

**FORT BEND COUNTY
DRAINAGE DISTRICT**

**FORT BEND COUNTY, TEXAS
Financial Report**

September 30, 2010

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 the Fort Bend County Drainage District, (the "District"), as of and for the year ended September 30, 2010, 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 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 County Drainage District as of September 30, 2010, 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, the budgetary comparison information on page 24 and the Required Pension System Supplementary Information on page 26 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 21, 2011

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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, 2010.

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 on the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance.

The General Fund is a governmental fund 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 is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the General Fund 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 \$28.2 million as of September 30, 2010. Below is a condensed schedule of net assets for the District as of September 30, 2010 and 2009 (in \$000's).

	2010	2009
Current assets	\$ 6,944	\$ 5,614
Capital assets	25,982	23,813
Total Assets	32,926	29,427
Liabilities		
Other current liabilities	4,768	773
Total Liabilities	4,768	773
Net Assets:		
Invested in capital assets, net		
of related debt	25,982	23,813
Unrestricted	2,176	4,841
Net Assets	\$ 28,158	\$ 28,654

The largest portion of the District's unrestricted net assets reflects available cash. 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, 2010 and 2009 (in 000's):

	<u>2010</u>	<u>2009</u>
General Revenues		
Property taxes from Fort Bend County	\$ 8,055	\$ 6,014
Investment income	106	84
Other	71	247
Program Revenues		
Operating grants		12
Capital contributions	1,446	33
Total Revenues	<u>9,678</u>	<u>6,390</u>
Program Expenses		
Flood control-maintenance	<u>10,174</u>	<u>7,606</u>
Change in Net Assets	(496)	(1,216)
Beginning Net Assets	<u>28,654</u>	<u>29,870</u>
Ending Net Assets	<u>\$ 28,158</u>	<u>\$ 28,654</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, 2010 resulting in an approximate \$496,000 decrease to net assets. This decrease is down from the previous year by approximately \$888,000. The decrease in the net asset reduction is attributed to increases in property tax revenues and capital contributions of approximately \$2,042,000 and \$1,413,000 respectively. These revenue increases were primarily offset by an increase in other post employment benefits expense of approximately \$3,543,000 and a decrease in operating expenses of approximately \$1,002,000.

Financial Analysis of the District's Funds

As of September 30, 2010, the District's governmental fund reported an ending fund balance of \$5.5 million. The District's main source of revenue is property taxes, which totaled approximately \$8.1 million for the year ended September 30, 2010. The District's ending fund balance increased during the fiscal year by \$0.87 million primarily due to an increase in property tax revenues of \$2.04 million offset by a decrease of \$1.06 million in capital outlay expenditures.

General Fund Budgetary Highlights

During the fiscal year 2010, expenditures of approximately \$1,774,000 and \$13,000 were incurred in the Upper Oyster Creek (Ditch H) and Big Creek projects respectively from the General Fund. Construction in progress through fiscal year 2010 total approximately \$5,322,000 and \$2,138,000 for the Upper Oyster Creek and Big Creek projects respectively. The unexpended balances as of September 30, 2010 in these projects are approximately \$2,718,000 and \$567,000 for Upper Oyster Creek and Big Creek respectively. Clear Creek and Lower Oyster Creek are two additional projects funded within General Fund. These two projects had no activity during fiscal 2010 and have unexpended balances of approximately \$1,039,000 and \$1,394,000 respectively.

