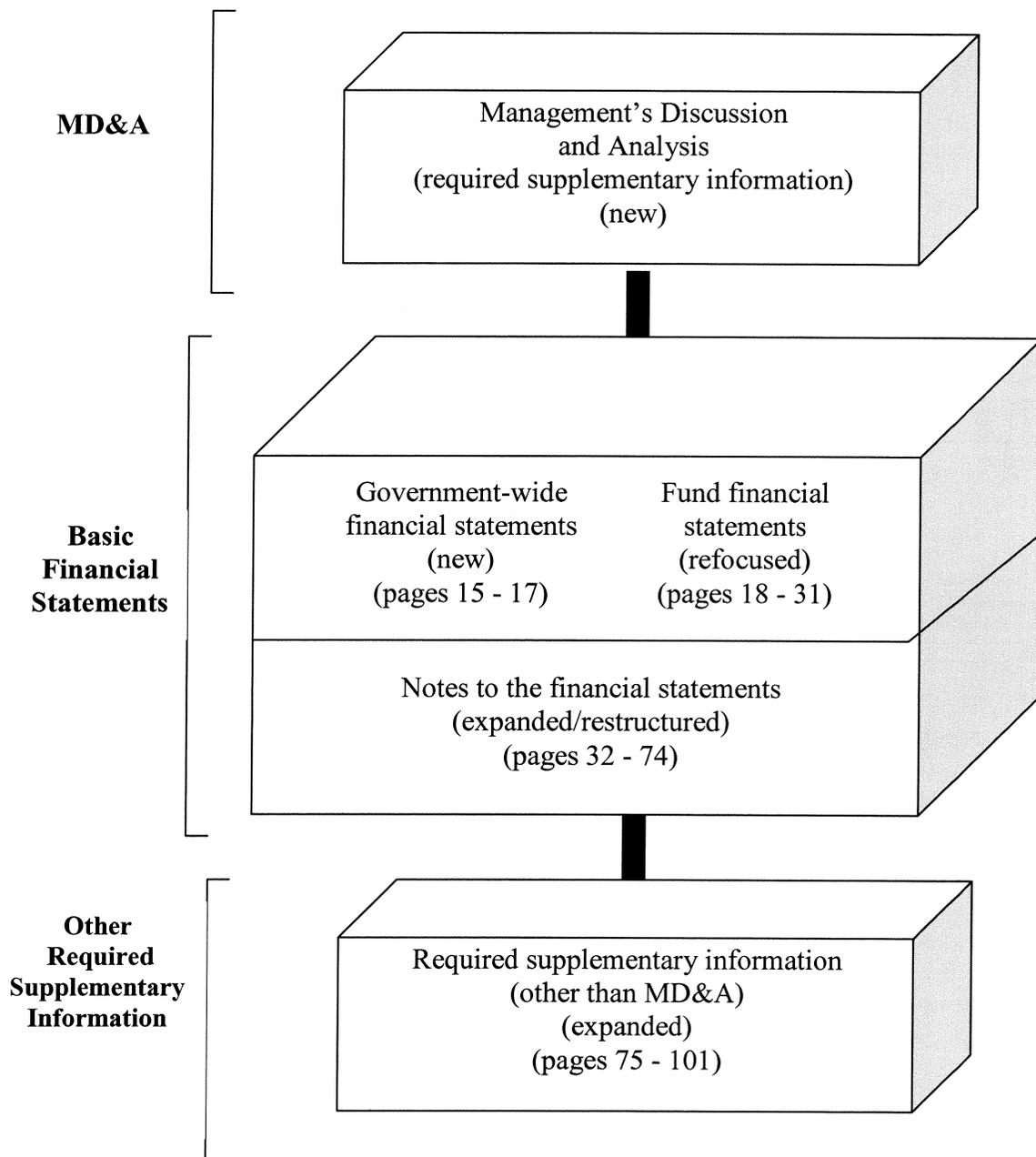
Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter (beginning on page vii) and the County's financial statements (beginning on page 15).

FINANCIAL HIGHLIGHTS

- The County's combined net assets were \$71,094,391 at September 30, 2002
- The County's net assets increased by \$5,525,530 (or 8.4%) during 2002.
- The governmental net assets increased by \$5,477,554 (or 8.4%) and the business-type net assets increased by \$47,976 (or 11.4%) during 2002.
- Total general fund balance at year end was \$8,962,544 which was an increase of \$2,064,123 (or 30%) during 2002.

