

**FORT BEND FLOOD CONTROL
WATER SUPPLY CORPORATION**

**FORT BEND COUNTY, TEXAS
Financial Report**

September 30, 2011

**FORT BEND FLOOD CONTROL
WATER SUPPLY CORPORATION**
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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 the Fort Bend Flood Control Water Supply Corporation, (the "Corporation"), as of and for the year ended September 30, 2011, 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 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 the Fort Bend Flood Control Water Supply Corporation as of September 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.



Sugar Land, Texas
January 20, 2012

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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, 2011.

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 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, and individuals 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

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 through 12 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 \$6.2 million as of September 30, 2011. Below is a condensed schedule of net assets for the Corporation as of September 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Current assets	\$ 4,208,737	\$ 4,232,224
Total Assets	<u>4,208,737</u>	<u>4,232,224</u>
Liabilities		
Current liabilities	120,514	77,310
Long-term liabilities	<u>10,324,449</u>	<u>10,230,000</u>
Total Liabilities	<u>10,444,963</u>	<u>10,307,310</u>
Net (Deficit)	<u>\$ (6,236,226)</u>	<u>\$ (6,075,086)</u>

This deficit balance is directly attributable to the approximately \$9.6 million of bonds payable that the Corporation has outstanding along with the unamortized bond premiums of \$0.7 million at September 30, 2011. 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 the Fort Bend County Drainage District (the "District").

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, the District 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

Once a project is completed, the project is turned over to the District 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 conveys the drainage channel to the District. Once projects are completed, any purchased property is conveyed to the District, and is recorded as a capital asset in the District'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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
General Revenues		
Property taxes from Fort Bend County	\$ 591,034	\$ 452,828
Impact fees	76,613	229,611
Earnings on investments	61,165	65,682
Total General Revenues	<u>728,812</u>	<u>748,121</u>
Program Expenses		
Flood control projects	370,510	451,505
Interest and fiscal charges on long-term debt	519,442	521,859
Total Program Expenses	<u>889,952</u>	<u>973,364</u>
Change in Net Assets	(161,140)	(225,243)
Beginning Net (Deficit)	(6,075,086)	(5,849,843)
Ending Net (Deficit)	<u>\$ (6,236,226)</u>	<u>\$ (6,075,086)</u>

For the year ended September 30, 2011, the Corporation's general revenues consisted primarily of property taxes, impact fees collected by the District, and investment income. Because impact fees were not sufficient to satisfy the required debt service payments on the Corporation's bonds, Fort Bend County provided property tax revenues of approximately \$591,000. Portions of the Big Creek flood control project have been completed resulting in a decrease in program expenses by approximately \$76,000. Also interest expense decreased by approximately \$2,500 from the prior year as a result of a decrease in the bonds payable balance.

Fund Financial Analysis

As of September 30, 2011, the Corporation's governmental funds, which consist of a debt service fund and a capital projects fund, reported an ending fund balance of approximately \$3.9 million. The Corporation's main source of revenue is property taxes and impact fees, which totaled approximately \$591,000 and \$77,000 respectively, for the year ended September 30, 2011. 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

Debt Administration

As of September 30, 2011, the Corporation has \$9.6 million of bonds payable which mature in 2021. Below is a description of the long-term debt outstanding at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
FBFCWSC Series 2001 Bonds	\$	\$ 10,390,000
FBFCWSC Refunding Series 2010 Bonds	9,605,000	
Premium on bonds	719,449	
	<u>\$ 10,324,449</u>	<u>\$ 10,390,000</u>

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, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,980,243
Deferred issuance costs	228,494
Total Assets	<u>4,208,737</u>
Liabilities	
Due to primary government	25,801
Due to Drainage District	65,985
Accrued interest payable	28,728
Long-term liabilities due within one year	1,011,350
Long-term liabilities due in more than one year	9,313,099
Total Liabilities	<u>10,444,963</u>
Net (Deficit)	
Unrestricted	<u>(6,236,226)</u>
Total Net (Deficit)	<u>\$ (6,236,226)</u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011

	Governmental Activities
Program Expenses	
Flood control projects	\$ 370,510
Interest and fiscal charges on long-term debt	519,442
Total Program Expenses	<u>889,952</u>
General Revenues	
Property taxes	591,034
Impact fees	76,613
Earnings on investments	61,165
Total General Revenues	<u>728,812</u>
(Decrease) in Net Assets	(161,140)
Net (Deficit), Beginning	<u>(6,075,086)</u>
Net (Deficit), Ending	<u><u>\$ (6,236,226)</u></u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2011

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$	\$ 3,980,243	\$ 3,980,243
Total Assets	<u>\$</u>	<u>\$ 3,980,243</u>	<u>\$ 3,980,243</u>
Liabilities and Fund Balances			
Liabilities			
Due to primary government		25,801	25,801
Due to Drainage District		65,985	65,985
Total Liabilities		<u>91,786</u>	<u>91,786</u>
Fund Balances			
Restricted		3,888,457	3,888,457
Total Fund Balances		<u>3,888,457</u>	<u>3,888,457</u>
Total Liabilities and Fund Balances	<u>\$</u>	<u>\$ 3,980,243</u>	<u>\$ 3,980,243</u>

Fund Balances - Governmental funds \$ 3,888,457

Adjustments for the Statement of Net Assets:

Some liabilities (such as accrued interest and bonds payable) are not due and payable in the current period and therefore, are not included in the governmental funds, but are reported in the governmental activities of the Statement of Net Assets.

