

**FORT BEND FLOOD CONTROL  
WATER SUPPLY CORPORATION**

**FORT BEND COUNTY, TEXAS  
Financial Report**

**October 31, 2015**

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

Fort Bend County, Texas

**Robert Ed Sturdivant**  
County Auditor

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March 31, 2016

To the Board of Directors of the Fort Bend Flood Drainage District, Members of the Commissioners Court, and Citizens of Fort Bend County, Texas:

The Fort Bend County Auditor's Office is pleased to present the basic financial statements of the Fort Bend Flood Control Water Supply Corporation (the "Corporation"), a component unit of Fort Bend County, Texas (the "County"), for the thirteen months ended October 31, 2015. This report is submitted in accordance with Section 114.025 of the Texas Local Government Code and was prepared by the staff of the County Auditor's Office.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Whitley Penn, LLP has issued a modified opinion on the Corporation's financial statements for the thirteen months ended October 31, 2015. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### **Profile of the Corporation**

The Fort Bend Flood Control Water Supply Corporation (the "Corporation") is a non-profit corporation created in 1987 under Chapter 67 of the Texas Water Code (formerly Article 1434a, Texas Revised Civil Statutes) organized for the benefit of Fort Bend County (the "County") to provide for the acquisition, construction and financing of flood control and drainage projects for the County. Upon completion, these projects are maintained by the Fort Bend County Drainage District. The corporation was voluntarily dissolved by the Board on October 28, 2015 as described in Note 7 on page 16 of this report.

### **Local Economy**

Fort Bend County continues to enjoy improvement in the local economy through fiscal year 2015. This is evident by growth in new home sales, labor force, and employment rate. The demand for services regarding the governmental functions performed by the County continues to increase at a greater rate. The Commissioners Court and the Corporation continue to use a conservative approach to the allocation

of resources to serve the County's needs to ensure that Fort Bend County is prepared as the local economy improves. This ongoing conservative approach has allowed the County and the Corporation to meet the service demands of the residents in Fort Bend County.

### **Long-Term Financial Planning and Relevant Financial Policies**

#### *Budget*

No annual budget is adopted for the Corporation. Budgetary controls are achieved through individual project budgeting.

#### *Long-Term Comprehensive Plan*

The Corporation has expended the remaining proceeds from the 2001 bond issue toward the Big Creek project in support of the Fort Bend County Drainage District's (the "District") ten-year expansion and improvement of Big Creek.

#### *Capital Improvement Program*

The Corporation's capital plan has been focused on supporting the District's Big Creek project.

#### *Debt Policy*

The purpose of Fort Bend County's Debt Policy (which includes the Corporation) is to establish guidelines for the utilization of debt instruments issued by the County and the Corporation whether payable from County taxes or payable from certain revenues of the County or Corporation.

### **Major Initiatives**

Support of the Big Creek project has been the primary major initiative of the Corporation.

### **Acknowledgements**

The preparation of this report could not be achieved without the efficient and dedicated services of the staff of the County Auditor's Office and Whitley Penn, LLP, our independent auditor.

Respectfully submitted,



Robert E. Sturdivant, CPA  
County Auditor  
Fort Bend County, Texas

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Robert E. Hebert, County Judge  
and Members of Commissioners Court  
Fort Bend County, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend Flood Control Water Supply Corporation (the "Corporation"), a component unit of Fort Bend County, Texas, as of and for the 13 months ended October 31, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 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.

To the Honorable Robert E. Hebert, County Judge  
and Members of Commissioners Court  
Fort Bend County, Texas

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

### **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 October 31, 2015, and the respective changes in financial position for the 13 months ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 7 to the financial statements, the Corporation voluntarily wound up and terminated its existence on October 28, 2015. All assets and liabilities of the Corporation were transferred to Fort Bend County, Texas on October 28, 2015. As such, these financial statements include activity for the period October 1, 2014 through October 31, 2015. Our opinions are not modified with respect to this matter.

### **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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

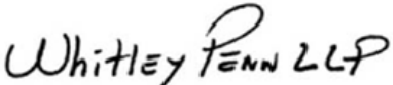
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters.

To the Honorable Robert E. Hebert, County Judge  
and Members of Commissioners Court  
Fort Bend County, Texas

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

  
Houston, Texas  
March 31, 2016

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**

Because of the dissolution of the Corporation, no assets or liabilities exist as of October 31, 2015. Below is a condensed schedule of net position for the Corporation as of October 31, 2015 and September 30, 2014:

	<u>2015</u>	<u>2014</u>
Current assets	\$	\$ 424,974
Total Assets		424,974
Liabilities		
Current liabilities		34,193
Long-term liabilities		7,142,453
Total Liabilities		7,176,646
Net Position	\$	\$ (6,751,672)

The Corporation transferred all assets and liabilities and other remaining obligations of the Corporation to Fort Bend County, Texas on October 28, 2015.