USING THIS ANNUAL REPORT

In light of the fact that this is a very different presentation of the County's previous general purpose financial statements, the following graphic is provided for your review.



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. Required Supplementary Information is included in addition to the basic financial statements.

The basic financial statements include the Statement of Net Assets and the Statement of Activities, on pages 15 - 17, which provide information about the activities of the County as a whole (government-wide) and present a longer-term view of the County's finances. For governmental activities, fund financial statements provide an overview of how these services were financed in the short-term as well as what remains for future spending. Fund financial statements start on page 18. Fund financial statements also report the

County's operations in more detail than the government-wide statements by providing information about the County's most significant funds.

The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (including this analysis).

Reporting the County as a Whole: Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's *net assets* and changes in them. One can think of the County's net assets – the difference between assets and liabilities – as one way to measure the County's financial health, or *financial position*. Over time, *increases or decreases* in the County's net assets are one indicator of whether its *financial health* is improving or deteriorating. During 2002, the net assets of the County increased by \$5.5 million.

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 are considered to be governmental activities, including general government, public safety, justice system, health and human services, infrastructure and environmental services, correction and rehabilitation, and community and economic development. Property taxes, intergovernmental revenue and charges for services finance most of these activities.
- **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 15 – 17 of this report.

Reporting the County's Most Significant Funds: Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - 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 legal responsibilities for using certain taxes, grants, and other money. The County's three categories of funds – *governmental, proprietary and fiduciary* use different accounting approaches.

Governmental Funds

Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the County's general governmental operations and the basic services it provides.

Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. 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 126 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, Headstart Fund, Capital Projects Interest Income Funds Series 2001 and 2002 and the Juvenile Youth Village Fund***, each of which are considered to be *major funds*. Data from the other 121 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements elsewhere* in this report.

The basic governmental fund financial statements can be found on pages 18 - 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 enterprise funds to account for its Water Utility Fund. *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, all 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

The County is the trustee, or *fiduciary*, for certain amounts held on behalf of others. 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 32 - 74 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. Required supplementary information can be found on pages 75 - 102 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 122 - 372 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 \$71,094,391 at September 30, 2002.

[Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.]

Webb County's Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Current and other assets	\$ 63,956,690	\$ 2,386,589	\$ 66,343,279
Capital assets	90,381,629	3,026,667	93,408,296
Total assets	154,338,319	5,413,256	159,751,575
Long-term liabilities outstanding	68,431,936	4,793,105	73,225,041
Other liabilities	15,281,843	150,300	15,432,143
Total liabilities	83,713,779	4,943,405	88,657,184
Net assets:			
Invested in capital assets, net of related debt	32,855,945	355,799	33,211,744
Restricted	25,771,854	-	25,771,854
Unrestricted	11,996,741	114,052	12,110,793
	<u>\$ 70,624,540</u>	<u>\$ 469,851</u>	<u>\$ 71,094,391</u>

By far the largest portion of the County's net assets, \$32,211,744 (47%) reflects its 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, \$25,771,854 (36%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$12,110,793 (17%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories (invested in capital assets - net of related debt, restricted and unrestricted) of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table demonstrates, the County's net assets increased by \$5,525,530 during the current fiscal year. Approximately two thirds of this increase is attributable to collected property taxes. Business-type activities did experience a slight shortfall in net assets before transfers; however, increases in charges for services have improved the condition overall.

