

**FORT BEND FLOOD CONTROL  
WATER SUPPLY CORPORATION**

**FORT BEND COUNTY, TEXAS  
Financial Report**

**September 30, 2009**



3411 Richmond Avenue, Suite 500  
Houston, Texas 77046  
(713) 621-1515



**FORT BEND FLOOD CONTROL  
WATER SUPPLY CORPORATION**  
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## **FINANCIAL SECTION**

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## Independent Auditors' Report

To the Board of Directors  
Fort Bend Flood Control Water Supply Corporation  
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend Flood Control Water Supply Corporation, (the "Corporation"), as of and for the year ended September 30, 2009, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend Flood Control Water Supply Corporation as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Houston, Texas  
January 27, 2010

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# **FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Fort Bend Flood Control Water Supply Corporation (the Corporation), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended September 30, 2009.

### **Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Corporation'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 Corporation is improving or deteriorating.

The *statement of activities* presents information showing how the Corporation'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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements report on the function of the Corporation that is principally supported by general revenues received from Fort Bend County. The Corporation was created under Chapter 67, Texas Water Code (formerly Article 1434a, Texas Revised Civil Statutes) for the purpose of providing flood control and drainage systems for towns, cities, other political subdivisions, private corporations, individuals and other persons of Fort Bend County.

The government-wide financial statements can be found on pages 8 and 9 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 Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation maintains a debt service fund and a capital projects fund on the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance.

The debt service fund and capital projects fund are governmental funds used to account for essentially the same function 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. Such information may be useful in evaluating a government's near-term financing requirements.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Because the focus of the debt service and capital projects funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the debt service and capital projects 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 financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*.

The basic governmental fund financial statements can be found on pages 10 and 11 of this report.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the governmental fund financial statements in this report.

**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 Corporation, liabilities exceeded assets by \$5.8 million as of September 30, 2009. Below is a condensed schedule of net assets for the Corporation as of September 30, 2009 and 2008 (in \$000's).

	<u>2009</u>	<u>2008</u>
Current assets	\$ 4,604	\$ 4,602
Total Assets	<u>4,604</u>	<u>4,602</u>
Liabilities		
Current liabilities	64	55
Long-term liabilities	<u>10,390</u>	<u>10,550</u>
Total Liabilities	<u>10,454</u>	<u>10,605</u>
Net Assets (Deficit)	<u>\$ (5,850)</u>	<u>\$ (6,003)</u>

This deficit balance is directly attributable to the approximately \$10.4 million of bonds payable that the Corporation has outstanding at September 30, 2009. The Corporation issues debt to finance the construction of flood control and drainage improvement projects. The Corporation constructs flood control and drainage improvement projects pursuant to contracts with Fort Bend County. Under each contract, the Corporation agrees to issue bonds to finance the construction of drainage improvements, to construct drainage improvements to the respective creek, and to convey the completed improvements to Fort Bend County.

Under each contract, Fort Bend County agrees to levy and assess an ad valorem tax against all taxable property in the County in an amount sufficient to pay the debt service on the Corporation's bonds. The Corporation has entered into a contract for the construction of drainage improvements on Oyster Creek and another contract for the construction of improvements on Big Creek. Under the Oyster Creek project, Fort Bend County agreed to impose an impact fee on development within the Oyster Creek watershed to provide an additional source of revenue.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Once a project is completed, the project is turned over to Fort Bend County and the Corporation does not record these projects as capital assets in its financial statements. Most flood control projects only involve increasing the width or depth of an existing creek channel. In general, the Corporation purchases fee title to the drainage right-of-way, and convey the drainage channel to Fort Bend County. Once projects are completed, any purchased property is conveyed to Fort Bend County (the County), and is recorded as a capital asset in the County's financial statements. In summary, the Corporation issues debt to finance flood control projects, but does not record the "completed project" as a capital asset in its financial statements. Therefore, in general, the liabilities of the Corporation will always exceed its assets.

