

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, 2010. 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 21).

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

- The assets of the County exceeded its liabilities at the close of the fiscal year 2010 by \$119,001,966 (*total net assets*). Of this amount, \$21,434,420 (*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 \$2,603,092 (2.2%) from the previous year. The most significant change that led to this increase was operating grants and contributions with an increase of \$7,415,915 (29.2%) from the prior year; the increase is primarily attributable to increased opportunities to federal and state grant opportunities.
- The governmental net assets increased by \$2,792,989 (2.5%) and the business-type net assets decreased by \$189,897 (3.1%) from the previous year. The business-type net assets decrease is primarily attributable to continual operating losses by both Water Utility and Casa Blanca Golf Course enterprise funds.

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 \$28,092,295, a decrease of \$3,881,504 from the prior year. The revenues with the most significant changes were an increase of \$6.6 million (or 27.1%) in intergovernmental revenues and a decrease in revenues from investment earnings of \$250,511 (or 56.5%).
- At the end of the current fiscal year, the unreserved-undesignated fund balance for the general fund was \$12,630,624, or 18.7% of total general fund expenditures, approximately \$67.5 million.

Long-Term Debt Highlight

- Webb County entered into a lease-purchase agreement to purchase equipment for the District Attorney's Office in the amount of \$329,067. These notes were issued for the purpose of purchasing a prosecutors software system for the District Attorney's Office to enhance case management, data integration and public access solutions.

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 2010, the net assets of the County increased by \$2.6 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 21 – 23 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 182 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 181 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 24 - 27 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, worker compensation funds and Employees Retiree OPEB Fund. 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 28 - 31 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 32 - 33 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 page 35 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.

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.

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 \$119,001,966 at September 30, 2010.

Webb County's Net Assets
(in Thousands)

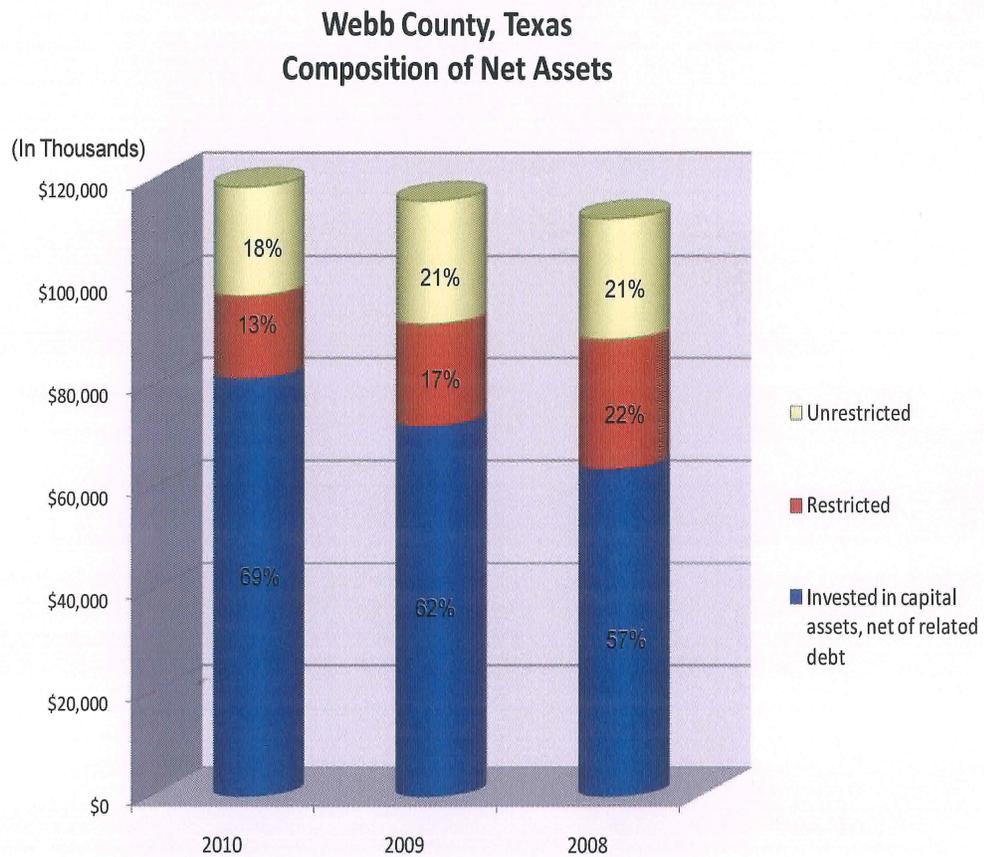
	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 60,789	\$ 64,961	\$ (1,184)	\$ (662)	\$ 59,605	\$ 64,299
Capital Assets	137,494	133,126	14,714	15,159	152,208	148,285
Total assets	198,283	198,087	13,530	14,497	211,814	212,584
Long-term liabilities outstanding	69,618	64,819	7,378	7,283	76,996	72,101
Other liabilities	15,558	23,018	258	1,130	15,815	24,148
Total liabilities	85,176	87,837	7,636	8,413	92,812	96,249
Net assets:						
Invested in capital assets, net of related debt	74,261	65,271	7,464	7,145	81,725	72,416
Restricted	15,254	19,108	588	670	15,842	19,777
Unrestricted	23,592	25,872	(2,157)	(1,730)	21,434	24,142
Total net assets	\$ 113,107	\$ 110,250	\$ 5,895	\$ 6,085	\$ 119,002	\$ 116,335