FORT BEND COUNTY DRAINAGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

A summary of the District's capital assets at September 30, 2010 and 2009 follows (in 000's):

	Balance	Balance
	Sept. 30, 2010	Sept. 30, 2009
Land	\$ 174	\$ 174
Construction in progress	19,135	16,915
Infrastructure	2,266	2,289
Machinery and equipment	3,449	3,439
Buildings and facilities	958	996
	<u>\$ 25,982</u>	<u>\$ 23,813</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 2010 and the beginning of fiscal year 2011 even with the economic slowdown. With this factor in mind, the Board of Directors of the District approved the 2011 budget with total appropriations of \$8.14 million. These appropriations are expected to be offset by \$7.95 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 15.8% of the operating budget pursuant to Board policy. The property tax rate for fiscal year 2011 decreased to \$.01960, from \$.02076 in fiscal year 2010. The tax rate decrease was necessary to stay within 1% of the Board enacted policy of 15% of the adopted operating and maintenance budget.

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, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,492,305
Receivables:	
Taxes	387,040
Intergovernmental	60,130
Miscellaneous	4,633
Capital assets, not subject to depreciation	19,309,069
Capital assets, net of accumulated depreciation	<u>6,672,762</u>
Total Assets	<u><u>32,925,939</u></u>
Liabilities	
Due to primary government	1,067,911
Accrued compensated absences	156,776
Other post-employment benefits obligation	<u>3,542,986</u>
Total Liabilities	<u><u>4,767,673</u></u>
Net Assets	
Invested in capital assets, net of related debt	25,981,831
Unrestricted	<u>2,176,435</u>
Total Net Assets	<u><u>\$ 28,158,266</u></u>

See Notes to Financial Statements.

FORT BEND COUNTY DRAINAGE DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

	Governmental Activities
Program Expenses	
Flood control projects	\$ 10,174,115
Total Program Expenses	<u>10,174,115</u>
Program Revenues	
Capital contributions	<u>1,445,828</u>
Total Program Revenues	<u>1,445,828</u>
General Revenues	
Property taxes	8,055,520
Investment income	106,619
Miscellaneous	<u>70,665</u>
Total General Revenues	<u>8,232,804</u>
(Decrease) in Net Assets	(495,483)
Net Assets, Beginning	<u>28,653,749</u>
Net Assets, Ending	<u><u>\$ 28,158,266</u></u>

See Notes to Financial Statements.

FORT BEND COUNTY DRAINAGE DISTRICT**BALANCE SHEET****GOVERNMENTAL FUND***September 30, 2010*

	General Fund
Assets	
Cash and cash equivalents	\$ 6,492,305
Property taxes receivable, net	387,040
Intergovernmental receivable	60,130
Miscellaneous receivable	4,633
Total Assets	\$ 6,944,108
Liabilities and Fund Balances	
Liabilities	
Deferred revenue	\$ 387,040
Due to primary government	1,067,911
Total Liabilities	1,454,951
Fund Balances	
Unreserved:	
Undesignated	5,489,157
Total Fund Balances	5,489,157
Total Liabilities and Fund Balances	\$ 6,944,108
Fund Balances - Governmental funds	\$ 5,489,157
Adjustments for the Statement of Net Assets:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	25,981,831
Other long-term assets (property taxes receivable) are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds.	387,040
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.	(3,699,762)
Net Assets of Governmental Activities	\$ 28,158,266

See Notes to Financial Statements.

FORT BEND COUNTY DRAINAGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
For the Year Ended September 30, 2010

	General Fund
Revenues	
Property taxes	\$ 8,054,060
Investment income	106,619
Miscellaneous	1,127,637
Total Revenues	<u>9,288,316</u>
Expenditures	
Current operating:	
Flood control projects - maintenance	6,111,012
Capital outlay	2,483,333
Total Expenditures	<u>8,594,345</u>
Revenues Over Expenditures	693,971
Other Financing Sources	
Contributions from Fort Bend Flood Control Water Supply Corporation	175,214
Total Other Financing Sources	<u>175,214</u>
Net Change in Fund Balance	869,185
Fund Balances - Beginning	4,619,972
Fund Balances - Ending	<u>\$ 5,489,157</u>
Net changes in fund balances - governmental funds	\$ 869,185
Adjustments for the Statement of Activities:	
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.	1,780,473
Capital assets constructed from bond proceeds of the Fort Bend Flood Control Water Supply Corporation maintained by the Drainage District.	389,357
The loss on the disposal of capital 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 capital assets.	(500)
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.	1,460
Long-term liabilities (compensated absences and other post-employment benefits) 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.	<u>(3,535,458)</u>
Change in Net Assets of Governmental Activities	<u>\$ (495,483)</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.

