

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, 2009. 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 2009 by \$116,335,146 (*total net assets*). Of this amount, \$24,141,962 (*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 \$2,522,706 (2.2%) from the previous year. The most significant change that led to this increase was property taxes with an increase of \$5,718,123 (11.0%) from the prior year; the increase is primarily attributable to increase property valuations.
- The governmental net assets increased by \$927,599 (0.8%) and the business-type net assets increased by \$1,595,107 (35.5%) from the previous year. The business-type net assets increase is primarily attributable to a combining Water Utility and the newly established Casa Blanca Golf Course enterprise fund.

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 \$32,138,676, a decrease of \$4,368,587 from the prior year. The revenues with the most significant changes were a decrease of \$1.5 million (or 77.1%) in investment earnings and a decrease in revenues from fees and fines of \$2.1 million (or 35.2%).
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$12,819,406, or 18.9% of total general fund expenditures, approximately \$67.7 million.

Long-Term Debt Highlight

- In November 2008, Webb County entered into a lease-purchase agreement to purchase equipment for the Casa Blanca Golf Course enterprise fund in the amount of \$550,491. The Casa Blanca Golf Course is an 18-hole regulation length golf course in Laredo, Texas. This medium-length layout has 3 sets of tee boxes for a fun, but challenging golfing experience.

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 2009, the net assets of the County increased by \$2.5 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 and the Casa Blanca Golf Course.

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 156 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 155 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 and Casa Blanca Golf Course 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 - 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. Required supplementary information can be found on pages 81 - 85 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 86 - 478 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 \$116,335,146 at September 30, 2009.

Webb County's Net Assets
(in Thousands)