By far, the largest portion of the County's net assets, \$81,725,240 (68.7%) 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, \$15,842,306 (13.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$21,434,420 (18.0%) 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 \$2,603,092 from the prior year.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
REVENUES						
Program revenues:						
Charges for services	\$ 15,374	\$ 13,933	\$ 2,487	\$ 2,435	\$ 17,861	\$ 16,368
Operating grants and contributions	32,770	25,354			32,770	25,354
Capital grants and contributions	1,917	2,298			1,917	2,298
General revenues:						
Property taxes	56,413	57,652			56,413	57,652
Other taxes	12,543	12,349			12,543	12,349
Other	1,903	2,572	1	11	1,904	2,584
Total Revenues	\$ 120,920	\$ 114,159	\$ 2,488	\$ 2,446	\$ 123,408	\$ 116,605
EXPENSES						
Program activities						
Primary government:						
Governmental activities:						
General Government	\$ 18,949	\$ 19,529			\$ 18,949	\$ 19,529
Public Safety	16,126	14,719			16,126	14,719
Justice System	28,545	25,812			28,545	25,812
Health and Human Services	22,635	19,079			22,635	19,079
Infrastructure and Environmental Services	7,580	7,940			7,580	7,940
Correction and Rehabilitation	17,279	17,551			17,279	17,551
Community and Economic Development	3,646	3,185			3,646	3,185
Interest on Long-term Debt	2,892	3,084			2,892	3,084
Business-type Activities						
Webb County Enterprise Funds			\$ 3,153	\$ 3,183	3,153	3,183
Total Expenses	\$ 117,652	\$ 110,900	\$ 3,153	\$ 3,183	\$ 120,805	\$ 114,082
Increase (decrease) in net assets						
before transfers	\$ 3,268	\$ 3,259	\$ (665)	\$ (737)	\$ 2,603	\$ 2,523
Special Items:						
Loss on Acquisition of Assets						
Transfers	(475)	(2,332)	475	2,332		
Increase in net assets	\$ 2,793	\$ 928	\$ (190)	\$ 1,595	\$ 2,603	\$ 2,523
Net assets - beginning of year (restated)	110,314	109,323	6,085	4,490	116,399	113,812
Net assets - end of year	\$ 113,107	\$ 110,250	\$ 5,895	\$ 6,085	\$ 119,002	\$ 116,335

During the current fiscal year, the County's total revenues increased by \$6,803,461 (5.8%) and total expenses increased by approximately \$6.7 million (5.9%). Total revenues for this year were more than total expenses resulting in an increase in *total net*