**Webb County's Changes in Net Assets
For the Year Ended September 30, 2002**

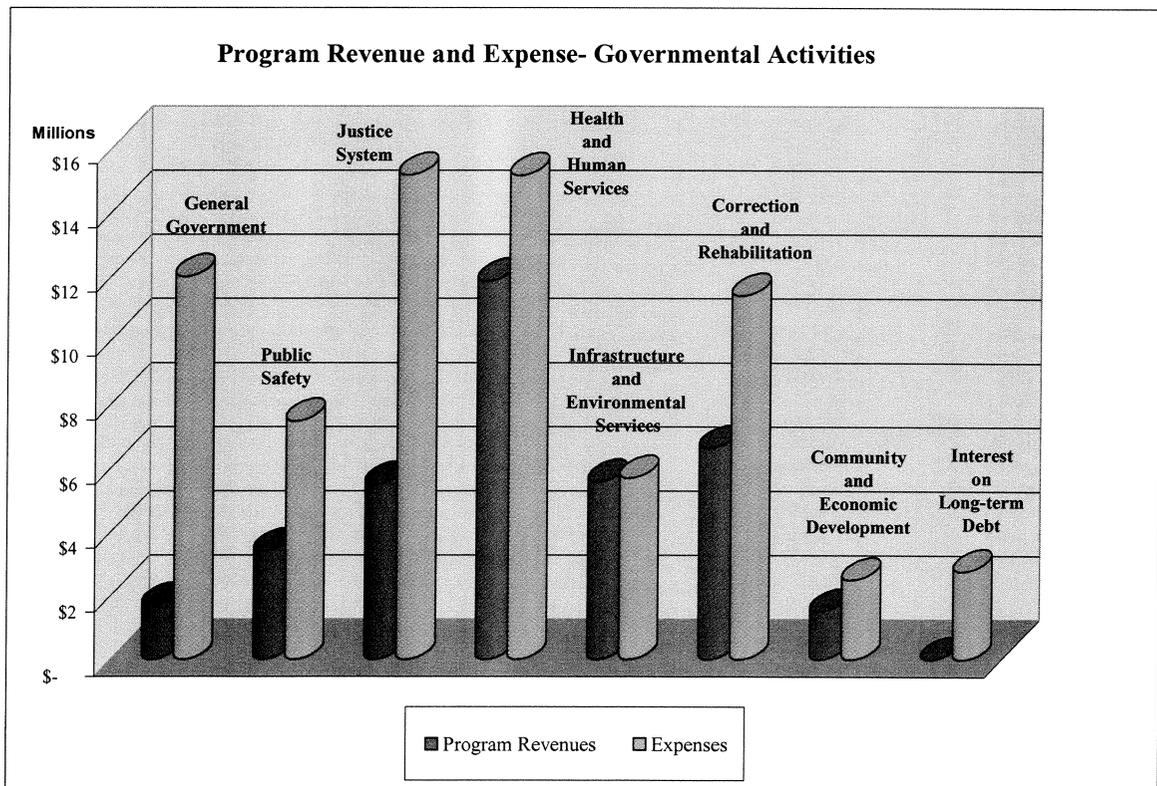
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
REVENUES			
Program revenues:			
Charges for services	\$ 8,821,068	\$ 1,036,726	\$ 9,857,794
Operating grants and contributions	25,328,735		25,328,735
Capital grants and contributions	1,799,079		1,799,079
General revenues			
Property taxes	29,375,203		29,375,203
Other taxes	9,133,284		9,133,284
Other	2,901,016	41,215	2,942,231
Total Revenues	<u>\$ 77,358,385</u>	<u>\$ 1,077,941</u>	<u>\$ 78,436,326</u>
EXPENSES			
Program Activities			
Primary Government:			
Governmental Activities:			
General Government	\$ 11,947,403		\$ 11,947,403
Public Safety	7,438,934		7,438,934
Justice System	15,107,757		15,107,757
Health and Human Services	15,097,668		15,097,668
Infrastructure and Environmental Services	5,657,948		5,657,948
Correction and Rehabilitation	11,352,329		11,352,329
Community and Economic Development	2,476,400		2,476,400
Interest on Long-term Debt	2,747,740		2,747,740
Business-type Activities:			
Webb County Water Utility		\$ 1,084,617	1,084,617
Total Expenses	<u>\$ 71,826,179</u>	<u>\$ 1,084,617</u>	<u>\$ 72,910,796</u>
Increase (decrease) in net assets before transfers	\$ 5,532,206	\$ (6,676)	\$ 5,525,530
Transfers	(54,652)	54,652	-
Increase in net assets	<u>\$ 5,477,554</u>	<u>\$ 47,976</u>	<u>\$ 5,525,530</u>
Net assets - beginning of year	65,146,986	421,875	65,568,861
Net assets - end of year	<u>\$ 70,624,540</u>	<u>\$ 469,851</u>	<u>\$ 71,094,391</u>