FORT BEND COUNTY
DRAINAGE DISTRICT
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 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 District fund:

General Fund

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

D. Cash and Cash Equivalents

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

E. 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. There were no interfund receivables and payables that occurred during fiscal 2010.

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

G. 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:

Asset Description	Estimated Useful Life
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)

H. 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.

I. Date of Managements' Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 21, 2011, the date that the financial statements were available to be issued.

NOTE 2 – DEPOSITS (CASH) AND INVESTMENTS

A. Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the 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 110% 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.

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

At September 30, 2010, the District reported deposits in the amount of \$6,447,891 and the bank balance was \$6,447,864. The District'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 \$6,447,864 as of September 30, 2010.

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, 2010, 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:

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Demand Deposits	\$ 6,447,891	1
Investment Pools:		
MBIA	43,080	42
Texas Term	332	52
LOGIC	1,002	43
Total Fair Value	<u>\$ 6,492,305</u>	
Portfolio weighted average maturity (days)	<u>1</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, 2010, all of the District's investments were rated "AAAm" by Standard and Poor's.

NOTE 3 – RECEIVABLES

Receivables at September 30, 2010 consist primarily of property tax receivables of \$430,045, less an allowance for doubtful accounts of \$43,005.

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 – CONTRIBUTIONS FROM FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION

During fiscal year 2010, the Drainage District received a contribution of \$175,214 from the Fort Bend Flood Control Water Supply Corporation (FBFCWSC) for construction expenses billed by the Drainage District in fiscal year 2009 to FBFCWSC for work performed on the Big Creek project. In fiscal year 2009, the expenses were erroneously charged to the County Big Creek project, which is reported within the Drainage District, instead of the FBFCWSC Big Creek project. In fiscal year 2010, \$175,214 was contributed by FBFCWSC to the Drainage District to reimburse the Drainage District for these prior year expenses.

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

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2010 is as follows:

	Balance 10/1/2009	Increases	Decreases	Balance 09/30/10
Governmental Activities:				
Capital assets not being depreciated:				
Land and intangibles	\$ 173,536			\$ 173,536
Construction in Progress	16,915,377	2,220,156		19,135,533
Total capital assets not depreciated	17,088,913	2,220,156		19,309,069
Other capital assets:				
Infrastructure-Drainage Improvements	2,477,001	62,149		2,539,150
Vehicles	1,096,165	101,730	(36,013)	1,161,882
Office furniture and equipment	129,218		(6,000)	123,218
Machinery and equipment	7,655,320	412,351	(28,140)	8,039,531
Buildings and facilities	1,640,101			1,640,101
Total other capital assets	12,997,805	576,229	(70,153)	13,503,881
Less accumulated depreciation for:				
Infrastructure-Drainage Improvements	(188,133)	(85,492)		(273,624)
Vehicles	(939,102)	(67,133)	36,013	(970,222)
Office furniture and equipment	(99,213)	(11,366)	5,500	(105,079)
Machinery and equipment	(4,403,720)	(424,424)	28,140	(4,800,004)
Buildings and facilities	(644,048)	(38,142)		(682,190)
Total accumulated depreciation	(6,274,216)	(626,556)	69,653	(6,831,120)
Other capital assets, net	6,723,589	(50,327)	(500)	6,672,762
Totals	\$ 23,812,502	\$ 2,169,829	\$ (500)	\$ 25,981,831

For the year ended September 30, 2010, \$626,556 of depreciation was charged to governmental functions.