The following table is a condensed schedule of changes in net assets for the years ended September 30, 2009 and 2008 (in \$000's):

	<u>2009</u>	<u>2008</u>
General revenues		
Property taxes from County	\$ 570	\$ 3,120
Impact fees	119	275
Earnings on investments	71	165
Total General Revenues	<u>760</u>	<u>3,560</u>
Program Expenses		
Flood control projects	77	607
Interest and fiscal charges on long-term debt	530	591
Total Program Expenses	<u>607</u>	<u>1,198</u>
Change in Net Assets	153	2,363
Beginning Net Assets (Deficit)	<u>(6,003)</u>	<u>(8,365)</u>
Ending Net Assets( Deficit)	<u>\$ (5,850)</u>	<u>\$ (6,003)</u>

For the year ended September 30, 2009, the Corporation's general revenues consisted primarily of property taxes, impact fees collected by the Fort Bend County Drainage District, and investment income. Because impact fees and investment income were not sufficient to satisfy the required debts service payments on the Corporation's bonds, Fort Bend County provided property tax revenues of approximately \$570,000. Property tax revenues allocated to the Corporation's debt service decreased from the previous year due to the maturity of the 1995 series bonds and 1999 series refunding bonds. Impact fees continue to decrease due to the areas in which the Corporation earns such revenues becoming fully developed. Planned decreases in expenses for the Big Creek flood control project accounted for the decrease in program expenses by approximately \$530,000 continue to account for a decrease in program expenses, in addition to lower interest expense of \$62,000 from prior year as a result of a decrease in bond payable balance..

**Fund Financial Analysis**

As of September 30, 2009, the Corporation's governmental funds, which consist of a debt service fund and a capital projects fund, reported an ending fund balance of \$4.6 million. The Corporation's main source of revenue is property taxes and impact fees, which totaled \$570,000 and \$119,000 respectively, for the year ended September 30, 2009. The Corporation's ending fund balance primarily represents the proceeds from the Corporation's 2001 series revenue bonds that were issued to fund the Big Creek project.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*

**Debt Administration**

As of September 30, 2009, the Corporation has \$10.4 million of bonds payable which mature in 2021. Below is a description of the bonds outstanding at September 30, 2009 and 2008 (in \$000's):

	<u>2009</u>	<u>2008</u>
FBFCWSC Series 2001 Bonds	\$ 10,390	\$ 10,550

**Contacting the Corporation's Management and Obtaining Financial Information**

Any questions or concerns regarding the Corporation should be directed to management of the Corporation: Fort Bend Flood Control Water Supply Corporation, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway Suite 2600, Houston, Texas 77027. This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Fort Bend County Auditor's Office: Ed Sturdivant, County Auditor, Fort Bend County, Texas, 301 Jackson Suite 533, Richmond, Texas 77469.

## **Basic Financial Statements**

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**STATEMENT OF NET ASSETS**  
*September 30, 2009*

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 4,603,900
<b>Total Assets</b>	<u>4,603,900</u>
<b>Liabilities</b>	
Due to other funds	20,275
Accrued interest payable	43,468
Long-term liabilities due within one year	160,000
Long-term liabilities due in more than one year	10,230,000
<b>Total Liabilities</b>	<u>10,453,743</u>
<b>Net Assets (Deficit)</b>	
Unrestricted	(5,849,843)
<b>Total Net Assets (Deficit)</b>	<u>\$ (5,849,843)</u>

See Notes to Financial Statements.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

**STATEMENT OF ACTIVITIES**

*For the Year Ended September 30, 2009*

	<u>Governmental Activities</u>
<b>Program Expenses</b>	
Flood control projects	\$ 77,058
Interest and fiscal charges on long-term debt	529,871
<b>Total Program Expenses</b>	<u>606,929</u>
<b>General Revenues</b>	
Property taxes	570,276
Impact fees	118,964
Earnings on investments	70,452
Miscellaneous	
<b>Total General Revenues</b>	<u>759,692</u>
<b>Increase in Net Assets</b>	152,763
Net (Deficit), Beginning	<u>(6,002,606)</u>
<b>Net (Deficit), Ending</b>	<u>\$ (5,849,843)</u>

