

**FORT BEND GRAND PARKWAY TOLL ROAD
AUTHORITY
FINANCIAL REPORT
For the Year Ended September 30, 2011**



Prepared by:

Fort Bend County Auditor's Office

Robert Ed Sturdivant, CPA

County Auditor

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
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COUNTY AUDITOR

Fort Bend County, Texas

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County Auditor

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March 9, 2012

To the Board of Directors of the Fort Bend Grand Parkway Toll Road Authority, Members of the Commissioners' Court, and Citizens of Fort Bend County, Texas:

The Fort Bend County Auditor's Office is pleased to present the Basic Financial Statements of the Fort Bend Grand Parkway Toll Road Authority ("Authority"), a component unit of Fort Bend County ("County"), for the fiscal year ended September 30, 2011. This report is submitted in accordance with Section 114.025 of the Texas Local Government Code and was prepared by the staff of the County Auditor's Office.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Sandersen Knox and Company, LLP has issued an unqualified (or "clean") opinion on the Authority's financial statements for the year ended September 30, 2011. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Authority

In 2007, during the 80th Texas Legislature, Senate Bill 792 was signed into law giving counties the option to take over development of the Grand Parkway from the Texas Department of Transportation (TxDOT). In September of 2009, Fort Bend County Commissioner's Court ("Court") signed their order to assume the responsibility of financing, designing, constructing, operating and tolling Segment D of the Grand Parkway. The Authority was created by the Court as a local government corporation pursuant to the Texas Transportation Code.

The Authority, located in Sugar Land, Texas, is underway with this new key mobility project for the County; Segment D of the Grand Parkway. Segment D of the Grand Parkway will be the third such effort by the County to provide alternative transportation options for Fort Bend County residents and the greater Houston area in the form of a toll road.

In May of 2011, the Authority executed the "Right of Use" agreement with TxDOT allowing the Authority to use state highway right-of-way (ROW) and giving the green light to begin construction of the nine (9) new tolled overpasses and eight (8) miles of main-lane development that ultimately create Segment D of the Grand Parkway. Construction of the first two overpasses began in August of 2011 with the additional overpasses and main-lanes construction to begin early summer of 2012.

Local Economy

The County continues to experience the impact of the national economic slowdown. The impact of the slowdown is evident in the reduction in new home sales, a slightly lower increase in the labor force, and an increase in the unemployment rate. However, this has not decreased the demand for mobility improvements by the citizens of the County. The Authority plans to use a conservative approach to the allocation of resources to serve the County's needs in relation to the development of the Grand Parkway Toll Road to ensure that the County is prepared as the economic slowdown continues. This ongoing conservative approach will not change the Authority's focus on providing the level of service demanded by the residents of the County.

Long-Term Financial Planning and Relevant Financial Policies

Budget

The Authority adopts a one-year budget through its fully coordinated financial planning process. The budget implements strategies, both financial and operational, identified through the strategic and long-range planning process to meet existing challenges and to effectively plan for future needs. The budget is a financial plan for a fiscal year of operations that matches all planned revenues and expenses with the services provided the citizens of the County based on the established budget policy. Decisions are not based solely on current conditions but on the long-term welfare of the community. The budget is developed and resources allocated based on the vision, mission, and goals of the Authority and County.

Long-Term Comprehensive Plan

The Authority's long-term plan is to manage, maintain, and expand the Grand Parkway Toll Road by adding tolled overpasses to the existing road to enhance the County's master thoroughfare system.

Capital Improvement Program

The Authority maintains a multi-year Capital Projects Plan that includes toll road mobility projects.

These capital initiatives involve the construction of tolled overpasses at West River Park, New Territory Blvd., US90A/FM1464, West Airport, Harlem Road, Mason Road, West Belfort/Morton Road, Peek Road (design only), Bellaire Blvd., and FM1093/Westpark Tollway.

Debt Policy

The purpose of the County's Debt Policy (which includes the Authority) is to establish guidelines for the utilization of debt instruments issued by the County and Authority whether payable from County taxes or payable from certain revenues of the County or Authority.

The County and Authority will ensure all uses of debt instruments are in compliance with all statutory requirements, and in accordance with the guidelines, outstanding ordinances, insurance covenants, and existing agreements. Further, the County and Authority will ensure that the utilization of any debt instrument provides the most prudent and cost-effective funding possible, taking all material matters into

account.

Major Initiatives

Mobility remains one of the top priorities of the Authority as the County continues to grow and develop. With the major roadways already heavily congested, mobility has been, and continues to be, a primary concern. Continued residential and commercial expansion has increased the use of County roads. Right-of-way acquisitions for future roads have required more focus on future planning to prevent project delays. Completed toll road projects have proven to be effective in reducing congestion and enhancing safety within the County.

Acknowledgements

The preparation of this report could not be achieved without the efficient and dedicated services of the staff of the County Auditor's Office and Sandersen Knox & Company, LLP, our independent auditor.