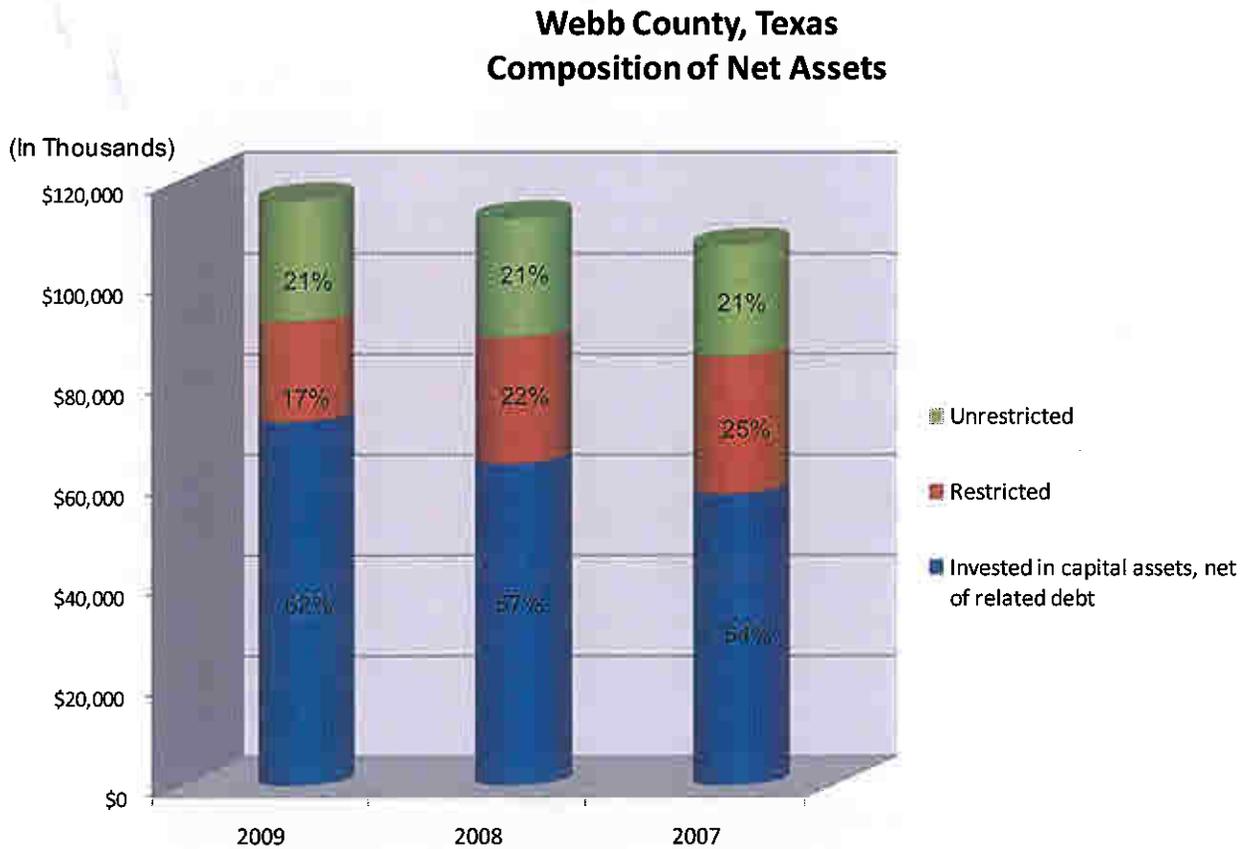
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 64,961	\$ 69,633	\$ (662)	\$ 653	\$ 64,299	\$ 70,286
Capital Assets	133,126	132,946	15,159	12,125	148,285	145,071
Total assets	<u>198,087</u>	<u>202,578</u>	<u>14,497</u>	<u>12,778</u>	<u>212,584</u>	<u>215,356</u>
Long-term liabilities outstanding	64,819	78,092	7,283	7,031	72,101	85,123
Other liabilities	23,018	16,728	1,130	687	24,148	17,415
Total liabilities	<u>87,837</u>	<u>94,820</u>	<u>8,413</u>	<u>7,719</u>	<u>96,249</u>	<u>102,538</u>
Net assets:						
Invested in capital assets, net of related debt	65,271	58,808	7,145	5,140	72,416	63,948
Restricted	19,108	24,716	670	465	19,777	25,181
Unrestricted	<u>25,872</u>	<u>24,234</u>	<u>(1,730)</u>	<u>(546)</u>	<u>24,142</u>	<u>23,689</u>
Total net assets	<u>\$ 110,250</u>	<u>\$ 107,759</u>	<u>\$ 6,085</u>	<u>\$ 5,059</u>	<u>\$ 116,335</u>	<u>\$ 112,818</u>

By far, the largest portion of the County's net assets, \$72,415,749 (62.2%) 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, \$19,777,435 (17.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$24,141,962 (20.8%) 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.

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 \$2,522,706 from the prior year.

Webb County, Texas
Changes in Net Assets
(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues:						
Charges for services	\$ 13,933	\$ 14,042	\$ 2,435	\$ 1,498	\$ 16,368	\$ 15,541
Operating grants and contributions	25,354	25,835			25,354	25,835
Capital grants and contributions	2,298	2,037			2,298	2,037
General revenues:						
Property taxes	57,652	51,934			57,652	51,934
Other taxes	12,349	13,668			12,349	13,668
Other	2,572	4,596	11	62	2,584	4,658
Total Revenues	\$ 114,159	\$ 112,113	\$ 2,446	\$ 1,561	\$ 116,605	\$ 113,673
EXPENSES						
Program activities						
Primary government:						
Governmental activities:						
General Government	\$ 19,529	\$ 18,797			\$ 19,529	\$ 18,797
Public Safety	14,719	15,466			14,719	15,466
Justice System	25,812	24,064			25,812	24,064
Health and Human Services	19,079	17,247			19,079	17,247
Infrastructure and Environmental Services	7,940	7,977			7,940	7,977
Correction and Rehabilitation	17,551	15,683			17,551	15,683
Community and Economic Development	3,185	3,293			3,185	3,293
Interest on Long-term Debt	3,084	3,318			3,084	3,318
Business-type Activities						
Webb County Water Utility			\$ 3,183	\$ 2,297	3,183	2,297
Total Expenses	\$ 110,900	\$ 105,845	\$ 3,183	\$ 2,297	\$ 114,082	\$ 108,141
Increase (decrease) in net assets before transfers	\$ 3,259	\$ 6,268	\$ (737)	\$ (736)	\$ 2,523	\$ 5,532
Special Items:						
Loss on Acquisition of Assets		(220)				(220)
Transfers	(2,332)	(470)	2,332	470		
Increase in net assets	\$ 928	\$ 5,578	\$ 1,595	\$ (266)	\$ 2,523	\$ 5,311
Net assets - beginning of year (restated)	109,323	102,181	4,490	5,326	113,812	107,507
Net assets - end of year	\$ 110,250	\$ 107,759	\$ 6,085	\$ 5,059	\$ 116,335	\$ 112,818

