

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2010

As management of Winnebago County, Wisconsin, we offer readers of the County's financial statements this narrative overview and analysis of the financial statements of the Winnebago County, Wisconsin for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-4 of this report.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent year by \$ 219,874,015 (*net assets*). Of this amount, \$ 54,838,225 (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$ 23,438,786. Several factors contributed to the overall increase as follows:

Description	Amount
Long term debt issued and long term debt paid represent revenues and expenses on the fund financial statements but are not considered revenues or expenses in the statement of activities. Therefore, the amount by which debt issued exceeds debt repaid would represent a net reduction to net assets on the statement of net assets.	\$ (3,913,843)
Tax levy revenue is used to reduce debt on capital assets and is reflected as revenue in the statement of activities. The repayment of debt principal is not an expenditure in the statement of activities, yet it is in the governmental fund income statements. The result in the statement of activities is to increase net assets.	8,881,062
Depreciation of capital assets is an expense in the statement of activities, yet there is no tax or other revenue to offset this expense because it is not a cash outflow. The effect of this is a reduction of net assets.	(4,206,274)
Capital asset acquisitions are reported as expenditures in governmental funds however they are not expensed in the statement of activities. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital acquisitions recorded in governmental funds during 2010 excluding infrastructure, which is recorded as expense in the fund statements but capitalized and depreciated in the statement of net activities.	7,000,635
Park View Health Center and Airport - proprietary funds: Both funds have depreciation expense in excess of capital outlay purchases. Because both enterprises are tax levy supported, taxes are not levied for depreciation which is a non cash flow item. Tax is levied for capital outlay because it does require cash expenditures, however it is not an expense for accounting purposes. The net effect of total depreciation for these two enterprises exceeding capital expenditures has the effect of reducing net assets because there is no offsetting revenue.	(1,078,321)
Revenues that are not available within 60 days after year end are not recorded in the fund statements, however they are in the statement of activities. This amount represents revenue that was recorded in the fund statements this year. It had already been recognized as revenue in the Statement of Activities the year before.	1,463,900
Governmental funds do not recognize expenses that do not require the use of current financial resources. These are generally long-term liabilities. The statement of activities does include these expenses.	(86,248)
General fund surplus generated during 2010 resulting from revenues exceeding expenses and a smaller amount being transferred to the Human Services Fund because it ran a surplus for the year.	3,741,156
Net surplus's generated in proprietary activities during 2010 represent an increase in net assets on the statement of net assets.	11,921,479

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- As of the close of the current year, the County's governmental activities reported combined ending net assets of \$140,848,405. Approximately 17.2% of this total amount, \$24,169,292, is available for spending at the County's discretion (*unrestricted net assets*).
- At the end of the current year, unreserved undesignated fund balance for the general fund was \$14,775,112, or approximately 29.2% of total general fund expenditures.
- The County's total general-obligation debt increased by \$ 2,634,498 (4.6%) during the current year. There was a refinancing of \$7,895,000, two State Trust Fund Loans and one borrowing for new projects. We refinanced our May 2002 General Obligation Notes and expect a net present value savings of \$373,908. The two Trust Fund Loans were pass-through loans where we borrowed the funds, passed the proceeds on to other entities with them paying principal and interest to us equal to the amount due each year on the trust fund loans. A new borrowing (Build America Bonds) of \$12,875,000 was done to finance new and continuing capital projects. Reductions to debt related to refinancing current debt and principal payments on existing debt, the combined total equaling \$19,272,000. Information related to the new borrowings follow:

The refinancing occurred on February 9, 2010, and refinanced the 2002 Note issue. Final maturity on this refinancing is October 1, 2012. The refinancing was for the purpose of reducing the interest cost on the issues and did not extend the repayment period. The net present value of the savings from this refinancing was \$373,908.

Build America Bonds were issued November 2, 2010, in the amount of \$12,875,000. Some of the larger projects financed with this issue include; purchase of a building in downtown Oshkosh and remodeling to house various county departments (\$3.9 million), road reconstruction and resurfacing projects (\$3.8 million), nursing home physical therapy room / storage building (\$1.3 million), financial software (\$750,000), demolition of buildings and improvements to land for future use (\$1.4 million). The balance was for technology improvements and heating, ventilating and air-conditioning systems (HVAC).

We borrowed \$1,057,500 from the State Trust Fund loan program on November 22, 2010. In turn we loaned the funds to our Housing Authority so they could make improvements and energy efficiency updates to some elderly housing units. They signed a loan agreement with us whereby they pay us back the interest and principal as we make payments on this note.

We borrowed \$125,000 from the State Trust Fund loan program on December 15, 2010. In turn we loaned the funds to our East Central Regional Planning Commission so they could refinance their outstanding past service pension liability. In this case as in the one above, they signed a loan agreement with us whereby they pay us back the interest and principal as we make payments on this note.

