

**FORT BEND COUNTY  
DRAINAGE DISTRICT**

**FORT BEND COUNTY, TEXAS  
Financial Report**

**September 30, 2009**



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**FORT BEND COUNTY  
DRAINAGE DISTRICT**

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*Independent Auditors' Report*

To the Board of Directors  
Fort Bend County Drainage District  
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Drainage District, (the "District"), as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District'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 County Drainage District 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, budgetary comparison information and Required Pension System Supplementary Information on pages 24 through 26 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 26, 2010

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## **FORT BEND COUNTY DRAINAGE DISTRICT**

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

As management of the Fort Bend County Drainage District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District 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 District's basic financial statements. The District'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 District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District'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 District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District'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 District that is principally supported by general revenues. 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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District maintains a General 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 General 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 COUNTY DRAINAGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Because the focus of the General Fund and Capital Projects Fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the General 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 District, assets exceeded liabilities by \$28.6 million as of September 30, 2009. Below is a condensed schedule of net assets for the District as of September 30, 2009 and 2008 (in \$000's).

	<u>2009</u>	<u>2008</u>
Current assets	\$ 5,614	\$ 7,542
Capital assets	23,729	23,031
Total Assets	<u>29,343</u>	<u>30,573</u>
Liabilities		
Other current liabilities	773	703
Total Liabilities	<u>773</u>	<u>703</u>
Net Assets:		
Invested in capital assets, net		
of related debt	23,729	23,031
Unrestricted	4,841	6,839
Net Assets	<u>\$ 28,570</u>	<u>\$ 29,870</u>

The largest portion of the District's unrestricted net assets reflects available cash in the Capital Projects Fund. It is the District's intent to use these funds to finance projects that assist in providing drainage of its lands. Therefore, the unrestricted net assets of the District are available for future use to provide program services.

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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	\$ 6,014	\$ 5,702
Investment income	84	251
Other	248	521
Program Revenues		
Operating Grants	12	48
Capital Contributions	34	632
Total Revenues	<u>6,392</u>	<u>7,154</u>
Program Expenses		
Flood control-maintenance	<u>7,690</u>	<u>6,823</u>
Change in Net Assets	(1,298)	331
Beginning Net Assets	<u>29,870</u>	<u>29,539</u>
Ending Net Assets	<u>\$ 28,570</u>	<u>\$ 29,870</u>

The District's revenues are mainly general revenues received from property taxes levied in the District. The District's general revenues were insufficient to cover all expenses incurred during the year ended September 30, 2009 resulting in a \$1,298,000 decrease to net assets. This decrease can be primarily attributed to a \$598,000 reduction in capital contributions from the Flood Control Water Supply Corporation along with an increase in expenses for operating supplies, fees, and insurance of \$243,000, \$323,000, and \$158,000, respectively.

**Financial Analysis of the District's Funds**

As of September 30, 2009, the District's governmental funds, which consist of a General Fund and a Capital Projects Fund, reported an ending fund balance of \$4.6 million. The District's main source of revenue is property taxes, which totaled approximately \$6.0 million for the year ended September 30, 2009. The District's ending fund balance primarily represents the accumulation of project maintenance and capital outlay expenditures in excess of revenues.

**General Fund Budgetary Highlights**

During the fiscal year 2009, funds totaling \$710,000 were transferred to the Upper Oyster Creek (Ditch H) Project from the Drainage fund. Construction in progress through fiscal year 2009 totals \$3,547,655 for Upper Oyster Creek. The Big Creek Project is another major capital venture funded by the Drainage Board from the Drainage operating budget. Construction in progress for Big Creek totals \$2,124,993 through September 30, 2009. These projects have balances of \$708,389 and \$2,200,443 respectively for Big Creek and Upper Oyster Creek as of September 30, 2009.

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Capital Assets**

A summary of the District's capital assets used in flood control at September 30, 2008 and 2009 follows (in 000's):

	<b>Balance</b>	<b>Balance</b>
	<b>Sept. 30, 2008</b>	<b>Sept. 30, 2009</b>
Land	\$ 174	\$ 174
Construction in progress	16,237	16,915
Infrastructure	2,361	2,289
Machinery and equipment	3,225	3,355
Buildings and facilities	1,034	996
	<u>\$ 23,031</u>	<u>\$ 23,729</u>

Construction in Progress and Infrastructure have been included within capital assets to represent the ongoing progress of Big Creek and Upper Oyster Creek as well as the infrastructure placed in service for Clear Creek, Lower Oyster Creek, Oyster Creek, and Big Creek (lower portion). The Big Creek and Upper Oyster Creek projects are ongoing.