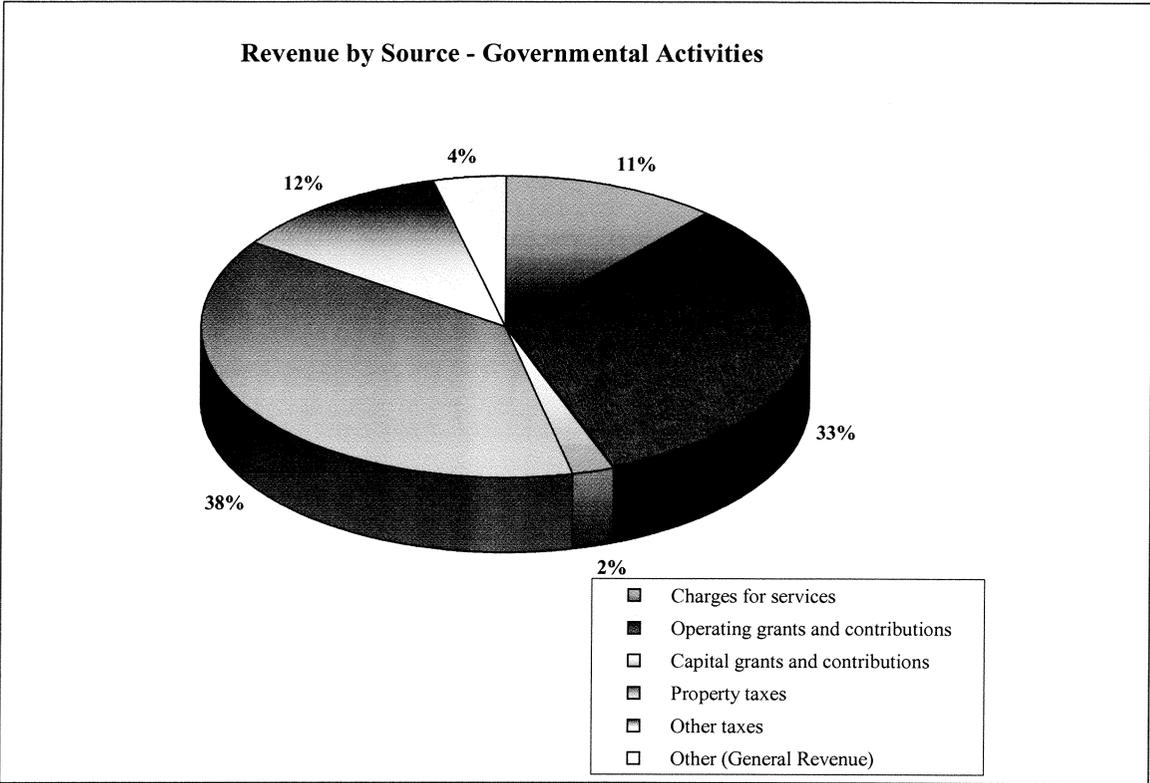
Governmental Activities

Governmental activities increased the County's net assets by \$5,477,554, resulting in 99.1% of the growth in net assets. Key elements of this increase are as follows:

- Property taxes collected increased by approximately \$3.4 million (13.1%) from the previous fiscal year. Increase is the product of increased taxable values and residential growth.
- Operating grants and grant contributions for governmental activities increased by approximately \$1.5 million from the previous fiscal year.
- Special revenue taxes (sales and hotel/motel tax) increased by approximately \$291,000 from the previous fiscal year.
- Investment income decreased by approximately \$1 million, due to a lower return on investment.

The following charts represent the fiscal year trends for the governmental activities.