See Notes to Financial Statements.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

*September 30, 2009*

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$	\$ 4,603,900	\$ 4,603,900
<b>Total Assets</b>	<u>\$</u>	<u>\$ 4,603,900</u>	<u>\$ 4,603,900</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Due to other funds		20,275	20,275
<b>Total Liabilities</b>		<u>20,275</u>	<u>20,275</u>
<b>Fund Balances</b>			
<b>Unreserved:</b>			
Designated for capital projects		4,583,625	4,583,625
<b>Total Fund Balances</b>		<u>4,583,625</u>	<u>4,583,625</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$</u>	<u>\$ 4,603,900</u>	<u>\$ 4,603,900</u>

**Adjustments for the Statement of Net Assets:**

**Fund Balances - Governmental funds** \$ 4,583,625

Long-term liabilities, including accrued interest & bonds payable, are not due & payable in the current period and therefore, are not reported as liabilities in the government funds, resulting in decreases to Net Assets.

Accrued interest	(43,468)
Bonds payable	<u>(10,390,000)</u>
<b>Net (Deficit) of Governmental Activities</b>	<u>\$ (5,849,843)</u>

See Notes to Financial Statements.



**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES*

*IN FUND BALANCES - GOVERNMENTAL FUNDS*

*For the Year Ended September 30, 2009*

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 570,276	\$	\$ 570,276
Impact fees	118,964		118,964
Earnings on investments		70,452	70,452
<b>Total Revenues</b>	<u>689,240</u>	<u>70,452</u>	<u>759,692</u>
<b>Expenditures</b>			
<b>Current operating:</b>			
Flood control projects		77,058	77,058
<b>Debt Service</b>			
Principal retirement	160,000		160,000
Interest and fiscal charges	529,240		529,240
<b>Total Expenditures</b>	<u>689,240</u>	<u>77,058</u>	<u>766,298</u>
<b>Net Change in Fund Balance</b>		(6,606)	(6,606)
Fund balances - Beginning		<u>4,590,232</u>	<u>4,590,232</u>
<b>Fund Balances - Ending</b>	<u>\$</u>	<u>\$ 4,583,625</u>	<u>\$ 4,583,625</u>
<b>Net changes in fund balances - governmental funds</b>			\$ (6,606)
<b>Adjustments for the Statement of Activities:</b>			
Payments of principal on bonds payable are reported as expenditures in the governmental funds, but these payments reduce long-term liabilities in the Statement of Net Assets.			160,000
An accrual for interest expense is not recognized in the governmental fund basis but is in the statement of activities. Interest accrual includes interest on long term debt. The interest accrual was less this year than last year thereby increasing net assets.			<u>(631)</u>
<b>Change in Net Assets of Governmental Activities</b>			<u>\$ 152,763</u>

See Notes to Financial Statements.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

These financial statements include all of the funds and activities of the Fort Bend Flood Control Water Supply Corporation (the “Corporation”).

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the Corporation’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Corporation is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining whether the Corporation’s financial reporting entity status is that of a primary government are whether it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Based on criteria prescribed by generally accepted accounting principles, the Corporation is considered a component unit of Fort Bend County, Texas (the “County”). The primary criteria for the inclusion of the Corporation in the County’s reporting entity, is that of financial accountability. The Commissioners Court, as the elected governing body of the County, appoints the members of the Board of the Corporation (a legally separate entity). As such, the Commissioners Court, has the ability to significantly influence the operations of the Corporation by approving all budgets, borrowings, disbursements, and other transactions. The Corporation was organized for the benefit of the County to provide for funding and construction of flood control and drainage projects for the County. When flood control projects and improvements are completed, they are conveyed to the County and are maintained by the Fort Bend County Drainage District (the “District”).