Overview of the Financial Statements

This discussion and analysis is designed to be an introduction to the Winnebago County, Wisconsin's basic financial statements. The County's basic financial statements comprise three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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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 manner similar to a private-sector business. The government-wide statements are made up of the statement of net assets and the statement of activities.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets will serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County'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. This means, some revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave and unused sick leave that is paid out upon termination or retirement).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from those functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities (those supported by taxes and intergovernmental revenues) of the County include general government; public safety; health and human services; culture, education, and recreation; and conservation and development. The business-type activities (those supported by user fees) of the County include an airport, a solid waste facility, a nursing home, and a highway operation.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate component unit known as the Housing Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 29-31 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements; however, the 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. Such 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. This comparison may help readers better understand the long-term impact of a government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of

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revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 35 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 balance for the general fund and human services fund, both of which are considered major funds. Data from the other 33 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the combining statements found elsewhere in this report.

The County adopts annual appropriation budgets for all of its governmental type funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 32-37 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County maintains enterprise funds for its airport, solid waste facility, nursing home, and highway operations. Internal service funds are used to accumulate and allocate costs internally among various functions. The County uses internal service funds to account for its general services operations and its self-funded insurance for worker's compensation, property and liability, and health and dental insurance. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. 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 are provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 38-44 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 these funds are not available to support the County's own programs. The accounting used in fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 45 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 46-90 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding budget to actual data. Required supplementary information can be found on pages 91-95 of this report.

The combining statements referred to in connection with non-major governmental funds; individual enterprise funds and internal service funds are presented immediately following the required

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supplementary information. Combining and individual fund statements and schedules can be found on pages 96-162 of this report.

Government-wide Financial Analysis

As discussed earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the County exceeded liabilities by \$ 219,874,015 at the close of 2010.

Winnebago County's Net Assets				
(Amounts Expressed in \$1,000's)				
	Governmental		Business-Type	
	Activities		Activities	
	2010	2010	Total 2010	Total 2009
Current and other assets	\$ 125,948	\$ 66,263	\$ 192,211	\$ 170,193
Capital assets	149,302	63,187	212,489	203,844
Total assets	<u>275,250</u>	<u>129,450</u>	<u>404,700</u>	<u>374,037</u>
Long-term liabilities outstanding	37,871	38,716	76,587	73,267
Other liabilities	96,531	11,708	108,239	104,335
Total liabilities	<u>134,402</u>	<u>50,424</u>	<u>184,826</u>	<u>177,602</u>
Net assets:				
Invested in capital assets, net of related debt	113,781	48,357	162,138	152,257
Restricted	2,898	-	2,898	3,644
Unrestricted	24,169	30,669	54,838	40,534
Total net assets	<u>\$ 140,848</u>	<u>\$ 79,026</u>	<u>\$ 219,874</u>	<u>\$ 196,435</u>

By far, the largest portion of the County's net assets (73.7%) reflects its investment in capital assets (E.g., land, buildings, improvements, equipment, and infrastructure); 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 investment in 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 (1.3%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$54,838,225) may be used to meet the government's ongoing obligations to citizens and creditors.

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Winnebago County's Changes in Net Assets

(Amounts Expressed in \$1,000)

	Governmental Activities	Business-type Activities	Total	Total
	2010	2010	2010	2009
Revenues:				
Program revenues:				
Charges for services	\$ 9,307	\$ 40,653	\$ 49,960	\$ 47,915
Operating grants and contributions	37,145	124	37,269	51,211
Capital grants and contributions	-	6,863	6,863	-
Property taxes	67,720	-	67,720	65,670
Other taxes	1,503	-	1,503	1,267
Grants and contributions not restricted to specific programs	12,895	1,449	14,344	15,363
Unrestricted investment earnings	866	1,072	1,938	2,001
Miscellaneous	310	184	494	423
Total revenues	129,746	50,345	180,091	183,850
Expenses:				
General Government	12,906	-	12,906	12,537
Public Safety	26,900	-	26,900	26,953
Public Works	3,362	-	3,362	3,317
Health and Human Services	61,382	-	61,382	74,822
Culture, Education, and Recreation	2,879	-	2,879	2,852
Conservation and Development	2,793	-	2,793	3,165
Interest on Long Term Debt	967	-	967	2,382
Airport	-	2,325	2,325	2,312
Solid Waste Management	-	14,120	14,120	13,624
Park View	-	17,964	17,964	18,056
Highway	-	11,054	11,054	10,961
Total expenses	111,189	45,463	156,652	170,981
Increase (decrease) in net assets before transfers	18,557	4,882	23,439	12,869
Transfers	(7,710)	7,710	-	-
Increase (decrease) in net assets	10,847	12,592	23,439	12,869
Net assets - Beginning of Year	130,001	66,434	196,435	183,566
Net assets - End of Year	\$ 140,848	\$ 79,026	\$ 219,874	\$ 196,435

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

Governmental activities. Governmental activities increased the County's net assets by \$10,846,803. Key elements of this increase are as follows:

The amount levied for principal payment on governmental activity debt reflected in property tax revenue is reflected in the statement of activities as a revenue. The funds were used for payment of principal on debt which would not appear on the statement of activities. This would have the effect of increasing net assets on the statement of activities. \$ 8,881,062