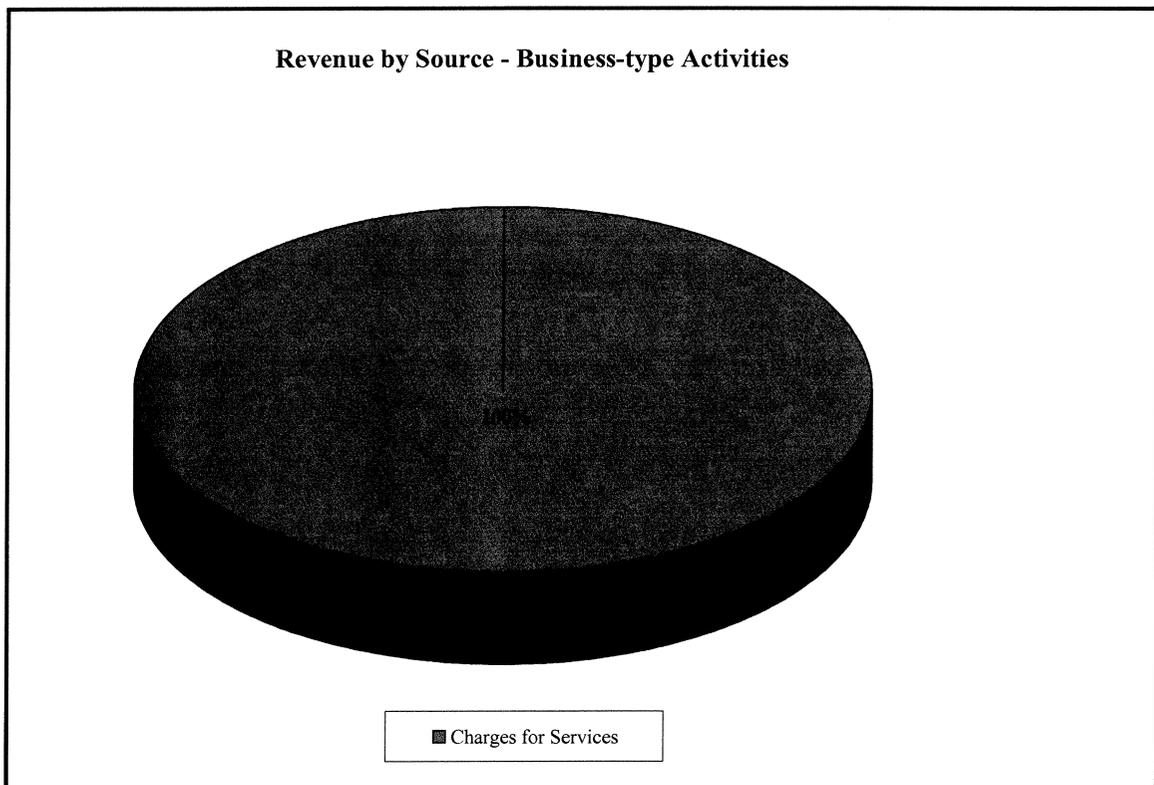
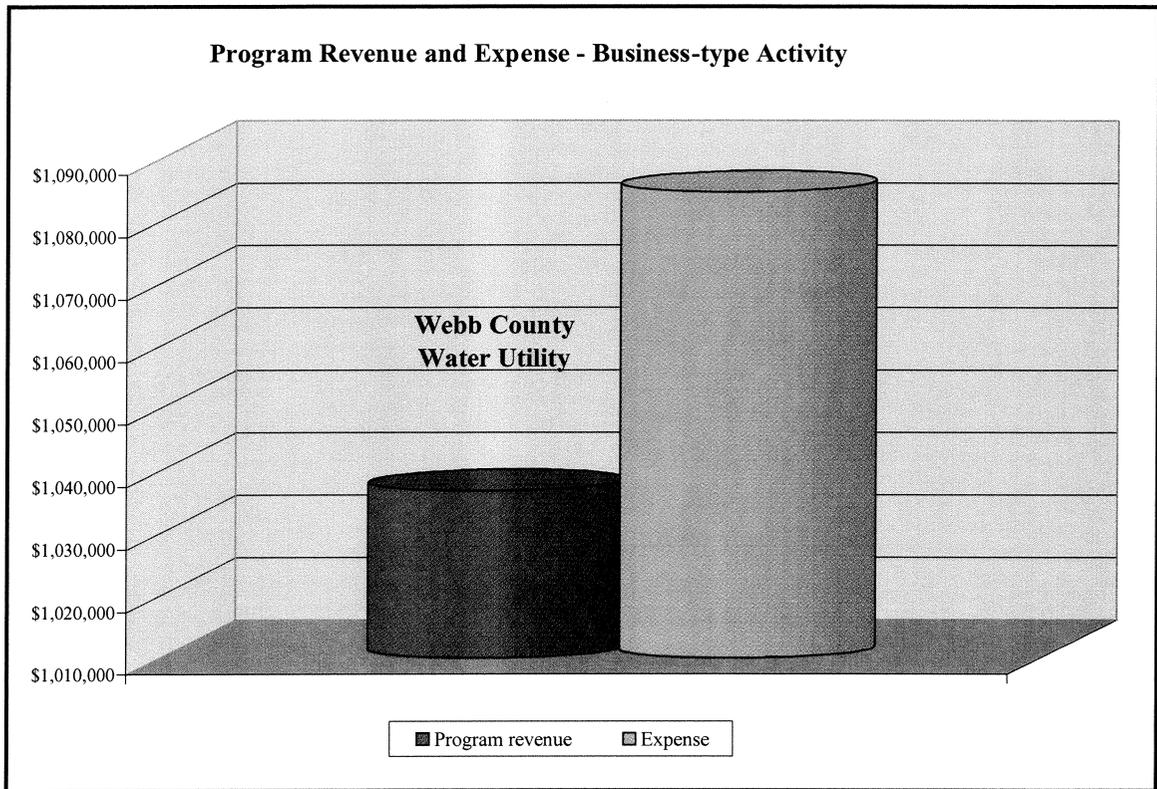


Business-type Activities

Business-type activities increased the County’s net assets by \$47,976, accounting for less than 1% of the growth in net assets for the current year. Key elements of the current year increase are as follows:

- Charges for services increased by approximately \$300,000, compared to the prior year. This is a result of increased service rates.
- Expenses increased causing a deficit of \$6,676; however, a transfer in allowed for a total increase in net assets.