Additionally, as required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the Corporation’s financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the Corporation’s financial reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information about the Corporation as a whole and include all activities of the Corporation. The effect of interfund activity has been eliminated from the government-wide statements. All of the Corporation’s activities are reported as governmental activities, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

# **FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide 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 on the statements of net assets.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

In the fund financial statements, the accounts of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The following is a description of the various funds:

#### ***Debt Service Fund***

The Debt Service Fund is used to account for payment of principal and interest on long-term debt.

#### ***Capital Projects Fund***

The Capital Projects Fund is used to account for the resources that are restricted to the construction and acquisition of major flood control projects and improvements.

#### **D. Flood Control Projects and Improvements**

The Corporation was formed for the purpose of financing and constructing flood control projects and improvements. Once a flood control project is completed, any land or easements purchased by the Corporation during the project is conveyed to Fort Bend County and is then maintained by the Fort Bend County Drainage District. Fort Bend County then records the land and easements as infrastructure in its annual financial statements. Therefore, the Corporation does not record any capital assets.

#### **E. Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements. In addition, these estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **F. Cash and Cash Equivalents**

The Corporation's cash consists of demand deposits and investment pools.

#### **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

##### **A. Budgets**

The Commissioners Court adopts an annual appropriations budget for the County-wide Debt Service Fund. No individual appropriations style budget is adopted for the Corporation's individual Debt Service Fund.

No annual budget is adopted for the Capital Projects Fund. Effective budgetary control in the Capital Projects Fund is achieved through individual project budgeting.

##### **B. Deficit Net Assets**

The Corporation's deficit net assets balance as of September 30, 2009 is a reflection of the Corporation's organization and purpose. As previously discussed, the Corporation was formed to provide financing for flood control projects. Once the projects are complete, any infrastructure that has been purchased, such as land or easements, is conveyed to the County and reported as a capital asset in the County's financial statements. Therefore, the debt issued by the Corporation to finance these flood control projects is not offset by capital assets acquired from these projects, resulting in a deficit net assets balance.

#### **NOTE 3 - 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 Corporation.

In accordance with applicable statutes, the Corporation has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the Corporation incurs for banking services received. The Corporation 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. Corporation policy requires the collateralization level to be at least 100% of market value of principal.

The Board of Directors has adopted a written investment policy regarding the investment of Corporation funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). Investments made by the Corporation are in compliance with the Corporation's investment policy. The Corporation's investment policy is more restrictive than the PFIA requires. It is the Corporation's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, and local government investment pools.

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

*NOTES TO FINANCIAL STATEMENTS (Continued)*

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

At September 30, 2009, the Corporation reported deposits in the amount of \$4,588,878 and the bank balance was \$4,598,257. The Corporation's collateral requirement, in accordance with its investment policy is 100%. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the County's agent in the County's name, which totaled \$383,427,906 as of September 30, 2009.

**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 of a specific maturity (save and except zero duration funds), a specific issuer or a specific class of investments. To achieve this diversification, the County will limit investments in specific types of securities to the following percentages of the total portfolio:

<u>Investment Type</u>	<u>Maximum Investment %</u>
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 year end, all of the Corporation's investments (0.3% of total portfolio) were in a Texas public funds investment pool, LOGIC.

**C. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The Corporation monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the Corporation 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 Corporation's cash and investments balances and the weighted average maturity of these investments were as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Demand deposits	\$ 4,588,878	1
LOGIC - Local Government Investment Cooperative	15,022	53
<b>Total Cash and Cash Equivalents</b>	<u>\$ 4,603,900</u>	

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

*NOTES TO FINANCIAL STATEMENTS (Continued)*

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**D. Credit Risk**

The Corporation’s investment policy does not require investments to hold certain credit ratings issued by nationally recognized statistical rating organizations. As of September 30, 2009, the Corporation’s investment (Logic Investment Pool) was rated “AAAm” by Standard and Poor’s.