Accrued interest	(28,728)
Deferred issuance costs	228,494
Bonds payable	(9,605,000)
Premiums on issuance of debt	<u>(719,449)</u>
Net (Deficit) of Governmental Activities	<u>\$ (6,236,226)</u>

The accompanying notes are an integral part of these 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, 2011

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 591,034	\$	\$ 591,034
Impact fees	76,613		76,613
Earnings on investments		61,165	61,165
Total Revenues	<u>667,647</u>	<u>61,165</u>	<u>728,812</u>
Expenditures			
Current operating:			
Flood control projects		370,510	370,510
Debt Service			
Principal retirement	70,000		70,000
Interest and fiscal charges	578,234		578,234
Debt issuance costs	249,266		249,266
Total Expenditures	<u>897,500</u>	<u>370,510</u>	<u>1,268,010</u>
Revenues (Under) Expenditures	(229,853)	(309,345)	(539,198)
Other Financing Sources (Uses)			
Issuance of refunding bonds	9,675,000		9,675,000
Payment to refunded bond escrow agent	(10,230,000)		(10,230,000)
Premium on issuance of refunding bonds	784,853		784,853
Total Other Financing Sources (Uses)	<u>229,853</u>		<u>229,853</u>
Net Change in Fund Balance		(309,345)	(309,345)
Fund Balances - Beginning		4,197,802	4,197,802
Fund Balances - Ending	<u>\$</u>	<u>\$ 3,888,457</u>	<u>\$ 3,888,457</u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (GOVERNMENTAL FUNDS) TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

Net changes in fund balances - governmental funds	\$ (309,345)
Adjustments for the Statement of Activities:	
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(10,210,587)
Principal payments on bonds are reported as expenditures in governmental funds but not as expenses in the government-wide statements.	10,300,000
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	44,632
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable on the accrual basis of accounting.	<u>14,160</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (161,140)</u></u>

The accompanying notes are an integral part of these 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

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 the District and is then maintained by the District. The District 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

G. Date of Managements' Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through January 20, 2012, the date that the financial statements were available to be issued.

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, 2011 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 District and reported as a capital asset in the District'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 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 110% of market value of principal.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH AND INVESTMENTS (Continued)

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.

At September 30, 2011, the Corporation reported deposits in the amount of \$3,934,070 and the bank balance was \$3,934,170. The Corporation's collateral requirement, in accordance with its investment policy is 110%. 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 \$3,934,170 as of September 30, 2011.

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%

As of September 30, 2011, 98.8% of the Corporation's cash and cash equivalents were contained in demand deposit accounts.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	\$ 3,934,070	1
Investment Pools:		
Texas CLASS	45,167	30
LOGIC - Local Government Investment Cooperative	<u>1,006</u>	42
Total Cash and Cash Equivalents	<u><u>\$ 3,980,243</u></u>	

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, 2011, the Corporation's investments in both the Texas CLASS and LOGIC Investment Pools were 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.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

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, 2011.

	<u>Balance, Oct. 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, Sept. 30, 2011</u>	<u>Amounts Due Within One Year</u>
Bonds Payable:					
Revenue bonds	\$ 10,230,000	\$ 9,675,000	\$ (10,300,000)	\$ 9,605,000	\$ 940,000
Premium on bonds		784,853	(65,404)	719,449	71,350
	<u>\$ 10,230,000</u>	<u>\$ 10,459,853</u>	<u>\$ (10,365,404)</u>	<u>\$ 10,324,449</u>	<u>\$ 1,011,350</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, 2011, follows:

<u>Series</u>	<u>Original Issue Amount</u>	<u>Matures</u>	<u>Rate (%)</u>	<u>Principal Outstanding</u>
Revenue Bonds				
FBFCWSC Refunding Series 2010 Bonds	\$ 9,675,000	2021	2.5 - 4.0	\$ 9,605,000
				<u>\$ 9,605,000</u>

Annual debt service requirements to maturity are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	940,000	344,737	1,284,737
2013	955,000	315,119	1,270,119
2014	1,045,000	278,700	1,323,700
2015	1,025,000	237,300	1,262,300
2016-2021	<u>5,640,000</u>	<u>613,800</u>	<u>6,253,800</u>
Totals	<u>\$ 9,605,000</u>	<u>\$ 1,789,656</u>	<u>\$ 11,394,656</u>

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Corporation is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of September 30, 2011, fund balances for government funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the Corporation’s highest level of decision-making authority, the Corporation’s Board. Commitments may be changed or lifted only by the Corporation taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the Corporation for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the Corporation’s Board or (b) a body (for example: a budget or finance committee) or official to which the Corporation’s Board has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The fund balance for the Corporation as of September 30, 2011 is all restricted. The balance in the Capital Projects fund of \$3.9 million is restricted as dictated by the respective bond covenants. This balance is made up of remaining bond proceeds along with interest earned on these proceeds.

NOTE 7 - 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, 2011.

NOTE 8 - 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.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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 expended to design and construct channel improvements along Big Creek from FM 762 upstream to Big Creek's confluence with Cottonwood Creek and Coon Creek, as well as to perform repairs on the Big Creek Bypass Channel outfall structure.



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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 the governmental activities and each major fund of the Fort Bend Flood Control Water Supply Corporation, (the "Corporation"), as of and for the year ended September 30, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 20, 2012. 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 opinions 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 management, the Board of Directors 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.

Sugar Land, Texas
January 20, 2012

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