The following table is a condensed schedule of changes in net position for the thirteen months ended October 31, 2015 and the year ended September 30, 2014:

	<u>2015</u>	<u>2014</u>
General Revenues		
Property taxes	\$ 1,263,050	\$ 1,324,450
Earnings on investments	1,034	1,622
Total General Revenues	1,264,084	1,326,072
Program Expenses		
Flood control projects	413,298	68,982
Interest and fiscal charges on long-term debt	156,148	197,481
Total Program Expenses	569,446	266,463
Net Revenue (Expense)	694,638	1,059,609
Special Item (unusual and under control of management)	6,057,034	
Change in Net Position	6,751,672	1,059,609
Net Position, Beginning	(6,751,672)	(7,811,281)
Net Position, Ending	\$	\$ (6,751,672)



For the thirteen months ended October 31, 2015, the Corporation's general revenues consisted of property taxes and investment income. Fort Bend County provided property tax revenues of \$1,263,050, which is a decrease of \$61,400 over last year. This decrease was caused by a decrease of the property tax allocation by the County to meet the scheduled debt service requirements for the Corporation. Earnings on investments decreased by \$588 due to reduced deposit balances and interest rates. Expenses for flood control projects increased by \$344,316 due to the completion of the Big Creek and Oyster Creek Projects funded from bond proceeds. Also, interest expense decreased by \$41,333 as a result of the scheduled debt service requirements for the Corporation.

### **Fund Financial Analysis**

As of October 31, 2015, the Corporation's governmental funds, which consist of a debt service fund and a capital projects fund, reported no ending fund balance, due to the exhaustion of the cash and voluntary dissolution of the Corporation on October 28, 2015 as described in Note 7 on page 16 of this report. The Corporation's main source of revenue is property taxes, which totaled \$1,263,050 for the thirteen months ended October 31, 2015.

### **Debt Administration**

As of October 31, 2015, the Corporation has \$0 of bonds payable. Below is a description of the long-term debt outstanding as of October 31, 2015 and September 30, 2014:

	<u>2015</u>	<u>2014</u>
FBFCWSC Refunding Series 2010 Bonds	\$	\$ 6,665,000
Premium on bonds		477,453
	<u>\$</u>	<u>\$ 7,142,453</u>

At dissolution, approximately \$6.0 million of bonded debt and related premiums were assumed by the County. These bonds were transferred to the County on October 28, 2015 upon the voluntary dissolution of the Corporation as described in Note 7 on page 16 of this report. Additional information on long-term debt can be found in Note 4 of the notes to financial statements.

### **Economic Factors**

The County continues to enjoy growth in various demographic areas as the economy improves.

The population of the County is estimated at 687,050 in 2015 and is expected to grow to 784,590 by 2020.

The number of households has increased to 222,990 in 2015 and is expected to grow to 256,710 by 2020. Mean household income for 2015 is \$180,519 and is estimated to rise to \$209,706 by 2020. Income per capita is currently at \$58,919 and is expected to grow to \$68,959 by 2020.

Drainage improvements continue to be a demand from the residents of Fort Bend County. The Corporation has completed its obligation on several drainage projects that have enhanced and complimented the County's flood control and drainage system.

## **Requests for 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 701, Richmond, Texas 77469.

## **Basic Financial Statements**

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**STATEMENT OF NET POSITION (DEFICIT)**  
*October 31, 2015*

	<u>Governmental Activities</u>
<b>Total Assets</b>	\$
<b>Total Liabilities</b>	<u>                    </u>
<b>Total Net Position</b>	<u><u>                    </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 Thirteen Months Ended October 31, 2015*

	<b>Governmental Activities</b>
<b>Program Expenses</b>	
Flood control projects	\$ 413,298
Interest and fiscal charges on long-term debt	156,148
<b>Total Program Expenses</b>	569,446
 <b>General Revenues</b>	
Property taxes	1,263,050
Earnings on investments	1,034
<b>Total General Revenues</b>	1,264,084
 <b>Net Revenue (Expense)</b>	 694,638
 <b>Special Item (unusual and under control of management)</b>	 6,057,034
 <b>Change in Net Position</b>	 6,751,672
 Net Position, Beginning	(6,751,672)
 <b>Net Position, Ending</b>	 \$

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

**FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
*October 31, 2015*

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Total Assets</b>	\$ _____	\$ _____	\$ _____
<b>Total Liabilities</b>			
<b>Total Fund Balances</b>	_____	_____	_____
<b>Total Liabilities and Fund Balances</b>	\$ _____	\$ _____	\$ _____

*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 Thirteen Months Ended October 31, 2015*

