

**FORT BEND FLOOD CONTROL
WATER SUPPLY CORPORATION**

**FORT BEND COUNTY, TEXAS
Financial Report**

September 30, 2013

**FORT BEND FLOOD CONTROL
WATER SUPPLY CORPORATION**
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fort Bend Flood Control Water Supply Corporation (the "Corporation"), a component unit of Fort Bend County, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed in Note 1A, the financial statements present only the Corporation and do not purport to, and do not, present fairly the financial position of Fort Bend County, Texas, as of September 30, 2013, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

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 Corporation as of September 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script, appearing to read "Sugar Land & Co.", is written in black ink.

Sugar Land, Texas
February 28, 2014

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fort Bend Flood Control Water Supply Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended September 30, 2013.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the Corporation's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *statement of activities* presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation maintains a debt service fund and a capital projects fund on the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The debt service fund and capital projects fund are governmental funds used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the debt service and capital projects funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the debt service and capital projects funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*.

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

Notes to the Financial Statements

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Corporation, liabilities exceeded assets by \$7,634,718 as of September 30, 2013. Below is a condensed schedule of net position for the Corporation as of September 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Current assets	\$ 815,306	\$ 3,412,665
Total Assets	<u>815,306</u>	<u>3,412,665</u>
Liabilities		
Current liabilities	184,086	270,167
Long-term liabilities	8,265,938	9,299,423
Total Liabilities	<u>8,450,024</u>	<u>9,569,590</u>
Net Position	<u>\$ (7,634,718)</u>	<u>\$ (6,156,925)</u>

This deficit balance is directly attributable to the \$7,710,000 of bonds payable that the Corporation has outstanding along with the unamortized bond premiums of \$555,938 at September 30, 2013. The Corporation issues debt to finance the construction of flood control and drainage improvement projects. The Corporation constructs flood control and drainage improvement projects pursuant to contracts with the County. Under each contract, the Corporation agrees to issue bonds to finance the construction of drainage improvements, to construct drainage improvements to the respective creek, and to convey the improvements to the Fort Bend County Drainage District (the "District").

Under each contract, the County agrees to levy and assess an ad valorem tax against all taxable property in the County in an amount sufficient to pay the debt service on the Corporation's bonds. The Corporation has entered into a contract for the construction of drainage improvements on Oyster Creek and another contract for the construction of improvements on Big Creek.

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

The following table is a condensed schedule of changes in net position for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
General Revenues		
Property taxes	\$ 1,270,718	\$ 1,285,237
Miscellaneous	510	
Earnings on investments	5,389	55,377
Total General Revenues	<u>1,276,617</u>	<u>1,340,614</u>
Program Expenses		
Flood control projects	2,494,837	975,272
Interest and fiscal charges on long-term debt	259,574	286,041
Total Program Expenses	<u>2,754,411</u>	<u>1,261,313</u>
Change in Net Position	(1,477,794)	79,301
Net Position, Beginning	(6,156,924)	(6,236,226)
Net Position, Ending	<u>\$ (7,634,718)</u>	<u>\$ (6,156,925)</u>

For the year ended September 30, 2013, the Corporation's general revenues consisted of property taxes, investment income, and impact fees. Fort Bend County provided property tax revenues of \$1,270,718 which is a decrease of \$14,519 over last year. This decrease was caused by a reduction of the property tax allocation by the County to meet the scheduled debt service requirements for the Corporation. Earnings on investments decreased by \$49,988 due to reduced deposit balances and interest rates. Expenses for flood control projects increased by \$1,519,565 due to the increased work done on the Big Creek Project. Also interest expense decreased by \$26,467 as a result of the scheduled debt service requirements for the Corporation.

Fund Financial Analysis

As of September 30, 2013, the Corporation's governmental funds, which consist of a debt service fund and a capital projects fund, reported an ending fund balance of \$479,623. The Corporation's main source of revenue is property taxes, which totaled \$1,270,718, for the year ended September 30, 2013. The Corporation's ending fund balance primarily represents the proceeds from the Corporation's 2001 series revenue bonds that were issued to fund the Big Creek project. The 2001 series bonds were refunded in 2010.

Debt Administration

As of September 30, 2013, the Corporation has \$7,710,000 of bonds payable which mature in 2021. Below is a description of the long-term debt outstanding at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
FBFCWSC Refunding Series 2010 Bonds	7,710,000	\$ 8,665,000
Premium on bonds	555,938	634,423
	<u>\$ 8,265,938</u>	<u>\$ 9,299,423</u>

Economic Factors

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

The population of the County is estimated at 659,355 in 2013 and is expected to grow to 791,822 by 2018.