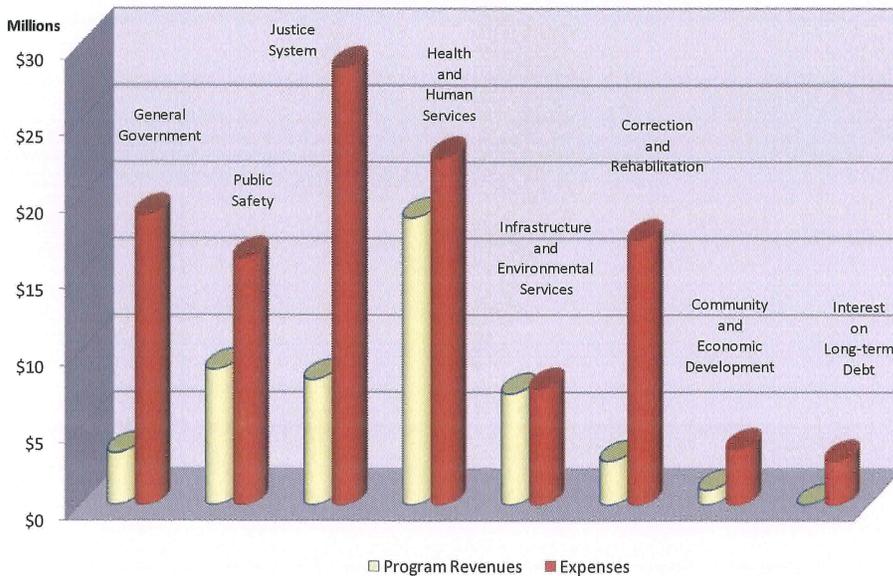
assets of \$2,603,092. Most of the growth reflects an increase in revenues from operating grants and contributions as compared to the previous year in the amount of \$7.4 million which is attributable to the increase in funding opportunities.

Governmental Activities

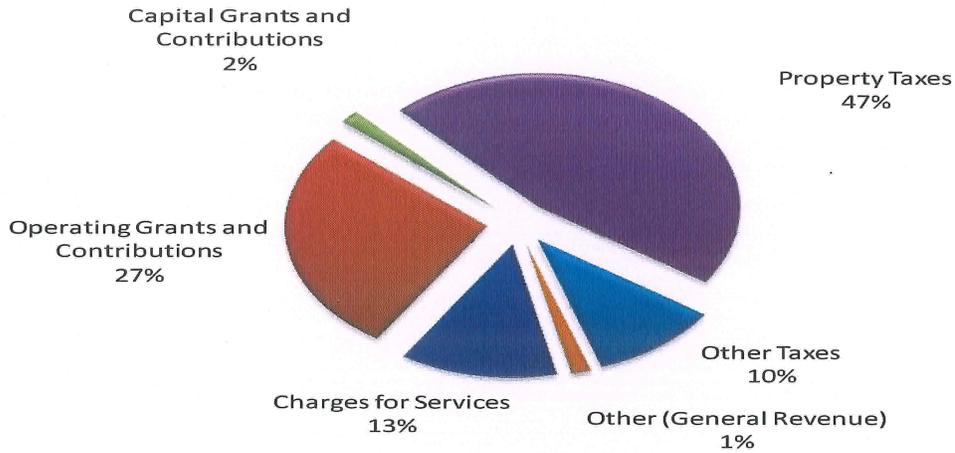
Governmental activities increased the County’s net assets by \$2,792,989, resulting in 107.3% of the total growth in net assets as business-type activities decreased net assets by 7.3%. Key elements of this increase are as follows:

- Property taxes levied for general purposes and debt service decreased by \$1,239,184 (2.1%) from the previous fiscal year. The decrease in revenues is the result of a decrease in assessed taxable property values according to the Webb County Appraisal District.
- Operating Grants and Contributions increased by \$7,415,915 (29.2%) from the previous fiscal year. The Health and Human Services function was the function with the most significant changes with an increase of \$4.4 million (31.2%) compared from prior year. In addition, the Public Safety function reported an increase of \$1.5 million (61.6%).
- Revenues from charges for services increased by \$1,441,064 (10.3%). The most significant changes were increases for public safety function by approximately \$2.7 million. This is attributable to Federal forfeitures received by the District Attorney and Sheriff Offices in the amount of \$1.4 million and \$1.9 million, respectively.
- Expenses of governmental activities increased by \$6.7 million which is a 6.1% increase from the prior year; which is primarily attributable to the increasing cost of Justice System function with \$2.7 million increase and the expenses incurred for the Health and Human Services function with an increase of \$3.6 million.