Depreciation expense for governmental activities is reflected on the statement of activities. This is an expense without a cash outflow so there is not offsetting revenue (tax levy) reflected on the statement of activities. This would have the effect of reducing net assets on the statement of activities. (4,206,274)

Capital outlay in the governmental funds (excluding capital project funds) is funded through tax levy revenue. These purchases are capitalized and depreciated on the statement of activities rather than expensed in the year of purchase. The net effect of this tax levy revenue exceeding the depreciation expense for these capital items has the effect of increasing net assets on the statement of activities. 1,134,637

The expenditure for OPEB (other post employment benefits) representing subsidized health insurance for retirees shows up as an expenditure on the statement of activities. Since the expense is not funded currently with tax levy revenue, it has the effect of decreasing net assets on the statement of activities. (220,311)

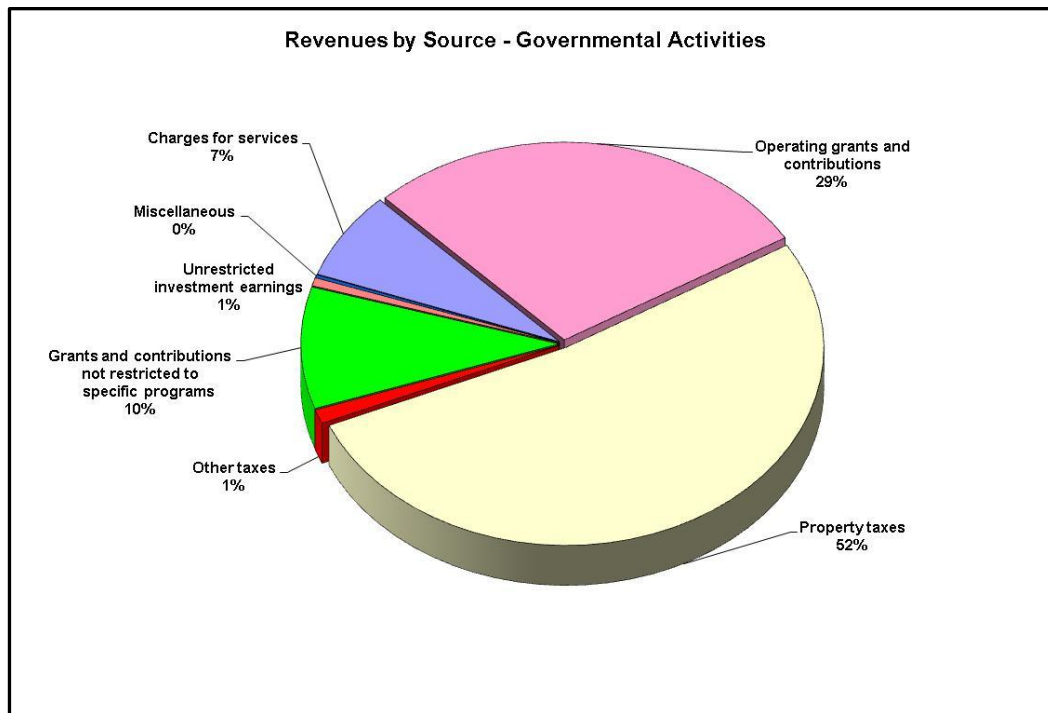
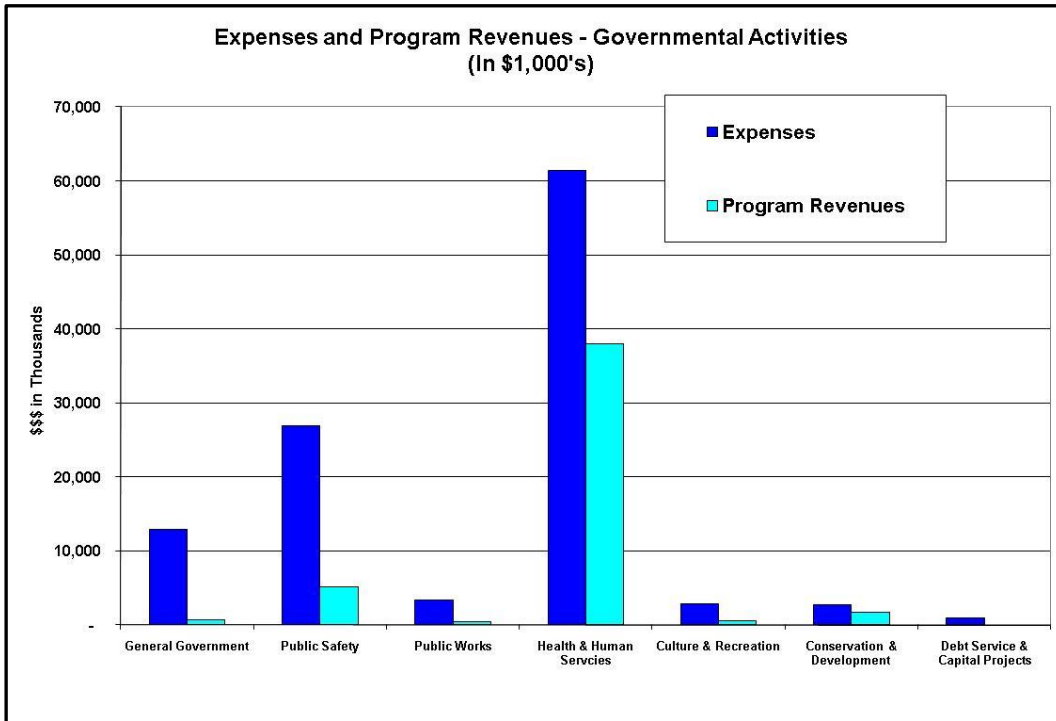
Capital project revenues were received from other governmental units to help pay the cost of road construction projects. This shows up as revenue on the statement of activities. However, the capital outlay does not. It is capitalized and depreciated. The effect of this is to increase net assets on the statement of activities. 650,712