**Economic Factors and Next Year's Budget and Tax Rate**

Residential development in Fort Bend County remains strong in fiscal year 2009 and the beginning of fiscal year 2010 even with the economic slowdown. With this factor in mind, the Board of Directors of the District approved the 2010 budget with total appropriations of \$8.5 million. These appropriations are expected to be offset by \$8.3 million in estimated revenues and approximately \$0.2 million of unreserved/undesignated fund balance. The use of unreserved/undesignated fund balance will draw fund balance down to 14.3% of the operating budget which is 0.7% lower than Board policy. The property tax rate for fiscal year 2010 increased to \$.02076, from \$.01600 in fiscal year 2009. This increase was necessary to meet necessary expenditure requirements in fiscal year 2010 after reducing the tax rate in 2009 to draw fund balance down.

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

The financial report is designed to provide a general overview of the District'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 Mark Vogler, Fort Bend County Drainage District, 1004 Blume Rd., P.O. Box 1028, Rosenberg, Texas 77471.

***BASIC FINANCIAL STATEMENTS***

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**STATEMENT OF NET ASSETS**  
*September 30, 2009*

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,161,487
Receivables:	
Taxes	385,580
Amounts due from other governments	60,130
Due from primary government	6,421
Capital assets, not subject to depreciation	17,088,912
Capital assets, net of accumulated depreciation	6,640,192
<b>Total Assets</b>	<u>29,342,722</u>
 <b>Liabilities</b>	
Due to other funds	608,065
Accrued compensated absences	164,305
<b>Total Liabilities</b>	<u>772,370</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	23,729,104
Unrestricted	4,841,248
<b>Total Net Assets</b>	<u>\$ 28,570,352</u>

See Notes to Financial Statements.

**FORT BEND COUNTY DRAINAGE DISTRICT**

**STATEMENT OF ACTIVITIES**

*September 30, 2009*

	<b>Governmental Activities</b>
<b>Program Expenses</b>	
Flood control projects	\$ 7,689,946
<b>Total Program Expenses</b>	<u>7,689,946</u>
<b>Program Revenues</b>	
Capital Contributions	32,976
Operating Grants	12,431
<b>Total Program Revenues</b>	<u>45,407</u>
<b>General Revenues</b>	
Property taxes	6,013,719
Investment income	83,714
Miscellaneous	247,541
<b>Total General Revenues</b>	<u>6,344,974</u>
<b>Increase/Decrease in Net Assets</b>	(1,299,565)
Net Assets, Beginning	<u>29,869,917</u>
<b>Net Assets, Ending</b>	<u><u>\$ 28,570,352</u></u>

See Notes to Financial Statements.

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2009**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 91,996	\$ 5,069,491	\$ 5,161,487
Property taxes receivable, net	385,580		385,580
Amounts due from other governments	60,130		60,130
Due from other funds	5,051,754		5,051,754
Due from primary government	6,421		6,421
<b>Total Assets</b>	<u>\$ 5,595,881</u>	<u>\$ 5,069,491</u>	<u>\$ 10,665,372</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Deferred revenue	\$ 385,579	\$	\$ 385,579
Due to other funds		5,051,754	5,051,754
Due to primary government	590,328	17,737	608,065
<b>Total Liabilities</b>	<u>975,907</u>	<u>5,069,491</u>	<u>6,045,398</u>
<b>Fund Balances</b>			
<b>Unreserved:</b>			
Undesignated	4,619,974		4,619,974
<b>Total Fund Balances</b>	<u>4,619,974</u>		<u>4,619,974</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,595,881</u>	<u>\$ 5,069,491</u>	<u>\$ 10,665,372</u>
<b>Adjustments for the Statement of Net Assets:</b>			
<b>Fund Balances - Governmental funds</b>			\$ 4,619,974
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			23,729,104
Other long-term assets (property taxes receivable) are not available to pay for current period expenditures and, therefore, not reported in the governmental funds.			385,579
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the fund financial statements.			<u>(164,305)</u>
<b>Net Assets of Governmental Activities</b>			<u>\$ 28,570,352</u>

See Notes to Financial Statements.