Construction in progress at September 30, 2010 consisted of the following projects:

Project	Balance 10/01/09	Increase- Retainage Included	Decreases Capitalizations	Balance 09/30/10
Big Creek FBFCWSC	\$ 11,242,729	\$ 433,432		\$ 11,676,161
Oyster Creek FBFCWSC		62,149	(62,149)	
Big Creek	2,124,993	12,840		2,137,832
Upper Oyster Creek	3,547,655	1,773,885		5,321,540
Totals	\$ 16,915,377	\$ 2,282,305	\$ (62,149)	\$ 19,135,533

The bulk of the construction in progress is funded by the Fort Bend Flood Control Water Supply Corporation's (the Corporation) debt.

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – 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 10.83% for calendar year 2010. 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 2010 was \$107.1 million and the County's contributions were based on a payroll of \$105.3 million. Contributions made by employees totaled \$7.4 million, and the County made contributions of \$11.2 million during the fiscal year ended September 30, 2010.

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM (continued)

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual Pension Cost (APC)	\$ 11,235,138	\$ 10,187,718	\$ 9,110,858
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation at the End of Period			

For the year ended September 30, 2010, the pension cost for the TCDRS plan and the actual contributions made were \$11,235,138 for the County, (of which \$330,361 was attributable to the District). Because all contributions are made as required, no pension obligation existed at September 30, 2010.

<u>Actuarial Information</u>	<u>12/31/2009</u>
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Amortization period	20 years
Asset valuation method	SAF: 10-year smoothed value ESF: Fund value
Assumptions:	
Investment return	8.0%
Projected salary increases	5.4%
Inflation	3.5%
Costs-of-living adjustments	0.0%

NOTE 7 – 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 receive the same healthcare benefits as current eligible County employees.
- Eligible retirees may purchase healthcare coverage for eligible dependents at the same subsidized cost to current eligible County employees.

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 \$215,823 for the fiscal year ending September 30, 2010. At September 30, 2010, there were approximately 38 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 actuarial valuations of its post-retirement benefit liability in 2008 and 2010.

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (continued)

For fiscal year 2010, the District's annual OPEB cost for the Plan was \$1,510,202. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended September 30, 2010, were as follows:

	Fiscal Year Ending 9/30/10
Determination of Annual Required Contribution	
Normal Cost at Fiscal Year End	\$ 623,120
Amortization of Unfunded Actuarial Accrued Liability	923,129
Annual Required Contribution	<u>1,546,249</u>
Determination of Net OPEB Obligation	
Annual Required Contribution	1,546,249
Interest on prior year Net OPEB Obligation	92,391
Adjustment to ARC	<u>(128,438)</u>
Annual OPEB Cost	1,510,202
Less Assumed Contributions Made	<u>(277,000)</u>
Estimate Increase in Net OPEB Obligation	1,233,202
Net OPEB Obligation – Beginning of Year	<u>2,309,784</u>
Net OPEB Obligation – End of Year	<u><u>\$ 3,542,986</u></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):

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2008	4%	\$ 1,317,496	13.8%	\$ 1,135,752
2009	4%	\$ 1,299,772	9.7%	\$ 2,309,784
2010	4%	\$ 1,510,202	18.3%	\$ 3,542,986

NOTE 8 – 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, 2010.

FORT BEND COUNTY
DRAINAGE DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – 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 10 – 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.

NOTE 11 – RESTATEMENT OF NET ASSETS

During the 2010 fiscal year, the County made adjustments to its capital asset records. As a result of these adjustments, the County has restated its beginning net assets. Governmental activities beginning net assets was increased by \$83,398. This increase was made up of the following: The purchase of asset # 10125, bulldozer, had an addition of \$76,084 on 5/21/2009 due to a trade in of asset #1214, bulldozer; An improvement dated 9/11/2009 on asset #12407, excavator, caused an increase of \$7,314.