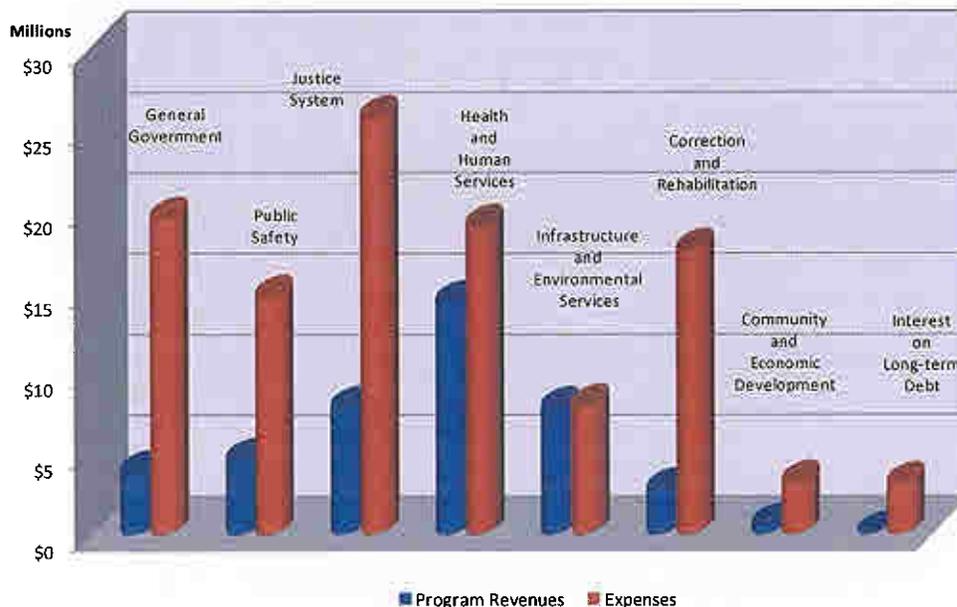
During the current fiscal year, the County's total revenues increased by \$2,931,874 (2.6%) and total expenses increased by approximately \$5.9 million (5.5%). Total revenues for this year were more than total expenses resulting in an increase in *total net assets* of \$2,522,706. Most of the growth reflects an increase in revenues from property taxes as compared to the previous year in the amount of \$5.7 million which is attributable to the increase in property valuations.

Governmental Activities

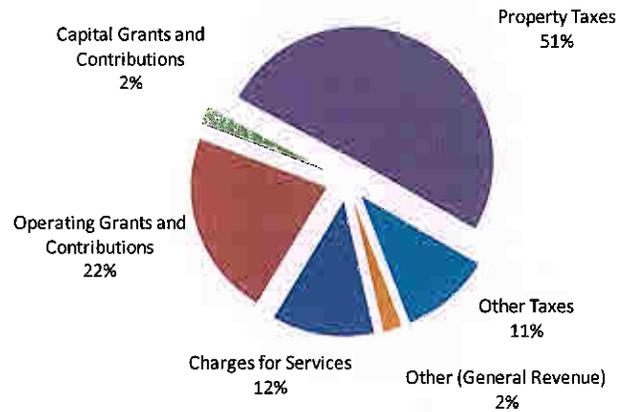
Governmental activities increased the County's net assets by \$927,599, resulting in 36.8% of the total growth in net assets as business-type activities increased net assets by 63.2%. Key elements of this increase are as follows:

- Property taxes levied for general purposes and debt service increased by \$5,718,123 (11%) 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 \$109,140 (0.8%). The most significant changes were increases for general government function by approximately \$1.3 million mainly from the Tax Assessor collector services and decreases in charges for services for Public Safety function by approximately \$1.8 million.
- Operating Grants and Contributions decreased by \$481,136 (1.9%) from the previous fiscal year. The Public Safety function was the function with the most significant changes with a decrease of \$398,011 (13.6%) compared from prior year.
- Expenses of governmental activities increased by \$5.1 million which is a 4.8% increase from the prior year; which is primarily attributable to the increasing cost of Justice System function with \$1.7 million increase and the expenses incurred for the Corrections and Rehabilitation function with an increase of \$1.9 million.
- Adjustments to beginning net assets had a total effect of \$1,563,988 increase; the notes to the financial statements provide further details on the restatement to beginning fund balance and beginning governmental activities net assets.

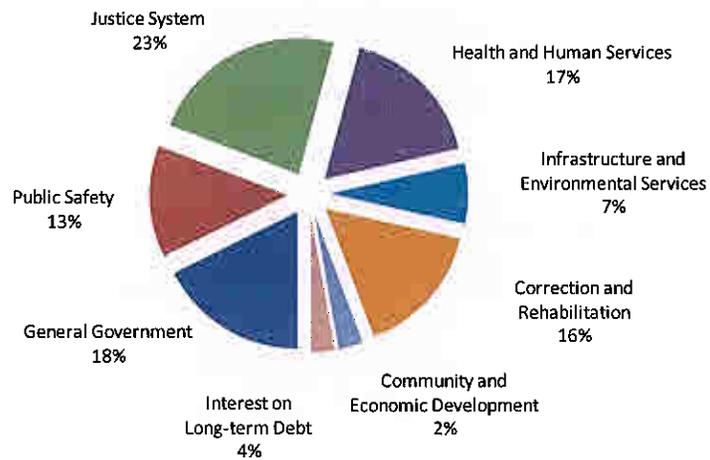
Program Revenue and Expense- Governmental Activities



Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities

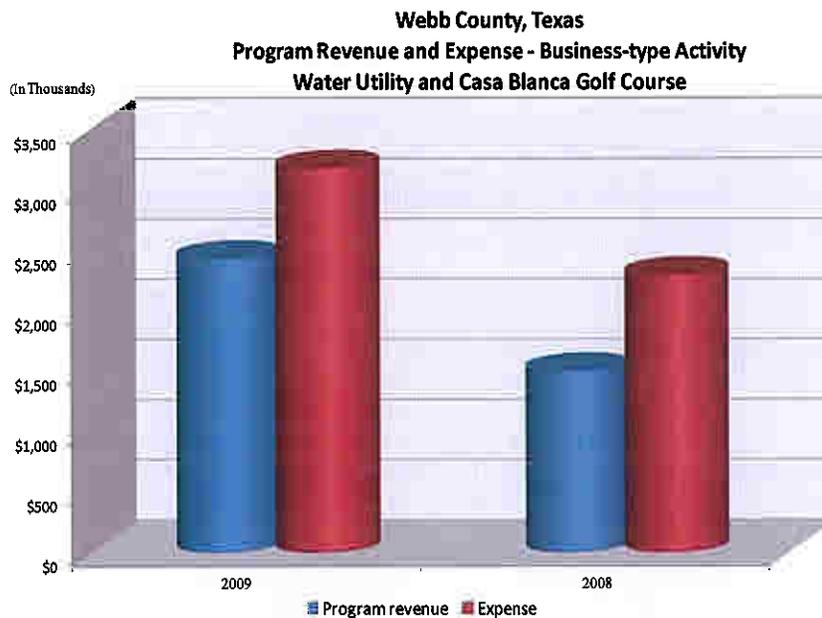


Business-type Activities

Business-type activities increased the County's net assets by \$1,595,107 and had an ending net asset balance of \$6,084,663. Key elements of the current year ending net asset balance are as follows:

- During 2009, The Casa Blanca Golf Course started operating as an enterprise fund.
- Charges for services increased by \$936,300 (62.5%), as compared to the increasing cost of operating expenses of \$885,872 (38.6%) from the prior year resulting in a current year decrease in net assets before transfers of \$736,687.
- Most of the increases from prior year can be attributable to the new enterprise fund the Casa Blanca Golf Course with revenues of \$688,527 and expenses of \$927,592. The Casa Blanca Golf Course resulted with a loss before contributions and transfers of \$300,878.
- The Water Utility enterprise fund resulted in a loss before contributions and transfers of \$457,436. The most significant contribution to the loss was the non-operating interest expense of \$248,818.
- Adjustments to beginning net assets had a total effect of \$569,831 decrease; the notes to the financial statements provide further details on the restatement to beginning fund balance and beginning business-type activities net assets.

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



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 \$32,138,676, a decrease of \$4,368,587 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 \$12,819,406, while the total fund balance was \$13,031,062. 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 18.9 % of total General Fund expenditures.

The Fund Balance of the Webb County's General Fund increased by \$392,347 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 \$4,017,789 as compared to last year. However, taxpayers did not pay the assessed property taxes, having a negative budget variance of \$1,675,910.
- Charges for services increased by \$1,162,088 (30.8%) from the previous year. The most significant changes were an increase for fees collected from motor vehicle commissions of \$938,695 and a decrease in electronic recording fees by \$112, 826.
- Sales and miscellaneous taxes decreased by \$1,079,655 from the previous year. This represents a decrease of \$1,067,699 (or 8.4%) for sales tax; a decrease of \$10,925 (or 3.3%) for mixed drink tax and a decrease of \$1,031 for bingo tax. The overall variance of sales and miscellaneous taxes was a negative \$1,079,655 budget variance which can be attributed to the downturn of the economy in the United States and Mexico.
- Fines and forfeits increased by only \$7,043 from the previous year, primarily because non-traffic fine collections by Justice of the Peace Precinct 4 decreased by \$93,314.

Proprietary Funds

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

- The combined total *net assets* for the two enterprise funds at year end totaled \$5,974,426.
- The Water Utility Fund net assets at year end totaled \$5,178,047. Of this amount, 120% is invested in capital assets net of related debt. Although charges for services increased by \$251,028 from the previous year; current year operations resulted in operating loss of \$219,662. The operating loss can be attributed to current year depreciation and amortization expenses of \$324,871 and \$24,357, respectively.
- The Casa Blanca Golf Course net assets at year end totaled \$796,379. Of this amount, 114% is invested in capital assets net of related debt. The operating loss for the year was \$239,065. Part of the operating loss can be attributed to current year depreciation and amortization expenses of \$109,071 and \$268, respectively.
- Contributions of capital assets from governmental-activities with a book value of \$1,773,865 were transferred to the Casa Blanca Golf Course enterprise fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

At year end, general fund expenditures were less than budget estimates by \$4,765,166. General fund revenues were also less than budgeted estimates by \$4,368,419 resulting in a positive variance of \$396,747. The most significant variance was in the general government services expenditures with a \$2,112,536 positive variance; this variance was due to a County wide cut of 10% in operating expenditures due to current economic conditions, as total actual revenues were at 94% compared to the original budgeted amounts. In contrast, property tax revenues were less than budgeted estimates by \$1.7 million and general sales taxes were less by \$1.6 million. The current ad valorem property taxes shortfall of \$2.0 million and sales tax can be attributed to the downturn in the economy and devaluation of the Mexican peso.