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2009**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 6,017,628	\$	\$ 6,017,628
Investment income	25,543	58,171	83,714
Intergovernmental revenues	12,431		12,431
Miscellaneous	242,836	4,705	247,541
<b>Total Revenues</b>	<u>6,298,438</u>	<u>62,876</u>	<u>6,361,314</u>
<b>Expenditures</b>			
<b>Current operating:</b>			
Flood control projects - maintenance	6,909,757		6,909,757
Capital outlay	842,813	579,048	1,421,861
<b>Total Expenditures</b>	<u>7,752,570</u>	<u>579,048</u>	<u>8,331,618</u>
<b>Revenues (Under) Expenditures</b>	(1,454,132)	(516,172)	(1,970,304)
<b>Other Financing Sources</b>			
Transfers in	5,051,754	710,000	5,761,754
Transfers out	(710,000)	(5,051,754)	(5,761,754)
<b>Total Other Financing Sources</b>	<u>4,341,754</u>	<u>(4,341,754)</u>	
<b>Net Change in Fund Balance</b>	2,887,622	(4,857,926)	(1,970,304)
Fund Balances - Beginning	1,732,352	4,857,926	6,590,278
<b>Fund Balances - Ending</b>	<u>\$ 4,619,974</u>	<u>\$</u>	<u>\$ 4,619,974</u>
<b>Net changes in fund balances - governmental funds</b>			\$ (1,970,304)
<b>Adjustments for the Statement of Activities:</b>			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense.			791,384
Capital assets constructed from bond proceeds of the Fort Bend Flood Control Water Supply Corporation maintained by the Drainage District			32,976
The loss on the disposal of assets is only reported in the statement of activities, whereas in the governmental funds, the loss from the disposal does not affect current financial resources. Thus, the change in net assets differs from the change in fund balance by the loss realized on the disposal of assets.			(126,140)
Revenues that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment reflects the net change on the accrual basis of accounting.			(3,909)
Long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the fund financial statements. This adjustment reflects the net change on the accrual basis of accounting.			(23,572)
<b>Change in Net Assets of Governmental Activities</b>			<u>\$ (1,299,565)</u>

See Notes to Financial Statements.

**FORT BEND COUNTY**  
**DRAINAGE DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*

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

**A. Reporting Entity**

The Fort Bend County Drainage District (the “District”) was established under Section 59 of Article XVI of the Constitution of Texas and includes all of the property within Fort Bend County. The District was created for the purpose of reclamation and drainage of its lands.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District 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 District’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 District is considered a component unit of Fort Bend County, Texas (the “County”). The primary criteria for the inclusion of the District in the County’s reporting entity is that of financial accountability. The Commissioners Court, the elected governing body of the County, acts as the governing body of the District. As such, the County is financially accountable for the District and the District is considered a component unit of the County. These financial statements include all of the funds and activities of 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 District’s financial reporting entity. Based on these considerations, no other entities, organizations or functions have been included in the District’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 District as a whole and include all activities of the District. The effect of interfund activity has been eliminated from the government-wide statements. All of the District’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.

**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 District 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 District 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. Following is a description of the various funds:

**General Fund**

The General Fund is used to account for all revenues and expenditures, not accounted for in other funds, relating to general operations.

**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. Cash and Cash Equivalents**

The District's cash and cash equivalents consist of demand deposits and an investment pool.

**F. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Interfund receivables and payables between funds are eliminated in the Statement of Net Assets.