Net surplus in general fund for 2010, due partly to Human Services return of \$2.4 million of unused tax levy in 2010. 3,741,156

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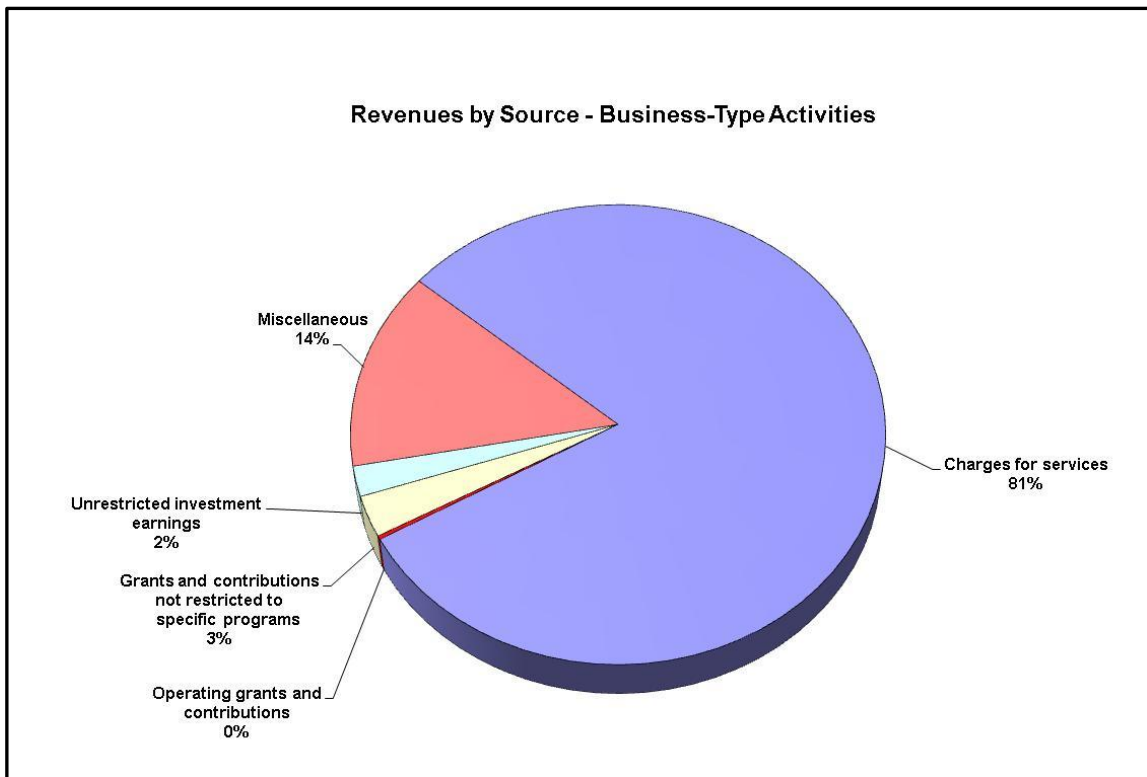
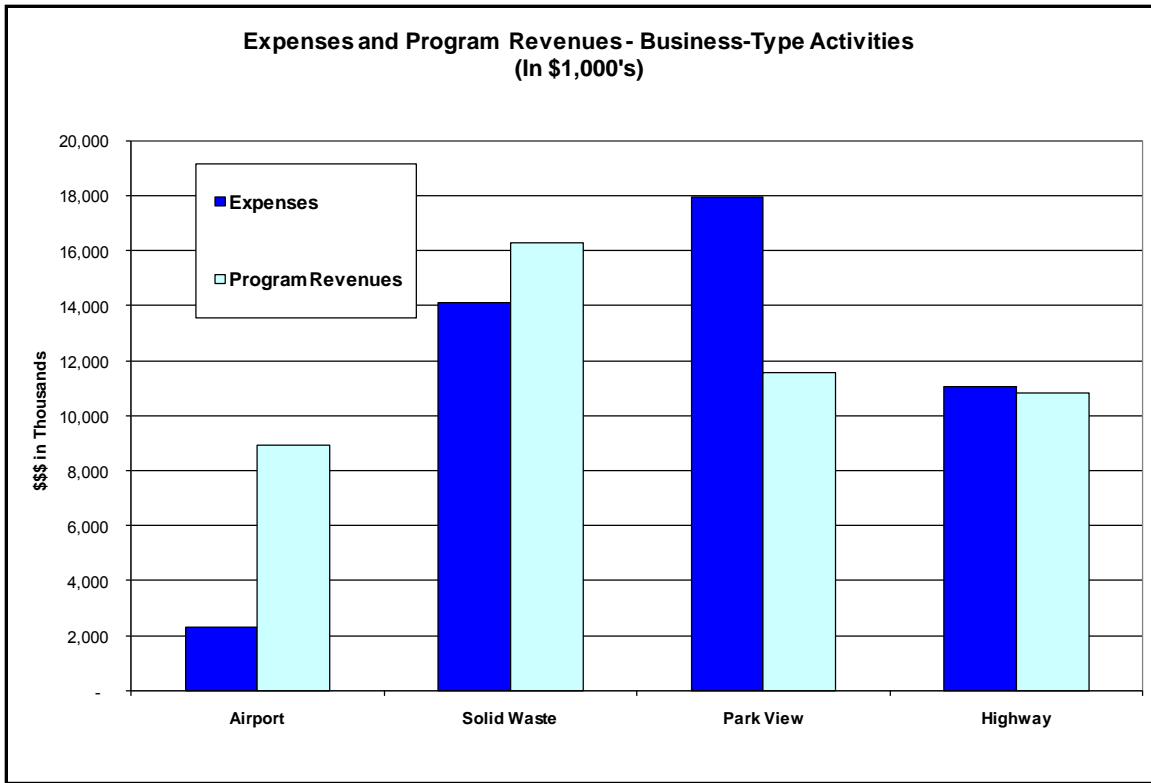
Business-type activities. Business-type activities increased the County's net assets by \$12,591,983. Key elements of this increase are as follows:

- The Airport Fund's net assets increased by \$6,656,781. Almost the entire increase is from State and Federal contributions to runway reconstruction. These contributions show up as revenues in the Airport Fund. The expenditure is for a capital asset which is capitalized and depreciated, thus the entire amount is not reflected in the 2010 income statement.
- The Solid Waste Fund ran a surplus of \$3,249,640 which increases net assets. Revenues were considerably over budget for the year with little impact on expenses. There are no single items that stand out making up the Solid Waste Funds total net surplus.
- Park View Health Center's net assets increased \$2,737,082. Part of the increase is attributable to tax levy revenue used to pay principal on debt of \$2,446,811. Principal payment does not show up on the statement of activities, yet the tax levy does. No single items stands out making up the balance of roughly \$300,000. Actual revenues exceeded budget and actual expenses were under budget for the year.
- The Highway Department's net assets decreased \$722,024. Road work done for the State and other municipalities was down roughly \$1.1 million during 2010 due to the economic recession. Staff were used for more equipment maintenance therefore, there is not as large of a reduction in costs to offset the revenue loss. There was also a transfer of \$357,000 to the County Road Maintenance cost center to reduce tax levy for that purpose. Regular county road maintenance is accounted for as part of the general fund thus explaining the transfer out.

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Financial Analysis of the Government's Funds

As indicated earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus on 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 financial requirements. Note how 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 December 31, 2010, the County's governmental funds reported combined ending fund balances of \$33,968,394, an increase of \$ 8,669,786 in comparison with the prior year. Approximately half of this total (\$17,056,610) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed as follows:

- 1) Prepayments that benefit periods beyond the end of the current year (\$ 174,049),
- 2) Capital project encumbrances (\$ 7,697,884),
- 3) Non-liquid delinquent property taxes and special assessments (\$ 4,954,310),
- 4) Non-liquid industrial development loans receivable (\$ 2,290,794),
- 5) To liquidate contracts and purchase orders of the prior period (\$ 460,221),
- 6) To pay debt service (\$ 929,617),
- 7) For other restricted purposes (\$ 404,785)

General Fund:

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$16,974,333, while total fund balance is \$25,272,859. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to expenditures. Unreserved fund balance represents 33.6% of total general fund expenditures, while total fund balance represents 50.0% of that same amount. The fund balance of the county's general fund increased by \$3,741,156 during the current fiscal year. This represents an increase of 17.4%. Reasons for the increase in fund balance are as follows:

- The Facilities Department had a surplus of \$350,000 for 2010. Utilities (gas & electric) were under budget by a net \$100,000. A remodeled building that we recently purchased was placed in service and we abandoned another building making it difficult to budget utilities. Capital outlay was also under budget about \$112,000 for the following reasons: Some projects came in under budget and a few others did not get done during 2010.
- County Treasurer operated at a surplus for 2010 in excess of budget of \$539,000 due primarily to interest on delinquent tax collections exceeding budget by \$373,000. Sale of tax deeds also exceeded expectations by \$84,000.

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- The Human Services Department operated at a surplus during 2010. As a result, \$2.4 million of tax levy collected for that purpose was not needed; therefore the funds remain in the general fund. Transfers are only made to Human Services in the amounts needed to carry on that departments operations. Unused levy dollars remain in the general fund, thus having a favorable impact on General Fund operations.
- Many other departments also had positive variances in their labor accounts because labor contracts came in a bit more favorable than original expectations.