In addition, the Webb County Commissioner's Court approved transfers between functions which had no effect in the total appropriated budget. Budget transfers were made to increase other financing uses to transfer out by \$247,286; of which \$210,748 were for the County Commissioners project of Maintenance and Construction Fund, and \$36,538 for the Water Utilities department operations.

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, 2009, amounted to \$148,284,966 (net of accumulated depreciation). The total increase in the County's net investment in capital asset for the current fiscal year was 2.2%. 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:

- Various ongoing infrastructure and construction projects. The most significant increases were for the Juvenile Youth Village with a cost of approximately \$1.2 million; the Webb County Courthouse with \$307,428 for mold remediation; and the Texas Parks and Wildlife Office Building at the lake for \$414,388. Webb County is also constructing a Community Center in Mirando City for \$121,166.
- A modular building for the Head Start program had improvements for a cost of \$102,403.
- Addition of 12 new vehicles from which the Community Action Agency Rural Transportation Program purchased 5 transit buses at a cost of \$301,362. Also, a new elevated surveillance system from Operation Linebacker grant for a cost of \$128,500.
- An infrastructure in progress grant from Texas Water Development had a cost of \$1.5 million for the water-wastewater waterlines in Rio Bravo and El Cenizo.

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Capital assets, not being depreciated:						
Land and improvements	\$ 8,647	\$ 8,078	\$ 1,791	\$ 216	\$ 10,438	\$ 8,294
Infrastructure in progress	9,717	10,595	576	745	10,293	11,340
Construction in progress	14,784	15,878			14,784	15,878
Total capital assets, not being depreciated	33,147	34,551	2,367	961	35,515	35,512
Capital assets, being depreciated, net:						
Infrastructure	41,549	40,305	11,419	10,471	52,968	50,777
Buildings	52,042	51,218	583	434	52,624	51,652
Furniture, fixtures and equipment	6,388	6,872	790	258	7,178	7,130
Total capital assets, being depreciated, net	99,979	98,395	12,792	11,164	112,770	109,558
Total	\$133,126	\$132,946	\$ 15,159	\$ 12,125	\$148,285	\$145,071

Additional information on the County's capital assets can be found in note IV C on pages 51 - 52 of this report.

Debt Administration

At the end of the current fiscal year, the County had total bond debt outstanding of \$74,359,075. 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 and Casa Blanca Golf Course fees. The County's debt total decreased by \$4,378,355 (5.6%) from the previous fiscal year.

New borrowing during the year was \$550,491 in Lease Purchase agreements for the Casa Blanca Golf Course enterprise fund. These notes were issued for the purpose of purchasing turf equipment with \$325,526 and 65 golf carts with \$224,965.

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Certificates of obligation	29,560	31,620	1,604	1,623	31,164	33,243
Limited tax refunding bonds	29,508	32,135	2,695	1,975	32,202	34,110
Limited tax improvement bonds	6,680	7,155			6,680	7,155
Other lending requirements	2,108	2,744	3,633	3,320	5,740	6,064
Total	\$ 67,855	\$ 73,655	\$ 7,931	\$ 6,917	\$ 75,786	\$ 80,572

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 2008A, 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 \$3,382,000,000 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 56 - 64 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 calendar year 2009 unemployment rate for the County of Webb was at 7.6%, which is an increase from a rate of 5.1% a year ago. Webb County's unemployment rate was still higher than Texas rate of 7.5% and lower than national average rate of 9.3%.
- Webb County employer's retirement contribution rate increased from 8.61% to 9.51% effective January 1, 2010. The employee contribution rate will remain at 6%.
- The real property assessed value for calendar year 2009 decreased by \$98,665,189 (0.7%) from the previous calendar year.

All of these factors were considered in preparing the Webb County's budget for the 2010 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.