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 \$35,395,548, an increase of \$10,632,342 in comparison with the prior year. This was primarily due to the \$11.3 million bond proceeds secured for the building of the Juvenile Youth Village.

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 \$8,839,902, while the total fund balance was \$8,962,544. 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 22 % of total General Fund expenditures.

The balance of the County's General Fund increased by \$2,064,123 from the previous fiscal year. This is primarily attributable to growth in property and sales taxes and intergovernmental revenues, relative to government-wide governmental activities.

The **Headstart Fund** accounts for resources received by the Department of Health and Human Services. These resources are used for student's education, nutrition, 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.

Both the **Capital Projects Interest Income Funds Series 2001 and 2002** are used to account for interest earned on the investment of bond proceeds as required by bond covenants. Interest income is available for funding corresponding capital projects, if needed. At year end they contributed a combined total of \$132,361 to the governmental fund balance.

The **Juvenile Youth Village Fund** accounts for the \$11.3 million construction project which will house a juvenile detention center and juvenile justice alternative education program. Currently, the fund balance is \$11.1 million. The decrease is attributable to expenditures associated with construction in progress.

Proprietary Funds

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

- Unrestricted net assets of the Water Utility Fund at year end totaled \$96,351.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original and final amended budgets for expenditures resulted in a 3.1% increase, (\$1.4 million increase in appropriations). Ninety percent (90%) of the increase in appropriations can be attributed to transfers from the general fund balance to individual departments to cover unexpected and incurred expenditures.

At year end, general fund revenues exceeded budget projections and expenditures were less than budget estimates. The result was a \$3.1 million positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of September 30, 2002, amounted to \$93,408,294 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, infrastructure in progress, buildings, equipment, furniture and construction in progress.

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

- Completion of an Administration Building at a cost of \$13 million.
- Various construction projects in progress with an estimated cost of \$560,000.
- Telephone Network System at a cost of \$456,000.
- New 13 vehicle fleet at a cost of \$242,000.

Webb County's Capital Assets
(net of depreciation)

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 5,637,002	\$ 201,598	\$ 5,838,600
Infrastructure and infrastructure in progress	22,451,069	2,308,083	24,759,152
Buildings	47,593,029	217,189	47,810,218
Equipment and furniture	14,334,257	106,341	14,440,598
Construction in progress	366,270	193,456	559,726
Total	<u>\$ 90,381,627</u>	<u>\$ 3,026,667</u>	<u>\$ 93,408,294</u>

Additional information on the County's capital assets can be found in note II C on pages 48 - 49 of this report.

Debt Administration

At the end of the current fiscal year, the County had total bond debt outstanding of \$69,636,965. The bond debt is payable from the levy of a direct ad valorem tax on all taxable property located within the County.

The County's total debt increased by \$16,454,613 (30%) from the previous fiscal year.

New borrowing during the year was \$11.3 million in limited tax improvement bonds and \$4.3 million in certificates of obligation for governmental activities. A principal payment of \$775,000 and an interest payment of \$627,588 are due February 15, 2003.

Webb County's Outstanding Debt
General Obligation

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Certificates of obligation	\$ 36,242,043	\$ 2,762,958	\$ 39,005,001
General obligation refunding bonds	7,745,000		7,745,000
Limited tax refunding bonds	7,390,000		7,390,000
Limited tax improvement bonds	11,300,000		11,300,000
Other lending requirements	2,238,964	1,958,000	4,196,964
Total	<u>\$ 64,916,007</u>	<u>\$ 4,720,958</u>	<u>\$ 69,636,965</u>

The County has an "Aaa" rating for both limited tax bonds and certificates of obligation from Moody's. The County has an "AAA" rating for both limited tax bonds and certificates of obligation from both Standard & Poor's and Fitch.

Additional information on the County's long-term debt can be found in note II G on

pages 53 - 60 of this report.

ECONOMIC FACTORS

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

- Increases to Water Utility rates took effect September 1, 2002; this is part of our five year plan to meet business activity expenditures.
- Limited Tax Refunding Bonds were issued November 2002 totaling \$6,275,000, saving the County in excess of \$200,000 over the life of the refunding bonds.

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.