Human Services (Special Revenue) Fund:

The Human Services Fund has a total fund balance of \$ 178,250. Of this amount, \$95,973 (or 53.8%) represents prepayments that benefit periods beyond the end of the current year. The balance of \$82,277 represents unreserved fund balance. Total fund balance of the Human Services Fund decreased \$258,580 from the prior year. Unreserved fund balance increased just \$23,099. Overall, the decrease in fund balance is the result of not having to reserve as much for advance payments compared to 2009.

- Our practice is to maintain a minimal fund balance in the Human Services Fund because of its need for tax levy support. As a result, most of the tax levy that is not needed is left in the General Fund at the end of the year. The Human Services Fund had a surplus of about \$2.4 million for the year. Because of this, the tax levy transfer to the fund was reduced by this amount, to keep the fund balance as close to zero as possible. Some reasons for the Human Services surplus include; reduced juvenile corrections costs, higher basic county allocation revenue, labor cost surplus due to actual costs being under budget. Some additional savings occurred due to a new program called Family Care, starting up in mid year.

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 for these funds can be seen in the following table. Also displayed in this table is the total growth in unrestricted net assets for the current year.

	Airport	Solid Waste	Parkview	Highway
Unrestricted Net Assets - 2009	\$ 1,221,963	\$ 17,159,588	\$ 4,947,154	\$ 2,358,304
Unrestricted Net Assets - 2010	2,008,923	20,039,228	4,896,873	1,736,362
Total Growth(Decline) in Unrestricted Net Assets	\$ 786,960	\$ 2,879,640	\$ (50,281)	\$ (621,942)

The Airport Fund's unrestricted net assets increased by \$786,960. The large surplus in 2010 is the result of land rental income that was not foreseen when the 2010 budget was prepared. During 2010, Oshkosh Corporation leased land on the airport grounds to store vehicles it was manufacturing for the Federal Government. This revenue source exceeded budget by \$331,000. Depreciation expense was also \$150,000 under budget for the year.

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The Solid Waste Fund's unrestricted net assets increased by \$2,879,640. Part of the increase is the result of the fund having a surplus for the year of \$3,249,640. Landfill fee revenue exceeded expectations by \$1,026,000. Expenses do not go up proportionally because of the amount of fixed costs that do not change, thus there was an operating surplus generated in excess of expectations. During 2010, the funds net investment in capital assets increased by \$370,000. When depreciation exceeds new investments in capital equipment, this has the effect of reducing the "investment in capital assets" portion of the balance sheet. When the investment in capital assets decreases, this increases unrestricted net assets. Other explanations for the large surplus is that depreciation was over budgeted by \$1,235,000 and the provision for landfill closure was over budgeted by \$671,000.

Park View Health Center's unrestricted net assets decreased \$50,281. The fund operated at a surplus for 2010 of \$2,737,082. Park View had a profit for the current year primarily because we levy property taxes to pay principal on debt. The amount of this levy was \$2,446,811. This levy shows up as revenue on the statement of activities. The pay down of principal on debt does not show up on proprietary fund income statements. So the net result is a large revenue without an offsetting expense. A pay down of debt on capital assets increases the "investment in capital assets net of related debt" on the equity section of the balance sheet. So most of the surplus closed out to the "investment in capital assets, net of related debt" rather than unrestricted net assets. The remainder of the 2010 surplus was primarily due to labor costs coming in under budget.

The Highway Department's unrestricted net assets decreased \$621,942. The department operated at a deficit of \$722,024 for 2010. The investment in capital assets decreased \$100,082 because depreciation of capital assets exceeded new additions. This has the result of decreasing the investment in capital assets. A decrease in this account results in a corresponding increase in unrestricted net assets. The operating deficit for the year is primarily due to a slow down in work from the State and other municipalities. Many have cut back on road improvements due to their own budget shortfalls. We also transferred \$357,000 to county road maintenance projects.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to a net increase in appropriations of \$644,130 and can be briefly summarized as follows:

- \$460,565 is primarily due to carryovers of appropriations from 2008 to 2009. Departments that had large carryover amounts are: Facilities, County Road Maintenance, Land Records Modernization, Land & Water Conservation Department and Sheriff.
- Additional funds of \$100,000 were needed to make improvements to a boat landing, \$50,000 was donated to a renovation of a theater and some other small adjustments make up the balance.

Revenues were under budgetary estimates – explanation:

During this year, revenues were under budget by \$1,537,113. This represents a variance of 1.7% from budget. A few items to note are as follows:

- Intergovernmental revenues were under by \$878,446. The largest area is in operating grant revenue where Land & Water Conservation, Parks Boat Launch Program and Water Shed projects received

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grants well under the projected amounts. On the other hand, spending was down related to these grants. Many of these grants are reimbursement programs. If you don't spend the money, you don't get the reimbursement grant revenue. Many landowner storm water projects were not done which is why the Land & Water grant money was not received.