Respectfully submitted,



Robert E. Sturdivant, CPA
County Auditor
Fort Bend County, Texas

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY MISSION STATEMENT
The Fort Bend Grand Parkway Toll Road Authority (FBGPTRA) was created by the Fort Bend County Commissioners Court as a local government corporation pursuant to the Texas Transportation Code, to aid, assist, and act on behalf of the County in the performance of its essential government purposes, including toll road projects.





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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fort Bend Grand Parkway Toll Road Authority
Fort Bend County, Texas

We have audited the accompanying financial statements of the Fort Bend Grand Parkway Toll Road Authority (the "Authority") as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of Fort Bend County, Texas, as of September 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been

subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Sankar & Co." with a period at the end.

Sugar Land, Texas
March 9, 2012

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fort Bend Grand Parkway Toll Road Authority ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$3,745,020 at the close of the most recent fiscal year.

As of September 30, 2011, the Authority's net assets included \$8,778,577 for investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority had \$12,523,669 in other liabilities for short-term borrowings from the Fort Bend County Toll Road Authority (\$2 million) and Fort Bend County (approximately \$10.3 million). The Authority uses capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Since the Authority had no financial activity prior to the fiscal year ended September 30, 2011, there is no comparative information to report until the fiscal year ended September 30, 2012.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
CONDENSED STATEMENT OF NET ASSETS

September 30, 2011

| | <u>2011</u> |
|--|-------------------------------------|
| Current and other assets | \$ 72 |
| Capital assets, net | <u>8,778,577</u> |
| Total Assets | 8,778,649 |
| Long-term liabilities | |
| Other liabilities | <u>12,523,669</u> |
| Total Liabilities | 12,523,669 |
| Net Assets: | |
| Invested in capital assets, net of related debt | 8,778,577 |
| Unrestricted | <u>(12,523,597)</u> |
| Total Net Assets | <u><u>\$ (3,745,020)</u></u> |

The Authority's liabilities exceeded its assets by \$3,745,020. This deficit is due to the Authority using short-term financing to achieve all operating and capital activities.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS

For the year ended September 30, 2011

| | <u>2011</u> |
|------------------------------|-----------------------|
| Revenues | |
| Non-operating revenues: | |
| Miscellaneous income | \$ 72 |
| Total Revenues | <u>72</u> |
| Expenses | |
| Operating expenses: | |
| Fees | 3,712,411 |
| Operating interest | 32,681 |
| Total Expenses | <u>3,745,092</u> |
| Change in Net Assets | (3,745,020) |
| Net Assets, Beginning | |
| Net Assets, Ending | <u>\$ (3,745,020)</u> |

At the end of the current fiscal year, the Authority reported a deficit balance in net assets of \$3,745,020.

The Authority has no completed components as of September 30, 2011 therefore no operating revenues were recognized. The key element of the decrease in net assets was due to approximately \$3.7 million in fees for consulting, engineering, legal, and administrative activities.

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2011, the Authority had \$8,778,577 invested in toll road construction in progress, as reflected in the following schedule.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY'S
CAPITAL ASSETS

| | <u>2011</u> |
|---------------------------------------|---------------------|
| Non-Depreciable Capital Assets | |
| Construction in progress | \$ 8,778,577 |
| Totals | <u>\$ 8,778,577</u> |

Additions to toll road construction in progress were the result of construction activities on the West River Park, and West Airport overpasses.

Economic Factors

The County continues to enjoy growth in various demographic areas during this ongoing economic slowdown.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The population of the County is estimated at 606,786 in 2011 and is expected to grow by 4.44% annually through 2015. Total employment is estimated at 235,961 in 2011 and is expected to grow by 3.37% annually over the same period.

The number of households has increased to 195,264 in 2011 and is expected to grow to 230,330 by 2015. Mean household income for 2011 is \$129,337 and is estimated to rise to \$146,579 by 2015. Income per capita is currently at \$41,986 and is expected to grow to \$48,116 by 2015. Retail sales increased by 7.8% to \$6.19 billion in 2011 and are expected to grow to \$7.37 billion by 2015.

Mobility improvements continue to be a demand from the residents of Fort Bend County. The Authority is proceeding with several toll road projects that will enhance and compliment the County's road system.

Requests for Information

This financial report is designed to provide a general overview of Authority's finances for all of those with an interest in the Authority's finances. Questions concerning this report or requests for additional financial information should be directed to Ed Sturdivant, County Auditor, 301 Jackson, Suite 533, Richmond, TX 77469, telephone (281) 341-3760.