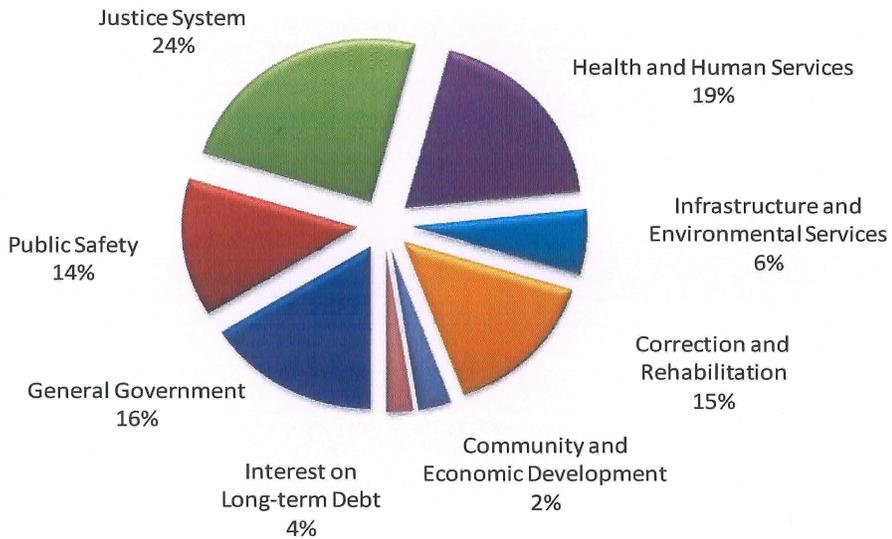
Program Revenue and Expense- Governmental Activities



Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities

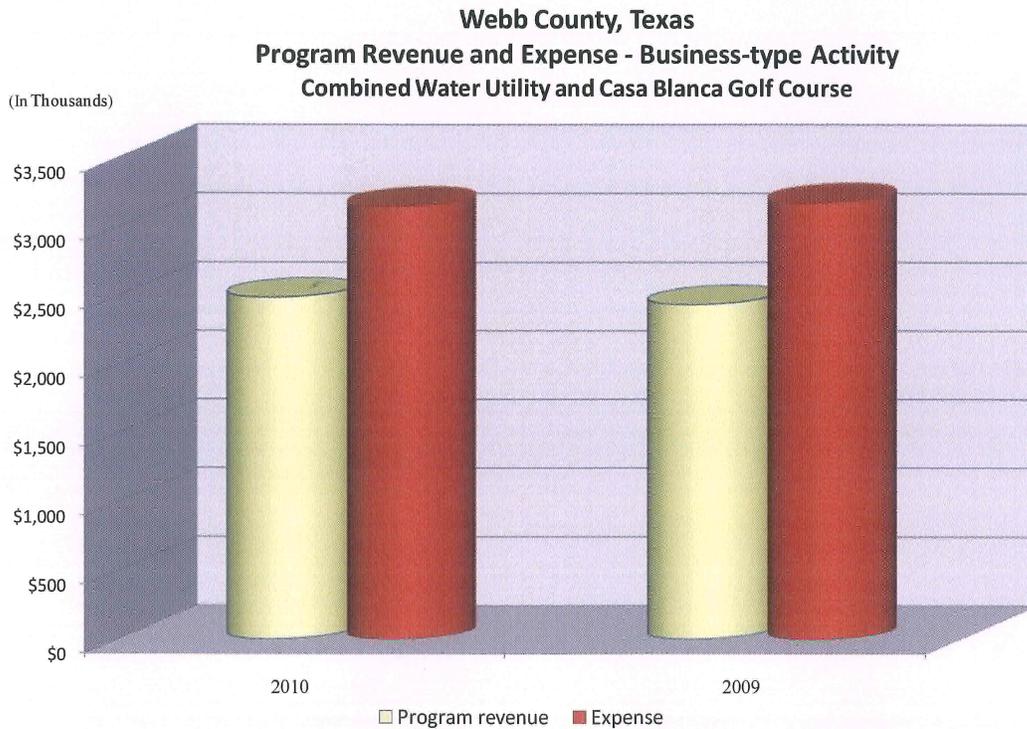


Business-type Activities

Business-type activities decreased the County’s net assets by \$189,987 and had an ending net asset balance of \$5,894,765. Key elements of the current year ending net asset balance are as follows:

- Charges for services increased by \$52,302 (2.1%), as compared to the cost of operating expenses resulting in a current year decrease in net assets before transfers of \$664,847.
- The Casa Blanca Golf Course resulted with a loss before contributions and transfers of \$234,094.
- The Water Utility enterprise fund resulted in a loss before contributions and transfers of \$451,528. The most significant contribution to the loss was the non-operating interest expense of \$349,790.

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 \$28,092,295, a decrease of \$3,881,504 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 \$12,645,850, while the total fund balance was \$12,838,073. 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 18.7 % of total General Fund expenditures.

The Fund Balance of the Webb County's General Fund decreased by \$173,557 from the previous fiscal year. Key differences between last year's General Fund activities and this year's include:

- Charges for services decreased by \$816,540 (17%) from the previous year. The most significant changes were a decrease of \$344,015 (or 74%) for fees collected from the issuance of U.S. passports and a decrease motor sales tax by \$592,111 (or 63%) as compared to previous year.
- Intergovernmental revenues decreased by \$376,805 (17%) from the previous year. This represents a decrease of \$327,063 (or 28%) for revenues collected from federal prisoners. Webb County negotiated a new inmate daily per diem rate to counterbalance the decrease in inmate population from \$1.00 to \$1.50 with Correctional Corporation of America and from \$56.84 to \$62.50 with the U.S. Marshalls, effective 06/28/2010 and 10/25/2010 respectively.
- Other financing sources increased by \$1.1 million from the previous year, which is the net effect of transfers in and transfers out.

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 \$5,763,751.
- The Water Utility Fund net assets at year end totaled \$5,201,465. Of this amount, 124.2% is invested in capital assets net of related debt. Although charges for services increased by \$86,484 from the previous year; current year operations resulted in operating loss of \$102,956. The operating loss can be attributed to current year depreciation and amortization expenses of \$361,486 and \$22,537, respectively.
- The Casa Blanca Golf Course net assets at year end totaled \$562,286. Of this amount, 178.6% is invested in capital assets net of related debt. The operating loss for the year was \$176,691. Part of the operating loss can be attributed to current year depreciation and amortization expenses of \$126,974 and \$292, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

At year end, general fund expenditures were less than budget estimates by \$3,034,558. General fund revenues were also less than budgeted estimates by \$1,722,376 resulting in a positive variance of \$1,312,182. The most significant variance was in the justice system expenditures with a \$999,851 positive variance; this variance was due to a County wide ordinance to continue to save on operating expenditures by freezing positions. In contrast, intergovernmental revenues were less than budgeted estimates by \$1.1 million. The current ad valorem property taxes shortfall of \$18,278 can be attributed to a budget reduction of \$1.6 million compared from previous year.

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 capital outlay by \$87,127.

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, 2010, amounted to \$152,208,035 (net of accumulated depreciation). The total increase in the County's net investment in capital asset for the current fiscal year was 2.65%. 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:

- The Old Water Plan Demolition infrastructure project with a cost of \$793,579. This project was for the reconstruction of clay lined Reservoir of the Webb County Regional Water Treatment Plant and the demolition and proper disposal of the old water treatment plant on the existing site.