The number of households has increased to 214,723 in 2013 and is expected to grow to 264,355 by 2018. Mean household income for 2013 is \$160,241 and is estimated to rise to \$178,101 by 2018. Income per capita is currently at \$52,579 and is expected to grow to \$59,880 by 2018.

Drainage improvements continue to be a demand from the residents of Fort Bend County. The Corporation is proceeding with several drainage projects that will enhance and compliment the County's flood control and drainage system.

Contacting the Corporation's Management and Obtaining Financial Information

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

Basic Financial Statements

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
STATEMENT OF NET POSITION
September 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 638,742
Deferred bond issuance costs	176,564
Total Assets	<u>815,306</u>
Liabilities	
Due to primary government	15,794
Retainage payable	143,325
Accrued interest payable	24,967
Long-term liabilities due within one year	1,045,000
Long-term liabilities due in more than one year	7,220,938
Total Liabilities	<u>8,450,024</u>
Net Position	
Unrestricted	<u>(7,634,718)</u>
Total Net Position	<u><u>\$ (7,634,718)</u></u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

	<u>Governmental Activities</u>
Program Expenses	
Flood control projects	\$ 2,494,837
Interest and fiscal charges on long-term debt	259,574
Total Program Expenses	<u>2,754,411</u>
General Revenues	
Property taxes	1,270,718
Miscellaneous	510
Earnings on investments	5,389
Total General Revenues	<u>1,276,617</u>
(Decrease) in Net Position	(1,477,794)
Net Position, Beginning	<u>(6,156,924)</u>
Net Position, Ending	<u>\$ (7,634,718)</u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2013

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$	\$ 638,742	\$ 638,742
Total Assets	<u>\$</u>	<u>\$ 638,742</u>	<u>\$ 638,742</u>
Liabilities and Fund Balances			
Liabilities			
Retainage payable		143,325	143,325
Due to primary government		15,794	15,794
Total Liabilities		<u>159,119</u>	<u>159,119</u>
Fund Balances			
Restricted		479,623	479,623
Total Fund Balances		<u>479,623</u>	<u>479,623</u>
Total Liabilities and Fund Balances	<u>\$</u>	<u>\$ 638,742</u>	<u>\$ 638,742</u>

Fund Balances - Governmental funds \$ 479,623

Adjustments for the Statement of Net Position:

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

Accrued interest	(24,967)
Deferred bond issuance costs	176,564
Bonds payable	(7,710,000)
Premiums on issuance of debt	<u>(555,938)</u>
Net Position of Governmental Activities	<u>\$ (7,634,718)</u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 1,270,718	\$	\$ 1,270,718
Miscellaneous		510	510
Earnings on investments		5,389	5,389
Total Revenues	<u>1,270,718</u>	<u>5,899</u>	<u>1,276,617</u>
Expenditures			
Current operating:			
Flood control projects		2,494,837	2,494,837
Debt Service			
Principal retirement	955,000		955,000
Interest and fiscal charges	315,718		315,718
Total Expenditures	<u>1,270,718</u>	<u>2,494,837</u>	<u>3,765,555</u>
Net Change in Fund Balances		(2,488,938)	(2,488,938)
Fund Balances, Beginning		2,968,561	2,968,561
Fund Balances, Ending	<u>\$</u>	<u>\$ 479,623</u>	<u>\$ 479,623</u>
Net changes in fund balances - governmental funds			\$ (2,488,938)
Adjustments for the Statement of Activities:			
Principal payments on bonds are reported as expenditures in governmental funds but not as expenses in the government-wide statements.			955,000
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			53,558
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable on the accrual basis of accounting.			<u>2,586</u>
Change in Net Position of Governmental Activities			<u>\$ (1,477,794)</u>

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

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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 statement of net position.

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

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

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

Debt Service Fund

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

Capital Projects Fund

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

D. Flood Control Projects and Improvements

The Corporation was formed for the purpose of financing and constructing flood control projects and improvements. Any infrastructure that has been constructed, and any land or easements purchased by the Corporation during the project are conveyed to and maintained by the District. The District records the capital assets in its annual financial statements. Therefore, the Corporation does not record any capital assets.

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

G. Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through February 28, 2014, the date that the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets

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

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

B. Deficit Net Position

The Corporation's deficit net position balance of \$7,634,718 as of September 30, 2013, is a reflection of the Corporation's organization and purpose. As previously discussed, the Corporation was formed to provide financing for flood control projects. Any infrastructure that has been constructed, as well as any land or easements purchased, is conveyed to the District and reported as a capital asset in the District's financial statements. Therefore, the debt issued by the Corporation to finance these flood control projects is not offset by capital assets acquired from these projects, resulting in a deficit net position balance.