**NOTE 4 - PROPERTY TAXES**

In the event that impact fees collected are insufficient to meet the required debt service payments each year, the County provides property tax revenues to fund the deficiency. No separate tax rate is set by the County for the Corporation’s debt, therefore, no taxes receivable balances are maintained in the Corporation’s Debt Service Fund.

**NOTE 5 - LONG-TERM DEBT**

The Corporation issues contract revenue bonds for the purpose of financing flood control projects. The revenue bonds are paid through the Corporation’s Debt Service Fund from impact fees collected by the Fort Bend County Drainage District (for Oyster Creek Project only) and property taxes levied by the County. The following schedule is a summary of changes in the Corporation’s total long-term liabilities for the year ended September 30, 2009.

	<u>Balance Sept. 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Sept. 30, 2009</u>	<u>Amounts Due Within One Year</u>
<b>Bonds Payable:</b>					
Revenue Bonds	\$ 10,550,000	\$	\$ (160,000)	\$ 10,390,000	\$ 160,000
	<u>\$ 10,550,000</u>	<u>\$</u>	<u>\$ (160,000)</u>	<u>\$ 10,390,000</u>	<u>\$ 160,000</u>

Long-term liabilities of the Corporation are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

A summary of the outstanding revenue bonds as of September 30, 2009, follows:

<u>Series</u>	<u>Original Issue Amount</u>	<u>Matures</u>	<u>Rate (%)</u>	<u>Principle Outstanding</u>
<b>Revenue Bonds</b>				
FBFCWSC Series 2001 Bonds	\$ 11,650,000	2021	2.85-5.38	\$ 10,390,000
				<u>\$ 10,390,000</u>

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - LONG-TERM DEBT (Continued)**

Annual debt service requirements to maturity are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ 160,000	\$ 521,618	\$ 681,618
2011	160,000	514,658	674,658
2012	920,000	490,438	1,410,438
2013	950,000	447,650	1,397,650
2014	1,050,000	397,344	1,447,344
2015	1,050,000	340,906	1,390,906
2016	1,025,000	285,141	1,310,141
2017	1,025,000	230,047	1,255,047
2018	1,025,000	176,875	1,201,875
2019	1,025,000	125,625	1,150,625
2020	1,000,000	75,000	1,075,000
2021	1,000,000	25,000	1,025,000
<b>Totals</b>	<u>\$ 10,390,000</u>	<u>\$ 3,630,302</u>	<u>\$ 14,020,302</u>

**NOTE 6 - CONTINGENT LIABILITIES**

The Corporation is contingently liable for lawsuits and other claims arising in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would not materially affect the financial position of the Corporation at September 30, 2009.

**NOTE 7 - RISK MANAGEMENT**

The County is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County's risk management program encompasses various means of protecting the County against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers, self-insurance and from participation in a risk pool. The participation of the County in the risk pool is limited to the payment of premiums. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.

**NOTE 8 - BIG CREEK PROJECT**

In fiscal year 2001, the Corporation issued \$11,650,000 in revenue bonds to finance the Big Creek project, which has a budget of approximately \$15.7 million. The purpose of the Big Creek project is to improve and enlarge approximately twenty linear miles of channel currently being maintained by the District. More specifically, approximately \$4 million was used to design and construct a structure at the outfall of the Big Creek Bypass Channel and an erosion control structure constructed at the confluence of Big Creek and the Bypass Channel. The remaining funds are being used to design and construct channel improvements along Big Creek from FM 762 upstream to Big Creek's confluence with Cottonwood Creek and Coon Creek.

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***Independent Auditors' Report on Internal Control over Financial Reporting***

To the Board of Directors  
Fort Bend Flood Control Water Supply Corporation  
Fort Bend County, Texas

We have audited the financial statements of Fort Bend Flood Control Water Supply Corporation (the "Corporation"), as of and for the year ended September 30, 2009, and have issued our report thereon dated January 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors and management and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.



Houston, Texas  
January 27, 2010

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