**FORT BEND COUNTY  
DRAINAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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

**G. Interfund Transfers**

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

**H. Capital Assets**

Capital assets used in governmental fund types of the government are recorded as expenditures of the General and Capital Projects Funds and as assets in the government-wide financial statements to the extent the District’s capitalization threshold is met, currently \$5,000. 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 Fort Bend County Drainage District (FBCDD) was formed for the purpose of financing the construction of flood control and drainage projects. Once these projects are completed, any land purchased by the FBCDD as part of a project is conveyed to Fort Bend County, and not to the District. However, the District is responsible for maintaining these projects, once completed. For the majority of flood control projects, no land is purchased. The District simply obtains easements from the owners of the properties that the ditches or watersheds flow through. These easements represent an interest in the land owned by another that entitles the holder to a specific limited use or enjoyment (right to use the land). Therefore, easements are not required to be reported in the financial statements unless the entity paid for the easements. All easements, or land, that is purchased, are conveyed to the County and are properly recorded as infrastructure in the County’s financial statements. Accordingly, the District’s management has determined that infrastructure is not required to be reported in the District’s financial statements.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets' lives are charged to operations when incurred. Expenditures 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 any resulting gain or loss is included in the results of operations.

The District applies a half-year convention for depreciation on all assets. Therefore, one half of a year of depreciation is charged to operations the first and last year that an asset is in service. Depreciation has been provided for plant and equipment using the straight-line method over the following estimated useful life for the type of assets as follows:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Office furniture and fixtures	5 to 7 years
Machinery and equipment	7 to 15 years
Buildings, facilities and land improvements	10 to 39 years

**FORT BEND COUNTY**  
**DRAINAGE DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*

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

**I. 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.

**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 District.

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

Commissioners’ Court has adopted a written investment policy regarding the investment of District funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). Investments made by the District are in compliance with the District’s investment policy. The District’s investment policy is more restrictive than the PFIA requires. It is the District’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. The maximum maturity allowed is three years from the date of purchase.

At September 30, 2009, the District reported deposits in the amount of \$5,129,157 and the bank balance was \$5,129,128. The District'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.

**FORT BEND COUNTY  
DRAINAGE DISTRICT  
NOTES TO 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 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, 2009, 99.3% of the District’s cash equivalents are 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 District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District 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 District’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	\$ 5,129,157	1
TexasTERM	32,330	86
<b>Total Cash and Cash Equivalents</b>	<u>\$ 5,161,487</u>	
<b>Portfolio weighted average maturity (days)</b>	<u>2</u>	

**D. Credit Risk**

The District’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 District’s investment (TexasTERM Investment Pool) was rated “AAAf” by Standard and Poor’s.

**FORT BEND COUNTY  
DRAINAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – RECEIVABLES**

Receivables at September 30, 2009 consist primarily of property tax receivables of \$385,580, net of allowance for doubtful accounts of \$42,842.

**A. Property Taxes**

The District's tax year covers the period October 1 through September 30. The District's property taxes are levied annually in October on the basis of the Fort Bend County Appraisal District's assessed values as of January 1 of that calendar year. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. The District's property taxes are billed and collected by the County's Tax Assessor/Collector.

**NOTE 4 – INTERFUND RECEIVABLES/PAYABLES**

Individual fund receivable/payable balances at September 30, 2009 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 5,051,754	\$
Capital Projects Fund		5,051,754
	<u>\$ 5,051,754</u>	<u>\$ 5,051,754</u>

**NOTE 5 – INTERFUND TRANSFERS**

A summary of interfund transfers follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
Capital Projects Fund	General Fund	\$ 5,051,754	Merge Capital Projects Fund into General Fund
General Fund	Capital Projects Fund	500,000	Budgeted Transfer
General Fund	Capital Projects Fund	210,000	Budgeted Transfer
		<u>\$ 5,761,754</u>	

**FORT BEND COUNTY  
DRAINAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – CAPITAL ASSETS**

A summary of changes in capital assets for the year ended September 30, 2009 is as follows:

	Balance 10/01/08	Increases	Decreases	Balance 09/30/09
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land and intangibles	\$ 173,536	\$	\$	\$ 173,536
Construction in Progress	16,236,724	678,652		16,915,376
Total capital assets not depreciated	<u>16,410,260</u>	<u>678,652</u>		<u>17,088,912</u>
Other capital assets:				
Infrastructure-Drainage Improvements	2,477,001	-		2,477,001
Vehicles	1,114,224	132,392	(56,234)	1,190,382
Office furniture and equipment	113,385	5,733		119,118
Machinery and equipment	7,338,725	638,060	(499,078)	7,477,707
Buildings and facilities	1,640,101			1,640,101
Total other capital assets	<u>12,683,436</u>	<u>776,185</u>	<u>(555,312)</u>	<u>12,904,309</u>
Less accumulated depreciation for:				
Infrastructure-Drainage Improvements	(115,511)	(83,420)	10,798	(188,133)
Vehicles	(872,510)	(71,154)	4,562	(939,102)
Office furniture and equipment	(77,173)	(12,049)	108	(89,114)
Machinery and equipment	(4,391,713)	(425,712)	413,705	(4,403,720)
Buildings and facilities	(605,906)	(38,142)		(644,048)
Total accumulated depreciation	<u>(6,062,813)</u>	<u>(630,477)</u>	<u>429,173</u>	<u>(6,264,117)</u>
Other capital assets, net	6,620,623	145,708	(126,139)	6,640,192
<b>Totals</b>	<u>\$ 23,030,883</u>	<u>\$ 824,360</u>	<u>\$ (126,139)</u>	<u>\$ 23,729,104</u>

For the year ended September 30, 2009, \$630,477 of depreciation was charged to governmental functions.

Construction in progress at September 30, 2009 consisted of the following projects:

	Expenditures to Date	Total Projected Costs	Remaining Commitment
Construction in progress			
Big Creek	\$ 13,367,721	\$ 17,189,781	\$ 3,822,060
Upper Oyster Creek	3,547,655	6,269,532	2,721,877
<b>Totals</b>	<u>\$ 16,915,376</u>	<u>\$ 23,459,313</u>	<u>\$ 6,543,937</u>

The bulk of the construction in progress is funded by the Fort Bend Flood Control Water Supply Corporation's (the Corporation) debt, therefore the remaining commitment for these projects will come from Corporation funds.

**FORT BEND COUNTY**  
**DRAINAGE DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*

**NOTE 7 – EMPLOYEE RETIREMENT SYSTEM**

**A. Plan Description**

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 493 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**B. Contributions**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 10.22% for calendar year 2009. The contribution rate payable by the employee members is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

The County's total payroll in fiscal year 2009 was \$101.4 million and the County's contributions were based on a payroll of \$99.9 million. Contributions made by employees totaled \$7.0 million, and the County made contributions of \$10.2 million during the fiscal year ended September 30, 2009.

**FORT BEND COUNTY  
DRAINAGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (continued)**

Three year trend information for the Pension Plan is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual Pension Cost (APC)	\$ 10,187,718	\$ 9,110,858	\$ 8,097,682
Percentage of APC Contributed	100%	100%	100%
Net pension obligation at the End of Period			

For the year ended September 30, 2009, the pension cost for the TCDRS plan and the actual contributions made were \$17,181,665 for the County, (of which \$320,040 was attributable to the District). Because all contributions are made as required, no pension obligation existed at September 30, 2009.

<u>Actuarial Information</u>	<u>12/31/2008</u>
Actuarial cost method	Entry age
Amortization method	Level percent of payroll, closed
Amortization period	20 years
Asset valuation method	SAF: 10-year smoothed value

Assumptions:

Investment return <sup>(1)</sup>	8.0%
Projected salary increases <sup>(1)</sup>	5.3%
Inflation	3.5%
Cost of living adjustments	0.0%

<sup>(1)</sup> includes inflation at the stated rate

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS**

In addition to providing pension benefits through the Texas County and District Retirement System, the County has opted to provide eligible retired employees with the following post-employment benefits:

- Eligible retirees may purchase health insurance from the County’s healthcare provider at the County’s cost to cover current employees
- Eligible retirees may purchase health insurance from the County’s healthcare provider at the County’s cost to cover dependents if the dependents were covered at the point of retirement

**FORT BEND COUNTY**  
**DRAINAGE DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

The County is statutorily required to permit retiree participation in the health insurance program on a pooled non-differentiated basis. The County recognizes its share of the costs of providing these benefits when paid, on a “pay-as-you-go” basis. These payments are budgeted annually. The County contributed approximately \$2.0 million for the fiscal year ending September 30, 2009. At September 30, 2009, there were approximately 292 participants eligible to receive such benefits. Commencing in fiscal year 2008, the County implemented GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.” The County has performed an actuarial valuation of its post-retirement benefit liability. The financial statement disclosures for 2008 and 2009 are as follows:

The following table shows the calculation of the Annual Required Contribution and the Net OPEB Obligation for fiscal years ending 9/30/08 and 9/30/09:

	<b>Fiscal Year Ending 9/30/08</b>	<b>Fiscal Year Ending 9/30/09</b>
<b>Determination of Annual Required Contribution</b>		
Normal Cost at Fiscal Year End	\$ 15,005,349	\$ 15,005,349
Amortization of Unfunded Actuarial Accrued Liability	11,979,958	11,979,958
Annual Required Contribution	<u>26,985,307</u>	<u>26,985,307</u>
<b>Determination of Net OPEB Obligation</b>		
Annual Required Contribution	26,985,307	26,985,307
Interest on prior year Net OPEB Obligation		966,552
Adjustment to ARC		(1,343,648)
Annual OPEB Cost	<u>26,985,307</u>	<u>26,608,211</u>
Less Assumed Contributions Made	(2,821,517)	(1,952,079)
Estimate Increase in Net OPEB Obligation	<u>24,163,790</u>	<u>24,656,132</u>
Net OPEB Obligation – Beginning of Year		<u>24,163,790</u>
Net OPEB Obligation – End of Year	<u>\$ 24,163,790</u>	<u>\$ 48,819,922</u>

The following table shows the annual OPEB cost and net OPEB obligation for the prior 3 years assuming the plan is not prefunded (4% discount):

<b>Fiscal Year Ended</b>	<b>Discount Rate</b>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB</b>	
			<b>Cost Contributed*</b>	<b>Net OPEB Obligation</b>
2007	N/A	N/A	N/A	N/A
2008	4%	\$ 26,985,307	10.46%	\$ 24,163,790
2009	4%	\$ 26,608,211	7.34%	\$ 48,819,922

\*Estimated using assumed contributions of \$2,821,517 and \$1,952,079 for FY 2008 and FY 2009, respectively

**FORT BEND COUNTY**  
**DRAINAGE DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

The amounts presented in this disclosure represent the accrual for the County as a whole. Amounts specific to Drainage District are not determinable as of the date of this report.

**NOTE 9 – CONTINGENT LIABILITIES**

The District 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 District at September 30, 2009.

**NOTE 10 – 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 disaster. 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 11 – FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**

Fort Bend Flood Control Water Supply Corporation (the "Corporation") was formed for the purpose of financing the construction of flood control projects. The Corporation issued \$20,325,000 of revenue bonds in 1989 and \$6,850,000 in 1995. In 1999, the Corporation issued refunding bonds in the amount of \$14,060,000 to refund the remaining portion of the 1989 revenue bonds. In addition, the Corporation issued \$11,650,000 of revenue bonds in 2001. These bonds are payable from impact fees assessed and collected by the District and taxes assessed and collected by the County. When the revenue bonds were issued on July 5, 1989, the District deposited all impact fees collected and \$1,100,000 of the District's available funds into the Corporation, less amounts previously spent on project costs, as defined. When flood control projects and improvements are completed, any property acquired during the project is conveyed to the County. The District then maintains the completed projects and improvements.

***REQUIRED SUPPLEMENTARY INFORMATION***

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2009**

	<b>Original Adopted Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive / (Negative)</b>	<b>2008 Actual</b>
<b>Revenues</b>					
Taxes, penalties and interest	\$ 6,187,576	\$ 6,187,576	\$ 6,017,628	\$ (169,948)	\$ 6,035,486
Earnings on investments	115,000	115,000	25,543	(89,457)	142,082
Intergovernmental			12,431	12,431	47,700
Miscellaneous	79,000	79,000	242,836	163,836	378,711
<b>Total Revenues</b>	<b>6,381,576</b>	<b>6,381,576</b>	<b>6,298,438</b>	<b>(83,138)</b>	<b>6,603,979</b>
<b>Expenditures</b>					
<b>Current operating:</b>					
Construction and					
Maintenance	7,307,786	7,343,366	6,909,757	433,609	6,203,252
<b>Capital outlay</b>	<b>753,300</b>	<b>778,350</b>	<b>776,185</b>	<b>2,165</b>	<b>906,294</b>
<b>Total Expenditures</b>	<b>8,061,086</b>	<b>8,121,716</b>	<b>7,685,942</b>	<b>435,774</b>	<b>7,109,546</b>
<b>Revenues Over (Under)</b>					
<b>Expenditures</b>	<b>(1,679,510)</b>	<b>(1,740,140)</b>	<b>(1,387,504)</b>	<b>352,636</b>	<b>(505,567)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in			5,051,754	5,051,754	3,550
Transfers (out)	(710,000)	(710,000)	(710,000)		(450,000)
<b>Total Other Financing Sources</b>	<b>(710,000)</b>	<b>(710,000)</b>	<b>4,341,754</b>	<b>5,051,754</b>	<b>(446,450)</b>
<b>Changes in Fund Balance</b>	<b>(2,389,510)</b>	<b>(2,450,140)</b>	<b>2,954,250</b>	<b>5,404,390</b>	<b>(952,017)</b>
Fund balance - Beginning	1,732,352	1,732,352	1,732,352		2,684,369
<b>Fund Balance - Ending</b>	<b>\$ (657,158)</b>	<b>\$ (717,788)</b>	<b>\$ 4,686,602</b>	<b>\$ 5,404,390</b>	<b>\$ 1,732,352</b>