BASIC FINANCIAL STATEMENTS



FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2011

Assets

| | | |
|---|----|------------------|
| Cash and cash equivalents | \$ | 72 |
| Capital assets, not subject to depreciation | | 8,778,577 |
| Total Assets | | <u>8,778,649</u> |

Liabilities and Net Assets

Liabilities

| | | |
|---|--|-------------------|
| Due to primary government | | 10,286,786 |
| Due to Fort Bend County Toll Road Authority | | 2,000,000 |
| Retainage payable | | 204,202 |
| Accrued interest payable | | 32,681 |
| Total Liabilities | | <u>12,523,669</u> |

Net Assets

| | | |
|--|--|-----------------------|
| Invested in capital assets, net of related debt | | 8,778,577 |
| Unrestricted | | (12,523,597) |
| Total Net Assets | | <u>\$ (3,745,020)</u> |

The accompanying notes are an integral part of these financial statements.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011

| | |
|--|------------------------------|
| Operating Expenses | |
| Fees | \$ 3,712,411 |
| Operating interest | 32,681 |
| Total Operating Expenses | <u>3,745,092</u> |
| Operating (Loss) | (3,745,092) |
| Non-Operating Revenues | |
| Miscellaneous income | 72 |
| Total Non-Operating Revenues | <u>72</u> |
| Change in Net Assets | (3,745,020) |
| Total Net Assets, Beginning of Year | |
| Total Net Assets, End of Year | <u><u>\$ (3,745,020)</u></u> |

The accompanying notes are an integral part of these financial statements.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Fort Bend Grand Parkway Toll Road Authority (“Authority”) is organized under the Texas Transportation Corporation Act and the Texas Non-Profit Corporation Act. The Authority was created to assist in the planning, designing, financing and building of Grand Parkway/State Highway 99. In particular, the Authority is to assist in the building and operation of the Grand Parkway Toll Road. This Toll Road system includes tolled overpasses at West River Park, New Territory Blvd., US90A/FM1464, West Airport, Harlem Road, Mason Road, West Belfort/Morton Road, Peek Road (design only), Bellaire Blvd., and FM1093/Westpark Tollway.

Based on criteria prescribed by generally accepted accounting principles, the Authority is considered a discretely presented component unit of Fort Bend County, Texas (“the County”). The primary criteria for the inclusion of the Authority in the County’s reporting entity is that of financial accountability. The Commissioners’ Court, the elected governing body of the County, appoints the Authority’s governing body. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will. As such, the County is financially accountable for the Authority and the Authority is considered a discretely presented component unit of the County.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included in the statement of net assets.

C. Cash and Cash Equivalents

The Authority’s cash and cash equivalents consist of demand deposits and investment pools.

D. Receivables

Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

E. Capital Assets

Capital assets consist of infrastructure that is used in the Authority’s operations. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and the resulting gain or loss is included in the results of operations.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets (continued)

The Authority applies a half-year convention for depreciation on all assets. Therefore, one-half year of depreciation is charged to operations the first and last year that an asset is in service. Depreciation is computed using the straight-line method over an estimated useful life of 20 to 40 years.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

G. Restricted/Unrestricted Net Assets

It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Date of Management's Review

In preparing the financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through March 9, 2012, the date that the financial statements were available to be issued.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS

A. Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Authority.

In accordance with applicable statutes, the County has a depository contract with an area bank (depository) providing for interest to be earned on deposited funds and for banking charges the Authority incurs for banking services received. The Authority may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. County policy requires the collateralization level to be at least 110% of market value of principal and accrued interest.

Commissioners' Court has adopted a written investment policy regarding the investment of the Authority's funds as defined by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the Authority are in compliance with this policy.

FORT BEND GRAND PARKWAY TOLL ROAD AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

B. Concentration of Credit Risk

It is the County's policy to diversify its portfolio to eliminate the risk of loss resulting from a concentration of assets in a specific maturity (save and except zero duration funds), a specific issuer or a specific class of investments. The County manages adherence to this policy for the Authority. To achieve this diversification, the County will limit investments in specific types of securities to the following percentages of the total portfolio:

| Investment Type | Maximum Investment % |
|--|----------------------|
| Repurchase Agreements | up to 35% |
| Certificates of Deposit | up to 50% |
| U.S. Treasury Bills/Notes | up to 100% |
| Other U.S. Government Securities | up to 80% |
| Authorized Local Government Investment Pools | up to 80% |
| No Load Money Market Mutual Funds | up to 50% |
| Bankers Acceptances | up to 15% |

At September 30, 2011, 100% of the Authority's cash and cash equivalents were contained in demand deposit accounts.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The County monitors interest rate risk for the Authority by utilizing weighted average maturity analysis. In accordance with its investment policy, the County reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 3 years. At year-end, the Authority's cash and investment balances and the weighted average maturity of these investments were as follows:

| | Fair Value | Weighted Average Maturity | Percentage of Total Portfolio |
|--|------------|---------------------------|-------------------------------|
| Demand Deposits | \$ 72 | 1 | 100.0% |
| Total Cash and Cash Equivalents | \$ 72 | | |
| Portfolio weighted average maturity (days) | | 1 | |

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