REQUIRED SUPPLEMENTARY INFORMATION

FORT BEND COUNTY DRAINAGE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES -BUDGET AND ACTUAL - GENERAL FUND-BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget Positive / (Negative)
Revenues				
Taxes, penalties and interest	\$ 8,175,415	\$ 8,175,415	\$ 8,054,060	\$ (121,355)
Earnings on investments	30,000	30,000	106,619	76,619
Miscellaneous	102,500	102,500	71,166	(31,334)
Total Revenues	<u>8,307,915</u>	<u>8,307,915</u>	<u>8,231,845</u>	<u>(76,070)</u>
Expenditures				
Current operating:				
Construction and				
Maintenance	7,771,237	6,821,757	6,111,012	710,745
Capital outlay	<u>748,500</u>	<u>743,700</u>	<u>521,395</u>	<u>222,305</u>
Total Expenditures	<u>8,519,737</u>	<u>7,565,457</u>	<u>6,632,407</u>	<u>933,050</u>
Changes in Fund Balance- Budgetary Basis	(211,822)	742,458	1,599,438	856,980
Net adjustments to reflect operations in accordance with GAAP			(730,253)	
Fund balance - Beginning	<u>4,619,972</u>	<u>4,619,972</u>	<u>4,619,972</u>	
Fund Balance - Ending	<u>\$ 4,408,150</u>	<u>\$ 5,362,430</u>	<u>\$ 5,489,157</u>	<u>\$ 856,980</u>

See Notes to Financial Statements.

FORT BEND COUNTY DRAINAGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets

The Board 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 Board. The Board holds a public hearing on the budget. Before determining the final budget, the Board 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 Board may increase budgeted revenues and expenditure for unexpected revenues or beginning fund balances in excess of budget estimates, provided the Board 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 the Board must approve any budget transfers between major expenditure categories. However, no such transfer may increase the overall total of the budget.

The General Fund includes a multi-year budget that is not confined to the fiscal year ending September 30. This multi-year budget is primarily used to account for capital projects. The funding for these multi-year budgets originates from a prior and/or current fiscal year budget allocation within General Fund. These annual budgetary allocations are transferred to the multi-year budgets within General Fund. The residual balances of these budgets are reconsidered by the Board annually during the budget process described in the preceding paragraph. 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.

	Actual Amounts Budgetary Basis	Actual Multi- Year	Actual Amounts GAAP Basis
Revenues	\$ 8,231,845	\$ 1,056,471	\$ 9,288,316
Expenditures	6,632,407	1,961,938	8,594,345
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	1,599,438	(905,467)	693,971
Contributions from Fort Bend Flood Control Water Supply Corporation		175,214	175,214
Total Other Financing Sources		175,214	175,214
Net Change in Fund Balance	1,599,438	(730,253)	869,185
Fund Balance, Beginning of Year			4,619,972
Fund Balance, End of Year			<u>\$ 5,489,157</u>

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

For the year ended September 30, 2010, the pension cost for the TCDRS plan and the actual contributions made were \$11,235,138 for the County, (of which \$330,361 was attributable to the District). Because all contributions are made as required, no pension obligation existed at September 30, 2010.

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 2010. The December 31, 2009 actuarial valuation is the most recent valuation.

<u>Actuarial valuation date</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Actuarial value of assets	\$ 205,614,643	\$ 209,747,313	\$ 238,298,754
Actuarial accrued liability (AAL)	\$ 232,539,055	\$ 254,807,906	\$ 283,956,716
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL)	\$ 26,924,412	\$ 45,060,593	\$ 45,657,962
Funded ratio	88.42%	82.32%	83.92%
Annual covered payroll (actuarial)	\$ 81,337,915	\$ 92,096,921	\$ 104,983,019
UAAL or OAAL as % of covered payroll	33.10%	48.93%	43.49%



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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 governmental activities and each major fund of the Fort Bend County Drainage District, (the "District"), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 21, 2011. 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 opinions 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 *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 21, 2011

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