- Child Support administrative grant revenue was under budget by \$89,000.
- Sheriff Department public service and intergovernmental revenues were down a combined \$401,000. Projecting jail revenues can be difficult because it tends to be inconsistent from year to year. We are also housing more of our own prisoners so are not able to obtain revenues from boarding prisoners of other counties or the state.
- Investment income was under budget by \$231,000 due to falling interest rates during 2010.

Expenditures were less than budgetary estimates – explanation:

Actual operating expenditures were less than budget by \$3,774,255. Some of the main reasons include:

- All departments – wages and benefits were under budget by a combined total of \$1,133,277. This is primarily due to a bad economy, the state budget repair bill, state tax levy and rate limits and falling property values. We had budgeted for an increase in wages and benefits. Instead they were flat because most union contracts settled with no pay increases for 2010.
- All departments – travel expenses were under budget a combined total of \$198,763. With the economic conditions and tax rate and levy freezes, many departments cut their travel budgets to conserve funds that are projected to be needed in future years.
- Small Equipment was under budget county wide by \$144,359. Departments that were considerably under budget include Technology Replacement and the Boat Launch Program.
- Utilities were under budget by \$100,000. We had a new building placed in service and an old nursing home building taken out of service during 2010, making it difficult to estimate costs. We budgeted on the conservative side, thus the positive variance.
- Medical and Dental was under budget a combined total of \$140,425. Departments that were considerably under budget include; District Attorney, Jail and the Court System.
- Operating grants expense was under budget a combined total of \$689,928. Departments that were considerably under budget include; County Road Maintenance, Land & Water Conservation and Watershed Projects. The large variance from County Road Maintenance was primarily from grants to municipalities for bridge aid. Some projects were not done during 2010 so the funds were not disbursed. Land and Water had a significant variance because this includes many land owner water run off projects that were not done during 2010.
- There were many other positive variances through out other expense accounts in the general fund that make up the balance of the variance but individually, they are all smaller.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

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Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of December 31, 2010 amounts to \$212,489,000 (rounded and net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The total increase in the government's investment in capital assets for the current fiscal year was \$ 8,645,000 or 4.2% (a 1.9% increase for governmental activities and a 10.2% increase for business-type activities). Major capital asset events during the current fiscal year included the following:

Governmental Activities:

The total change in capital assets for the governmental activities was an increase of \$2,785,000.

- Construction in Process – there was a net increase of about \$5 million. The continued work on County Highway E added \$2.5 million, while the remodeling of a building we purchased for additional office and other user space added \$1.4 million. New financial accounting software and implementation costs added \$389,000. The rest of the increase is additional smaller road resurfacing and reconstruction projects.
- These additions are partially offset by current year depreciation expense which reduces capital assets.

Business Type Activities:

The total change in capital assets for the business type activities was an increase of \$5,860,000.

- Runway reconstruction projects make up most of the fixed asset changes in the business type accounts. Runway reconstruction projects during 2010 totaled \$7,145,000.
- The increases related to new additions are partially offset by depreciation expense. The net result being an increase in capital assets (net of accumulated depreciation).

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Winnebago County's Capital Assets (net of accumulated depreciation) (Amounts Expressed in \$1,000's)						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 2,958	\$ 2,958	\$ 8,413	\$ 8,413	\$ 11,371	\$ 11,371
Buildings	54,212	55,629	28,346	29,594	82,558	85,223
Improvements other than buildings	4,618	4,533	15,103	8,227	19,721	12,760
Machinery, equipment and vehicles	8,381	9,071	10,740	9,669	19,121	18,740
Infrastructure	66,137	66,286	-	-	66,137	66,286
Construction in progress	12,996	8,040	585	1,424	13,581	9,464
Total	\$ 149,302	\$ 146,517	\$ 63,187	\$ 57,327	\$ 212,489	\$ 203,844

Additional information on the County's capital assets can be found in the footnotes on pages 69-71 of this report.

Long-term debt. At the end of the current fiscal year, the County had total bonded debt outstanding of \$59,930,000, backed by the full faith and credit of the County.

Winnebago County's Outstanding Debt General Obligation Debt (Amounts Expressed in \$1,000's)						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
General obligation notes	\$ 37,812	\$ 33,666	\$ 16,984	\$ 18,061	\$ 54,796	\$ 51,727
General obligation bonds	3,583	3,785	1,551	1,640	5,134	5,425
Total	\$ 41,395	\$ 37,451	\$ 18,535	\$ 19,701	\$ 59,930	\$ 57,152

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The County's total general-obligation debt increased \$ 2,778,000 (4.9%) during the current year. There were four borrowing transactions that occurred during 2010:

- There was a refunding that was issued February 9, 2010, in the amount of \$7,895,000. These notes were issued to retire our Series 2002 notes. The refunding issue will be fully paid on April 1, 2012. The net present value savings from this refinancing are \$373,908, resulting from lower interest rates.
- New Promissory Notes (Build America Bonds) were issued on November 2, 2010, in the amount of \$12,875,000. Proceeds of these notes would pay for the purchase of a building and remodeling for administrative departments and some operational departments, a storage and physical therapy building attachment to our nursing home, demolition of our old nursing home buildings and preparing the land for future use, new financial software, several road resurfacing and reconstruction projects, some technology upgrades and parking lot resurfacing projects. These notes were issued with a 10-year payback period.
- Another borrowing was done from the State Trust Fund Loan Program in the amount of \$1,057,500, and in turn loaned to our Housing Authority to remodel and add energy efficiency improvements to two low income elderly housing units.
- Another borrowing was done from the State Trust Fund Loan Program in the amount of \$125,000, and in turn loaned to our East Central Regional Planning Commission so they could refinance their past service pension liability.