- A building was purchased from Webb County Title and Abstract to be used by the Webb County Indigent Health Care Department and Webb County Engineering Department for a cost of \$1,208,550.
- The purchase of 6 buses totaled \$464,572, mostly funded by ARRA awards of which 4 buses were for the Community Action Agency Rural Transportation Program and 2 buses for the Head Start Program. In addition vehicle purchases amounted to \$2.6 million, funded mostly by forfeiture funds, grants and bonds money.
- Also, a new surveillance sky watch tower and mobile tower from Operation Stonegarden grant for a cost of \$344,636. This equipment is used by the Sheriff Department for the purpose of public safety by enhancing its capabilities for potential threats.
- North Side International Park, a construction in progress project, for a cost of \$285,341 is being funded with bonds money.

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

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Capital assets, not being depreciated:						
Land and improvements	\$ 8,652	\$ 8,647	\$ 1,791	\$ 1,791	\$ 10,443	\$ 10,438
Infrastructure in progress	7,540	9,717	-	576	7,540	10,293
Construction in progress	1,797	14,784	-	-	1,797	14,784
Total capital assets, not being depreciated	<u>17,989</u>	<u>33,147</u>	<u>1,791</u>	<u>2,367</u>	<u>19,780</u>	<u>35,515</u>
Capital assets, being depreciated, net:						
Infrastructure	45,633	41,549	11,694	11,419	57,327	52,968
Buildings	64,390	52,042	558	583	64,948	52,624
Furniture, fixtures and equipment	9,482	6,388	671	790	10,153	7,178
Total capital assets, being depreciated, net	<u>119,505</u>	<u>99,979</u>	<u>12,923</u>	<u>12,792</u>	<u>132,428</u>	<u>112,770</u>
Total	<u>\$ 137,494</u>	<u>\$ 133,126</u>	<u>\$ 14,714</u>	<u>\$ 15,159</u>	<u>\$ 152,208</u>	<u>\$ 148,285</u>

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

Debt Administration

At the end of the current fiscal year, the County had total bond debt outstanding of \$70,144,000. 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 \$5,303,414 (7.0%) from the previous fiscal year.

New borrowing during the year was \$329,067 in Lease Purchase agreements for the governmental activities. These notes were issued for the purpose of purchasing a prosecutors software system for the District Attorney's Office to enhance case management, data integration and public access solutions.

Webb County's Outstanding Debt

General Obligation

(in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Certificates of obligation	27,934	29,560	1,410	1,604	29,344	31,164
Limited tax refunding bonds	27,261	29,508	2,487	2,695	29,748	32,202
Limited tax improvement bonds	6,190	6,680			6,190	6,680
Other lending requirements	1,847	2,108	3,354	3,633	5,201	5,740
Total	\$ 63,232	\$ 67,855	\$ 7,250	\$ 7,931	\$ 70,483	\$ 75,786

The presently outstanding ad valorem tax supported debt of Webb County has an underlying rating of "Aa3" by Moody's, "AA-" by Standard & Poor's and Fitch (Certificates of Obligations, Series 2010).

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 \$3,432,000,000 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 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 United States 2010 Census Data counted a total population for Webb County at 250,304, which is an increase of 29.6% from 2000 Census Data.

- The calendar year 2010 unemployment rate for the County of Webb was at 8.1%, which is an increase from a rate of 7.6% a year ago. Webb County's unemployment rate was still higher than Texas rate of 8.0% and lower than national average rate of 9.6%.
- Webb County employer's retirement contribution rate increased from 9.51% to 9.62% effective January 1, 2011. The employee contribution rate will remain at 6%.
- The real property assessed value for calendar year 2010 increased by \$198,000,000 1.46% from the previous calendar year.
- On November 2010, Webb County issued \$6,795,000 in Certificates of Obligation, Series 2010 and \$18,425,000 in Limited Tax Refunding Bonds, Series 2010.
- On January 20, 2011, Texas Department of Housing and Community Affairs deobligated all funding under the ARRA-Weatherization Assistance Program contract in accordance with the provisions of 10 TAC §5.903.

All of these factors were considered in preparing the Webb County's budget for the 2011 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.webbcountytx.gov.