See Notes to Financial Statements.

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Budgets**

The Commissioners Court adopts an annual appropriations budget for the General Fund using the same basis of accounting as for financial reporting. All annual appropriations lapse at fiscal year-end. The County Budget Officer prepares the proposed budget, using revenue estimates furnished by the County Auditor and submits the data to the Commissioners Court. The Commissioners Court holds a public hearing on the budget. Before determining the final budget, the Commissioners Court may increase or decrease the amounts requested by District management. In the final budget, appropriations for the General Fund cannot exceed the estimated available budgetary fund balance in such funds at October 1, plus the estimate of revenues for the ensuing year. During the year, the Court may increase budgeted revenues and expenditure for unexpected revenues or beginning fund balances in excess of budget estimates, provided the Court rules that a state of emergency exists. The District may transfer amounts among individual budget line items within major expenditure categories during the year, but Commissioners Court must approve any budget transfers between major expenditure categories. However, no such transfer may increase the overall total of the budget.

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

The General Fund includes a multi-year budget that is not confined to the fiscal year ending September 30. This multi-year budget is used to account for capital projects. The funding for these projects originates from a prior or current fiscal year budget allocation that is then transferred to the multi-year project budget. The schedule below shows a reconciliation of the GAAP Basis activity in the General Fund for the fiscal year and multi-year budgetary basis to determine the actual net change in fund balance.

	<u>GAAP Basis</u>	<u>Multi-Year Basis</u>	<u>Budgetary Basis</u>
Revenues	\$ 6,298,438	\$	\$ 6,298,438
Expenditures	(7,752,570)	66,628	(7,685,942)
Other Financing Sources	4,341,754		4,341,754
Net Change in Fund Balance	<u>\$ 2,887,622</u>	<u>\$ 66,628</u>	<u>\$ 2,954,250</u>

**FORT BEND COUNTY DRAINAGE DISTRICT**  
**TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

For the year ended September 30, 2009, the pension cost for the TCDRS plan and the actual contributions made were \$10,187,718 for the County, (of which \$320,040 was attributable to the District). Because all contributions are made as required, no pension obligation existed at September 30, 2009.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2008, the basis for determining the contribution rate for calendar year 2009. The December 31, 2008 actuarial valuation is the most recent valuation.

**Schedule of Funding Information**

	12/31/2006	12/31/2007	12/31/2008
Actuarial valuation date			
Actuarial value of assets	\$ 186,654,926	\$ 205,614,642	\$ 205,614,642
Actuarial accrued liability (AAL)	\$ 211,484,564	\$ 231,214,303	\$ 231,214,303
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL)	\$ 24,829,638	\$ 25,599,661	\$ 25,599,661
Funded ratio	88.26%	88.93%	88.93%
Annual covered payroll (actuarial)	\$ 73,899,065	\$ 81,337,915	\$ 81,337,915
UAAL or OAAL as % of covered payroll	33.60%	31.47%	31.47%

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

To the Board of Directors  
Fort Bend County Drainage District  
Fort Bend County, Texas

We have audited the financial statements of the Fort Bend County Drainage District (the "District"), as of and for the year ended September 30, 2009, and have issued our report thereon dated January 26, 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 District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 26, 2010

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