Total payments of general obligation debt and debt retired through refunding equaled \$19,281,000.

Winnebago County maintains an Aa2 rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5 percent of its total equalized valuation. The current debt limitation for the County is \$595,848,000, which is significantly in excess of its outstanding general obligation debt of \$59,930,000. The County has a debt service fund balance of \$929,617.

Additional information on the County's long-term debt can be found in the footnotes on pages 73-76 of this report.

Economic Factors and Next Year's Budgets and Rates

- The Wisconsin economy grew in 2010. Employment increased 32,600 December 2010 over December 2009. Personal income has increased four consecutive quarters through third quarter 2010. The labor market has lagged the recovery in 2010, but should gain momentum due to the improvement in domestic demand. Wisconsin employment should grow 1.3% in 2011 and 1.9% in 2012.
- Inflation will stay very low through 2013. Despite the increase in commodity prices, IHS Global Insight expects CPI to grow 1.9% in 2011 and 1.9% in 2012, helped by weakening core inflation and negligible wage inflation.

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- Wisconsin employment declined 4.5% in 2009 and 0.8% in 2010. Wisconsin started to modestly add jobs in January 2010, but the gains were not enough to lift total annual employment above 2009. Wisconsin employment will grow between 1% and 2% per year between 2011 and 2014.
- Wisconsin personal income declined 0.9% in 2009 but posted year-over-year gains in the first three quarters of 2010. The forecast anticipates an increase of 3.2% in 2010 and 3.9% in 2011.
- Personal Income Outlook: After falling for the first time in 50 years during 2009, Wisconsin personal income resumed growth in 2010. Wisconsin posted year-over-year growth of 4.0% in the third quarters of 2010, compare to 3.6% nationally. The forecast expects a final annual growth of 3.2% in 2010 compared to 3.0% nationwide. The outlook then calls for Wisconsin personal income to grow 3.9% in 2012 and 2.8% in 2013, somewhat below the forecasted growth of national personal income.
- State Gross Domestic Product (GDP) data is released on an annual basis. The latest data show that Wisconsin real GDP fell 2.1% in 2009, below the 2.6% decline of national real GDP. The forecast expects a 2.6% increase in real Wisconsin GDP in 2010 and 2.9% in 2011.
- The general fund finished the year with an undesignated fund balance of \$14,775,112, an increase of \$3,348,581 from last year. Based on our informal fund balance policy, this amount is \$1,795,049 above our minimum working capital target. This money is available to meet unforeseen events and needs.

These factors were considered in preparing the County's budget for the 2011 fiscal year.

As part of Wisconsin's State Budget Bill (1993 Act 16), legislation was passed that limits the County's future tax rates. The budget bill also separated the rates into an operating rate and a debt service rate. Generally, the County is limited to its 1992 tax rates. However, this limitation does not affect debt authorized prior to August 12, 1993, or refunding bonds.

The operating tax rate was further restricted during the 2005 State Legislative session; the legislature with the Governor's approval enacted the following:

Section 66.0602 Local Levy Limits:

1. Except as provided in subs. (3), (4), and (5), no political subdivision may increase its levy in any year by a percentage that exceeds the political subdivision's valuation factor. The valuation factor is equal to the percentage change in the political subdivision's January 1 equalized value due to new construction less improvements removed between the previous year and the current year, but not less than 3% (for budget year 2011).
2. Debt service continues to be exempt from the levy limit freeze for all debt issued prior to July 1, 2005. Debt issued after July 1, 2005 will also be exempt if certain conditions are met. One of those is that the governing body can approve the bond issue by a $\frac{3}{4}$ vote. Winnebago County has used this provision to exceed rate limits in the past and will likely continue to do so.
3. Penalties will be imposed upon any governing body that exceeds these levy limits.

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The County may also exceed the limitation by holding a referendum (according to state statutes) authorizing the County Board to approve higher rates. The County may also exceed the rates if it increases the services it provides through a transfer of these services from another governmental unit.

The debt service tax rate limit was frozen at \$0.31. The debt service rate that was adopted with the 2011 budget is \$1.07. We have been able to exceed the limit by using the 2nd exception listed below:

Generally, referendum approval is required to issue unlimited tax general obligation debt, with the following exceptions:

- Refunding debt issues
- Approval by the County Board by a vote of $\frac{3}{4}$ ths of the full board.
- A reasonable expectation that the new debt can be accommodated within the existing tax rate
- Other exceptions as listed in State Statutes Section 67.045

The 2010 tax levy and rate are within the limitations contained in state laws.

Requests for Information

This financial report is designed to provide a general overview of Winnebago County, Wisconsin'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 the Office of the Finance Director, P.O. Box 2808, Oshkosh, WI 54903-2808.