NOTE 3 - CASH AND INVESTMENTS

A. Authorization for Deposits and Investments

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

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

The Board of Directors has adopted a written investment policy regarding the investment of Corporation funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). Investments made by the Corporation are in compliance with the Corporation's investment policy. The Corporation's investment policy is more restrictive than the PFIA requires. It is the Corporation's policy

to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, and local government investment pools.

At September 30, 2013, the Corporation reported deposits in the amount of \$592,393 and the bank balance was \$592,393. The Corporation's collateral requirement, in accordance with its investment policy is 110%. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the County's agent in the County's name, which totaled \$592,393 as of September 30, 2013.

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, 2013, 92.7% of the Corporation's cash and cash equivalents were contained in demand deposit accounts.

C. Interest Rate Risk

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

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Demand deposits	\$ 592,393	1
Investment Pools:		
Texas CLASS	45,340	37
LOGIC - Local Government Investment Cooperative	1,009	55
Total Cash and Cash Equivalents	<u>\$ 638,742</u>	

D. Credit Risk

The Corporation's investment policy does not require investments to hold certain credit ratings issued by nationally recognized statistical rating organizations. As of September 30, 2013, the Corporation's investments in both the Texas CLASS and LOGIC Investment Pools were rated "AAAm" by Standard and Poor's.

NOTE 4 - PROPERTY TAXES

The County provides property tax revenues to fund the Corporation's expenses. No separate tax rate is set by the County for the Corporation's debt, therefore, no taxes receivable balances are maintained in the Corporation's Debt Service Fund.

NOTE 5 - LONG-TERM DEBT

The Corporation issues contract revenue bonds for the purpose of financing flood control projects. The revenue bonds are paid through the Corporation's Debt Service Fund from property taxes levied by the County. The following schedule is a summary of changes in the Corporation's total long-term liabilities for the year ended September 30, 2013.

	<u>Balance,</u> <u>Oct. 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>Sept. 30, 2013</u>	<u>Amounts Due</u> <u>Within One Year</u>
Bonds Payable:					
Revenue refunding bonds	\$ 8,665,000		\$ (955,000)	\$ 7,710,000	\$ 1,045,000
Premium on bonds	634,423		(78,485)	555,938	
	<u>\$ 9,299,423</u>	<u>\$</u>	<u>\$ (1,033,485)</u>	<u>\$ 8,265,938</u>	<u>\$ 1,045,000</u>

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

A summary of the outstanding revenue bonds as of September 30, 2013, follows:

<u>Series</u>	<u>Original Issue</u> <u>Amount</u>	<u>Matures</u>	<u>Rate (%)</u>	<u>Principal</u> <u>Outstanding</u>
Revenue Refunding Bonds				
FBFCWSC Refunding Series 2010 Bonds	\$ 9,675,000	2021	2.5 - 4.0	\$ 7,710,000
				<u>\$ 7,710,000</u>

Annual debt service requirements to maturity are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	1,045,000	278,700	1,323,700
2015	1,025,000	237,300	1,262,300
2016	985,000	197,100	1,182,100
2017	970,000	158,000	1,128,000
2018	955,000	119,500	1,074,500
2019-2021	<u>2,730,000</u>	<u>139,200</u>	<u>2,869,200</u>
Totals	<u>\$ 7,710,000</u>	<u>\$ 1,129,800</u>	<u>\$ 8,839,800</u>

NOTE 6 – FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Corporation is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of September 30, 2013, fund balances for governmental funds are made up of the following:

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

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

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

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

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

The fund balance for the Corporation as of September 30, 2013 is all restricted. The balance in the Capital Projects fund of \$479,623 is restricted as dictated by the respective bond covenants. This balance is made up of remaining bond proceeds along with interest earned on these proceeds.

NOTE 7 - CONTINGENT LIABILITIES

The Corporation is contingently liable for lawsuits and other claims arising in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would not materially affect the financial position of the Corporation at September 30, 2013.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - BIG CREEK PROJECT

In fiscal year 2001, the Corporation issued \$11,650,000 in revenue bonds, which were refunded in 2010, to finance the Big Creek project, which has a budget of approximately \$15.7 million. The purpose of the Big Creek project is to improve and enlarge approximately twenty linear miles of channel currently being maintained by the District. More specifically, approximately \$4 million was used to design and construct a structure at the outfall of the Big Creek Bypass Channel and an erosion control structure constructed at the confluence of Big Creek and the Bypass Channel. The remaining funds are being expended to design and construct channel improvements along Big Creek from FM 762 upstream to Big Creek's confluence with Cottonwood Creek and Coon Creek, as well as to perform repairs on the Big Creek Bypass Channel outfall structure.

NOTE 10 – IMPLEMENTATION OF NEW STANDARDS

In the current fiscal year, the Corporation implemented the following new standard:

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (“GASB 63”), amended the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as “net position” rather than “net assets.”