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 1,263,050	\$	\$ 1,263,050
Earnings on investments		1,034	1,034
<b>Total Revenues</b>	<u>1,263,050</u>	<u>1,034</u>	<u>1,264,084</u>
<b>Expenditures</b>			
<b>Current operating:</b>			
Flood control projects		413,298	413,298
<b>Debt Service</b>			
Principal retirement	1,025,000		1,025,000
Interest and fiscal charges	238,050		238,050
<b>Total Expenditures</b>	<u>1,263,050</u>	<u>413,298</u>	<u>1,676,348</u>
<b>Net Change in Fund Balances</b>		(412,264)	(412,264)
Fund Balances, Beginning		412,264	412,264
<b>Fund Balances, Ending</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**Net change in fund balances - governmental funds** \$ (412,264)

**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. 1,025,000

Governmental funds report the effect of 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. 78,485

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. 3,417

**Change in Net Position of Governmental Activities** \$ 694,638

*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”), which is a component unit of Fort Bend County, Texas (the “County”). Financial statements of the Corporation are included as a blended component unit in the County’s financial statements.

The Corporation was created under the Texas Water Code as a legally separate entity. 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. 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”). On October 28, 2015, The Board of Directors approved the voluntary winding up and termination of the Corporation.

**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 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. 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.

**E. Cash and Cash Equivalents**

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

**F. 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.

**G. Net Position and Fund Balances**

**Net Position Classifications**

Net position in government-wide financial statements are classified in three categories: 1) Net investment in capital assets, 2) Restricted net position, and 3) Unrestricted net position. Net position is shown as restricted if constraints placed on use are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The Corporation's net position is all restricted for capital projects. It is the Corporation's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied. The Corporation's deficit net position balance of \$6,751,672 as of October 1, 2014 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. All assets and liabilities of the Corporation were transferred to the County on October 28, 2015. The Corporation's net position balance as of October 31, 2015 is \$0.

## **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 Management's Review**

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 31, 2016, the date that the financial statements were available to be issued.

## **NOTE 2 - 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.

### **B. 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 had no cash and investments.

The Corporation's investment policy does not require investments to hold certain ratings issued by nationally recognized statistical rating organizations.

It is the Corporation'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 Corporation 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%

### NOTE 3 - 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 4 - 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 thirteen months ended October 31, 2015:

	<u>Balance, Oct. 1, 2014</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance, Oct. 31, 2015</u>	<u>Amounts Due Within One Year</u>
Bonds Payable:					
Revenue refunding bonds	\$ 6,665,000		\$ (6,665,000)	\$	\$
Premium on bonds	477,453		(477,453)		
Totals	<u>\$ 7,142,453</u>	<u>\$</u>	<u>\$ (7,142,453)</u>	<u>\$</u>	<u>\$</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 October 31, 2015, follows:

<u>Series</u>	<u>Original Issue Amount</u>	<u>Matures</u>	<u>Rate (%)</u>	<u>Principal Outstanding</u>
<b>Revenue Refunding Bonds</b>				
FBFCWSC Refunding Series 2010	\$ 9,675,000	2021	2.5 - 4.0	\$ 5,640,000
				<u>\$ 5,640,000</u>

Annual debt service requirements to maturity are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	945,000	81,500	1,026,500
2020	905,000	44,500	949,500
2021	<u>880,000</u>	<u>13,200</u>	<u>893,200</u>
<b>Totals</b>	<u>\$ 5,640,000</u>	<u>\$ 613,800</u>	<u>\$ 6,253,800</u>

The Corporation's bonds are subject to federal arbitrage regulations. The Corporation complies with the five year reporting requirements to the Internal Revenue Service for rebate calculation. As of the date of this report, the Corporation has no contingent rebatable arbitrage.

As of the dissolution of the Corporation on October 28, 2015, these bonds were transferred to the County for payment.

#### **NOTE 5 - RISK MANAGEMENT**

The Corporation 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, which covers the Corporation, 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 Corporation 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 6 - 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 were expended in fiscal year 2015 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 7 – SUBSEQUENT EVENTS

On October 28, 2015 the Corporation adopted a resolution approving the voluntary winding up and termination of the Corporation and authorizing notice to known creditors and claimants. The Corporation also adopted on this same day a resolution approving the transfer of assets and liabilities to the County. Therefore this will be the final financial report of the Corporation. As a result of the transfer, the Corporation transferred the following liabilities to the County:

<b>Transferred Liabilities:</b>	
Interest payable	\$ 18,067
Premium on bonds	398,967
Bonds payable	<u>5,640,000</u>
Total Transferred Liabilities	<u><u>\$ 6,057,034</u></u>

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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Robert E. Hebert, County Judge  
and Members of Commissioners Court  
Fort Bend County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Fort Bend Flood Control Water Supply Corporation (the "Corporation"), a component unit of Fort Bend County, Texas, as of and for the 13 months ended October 31, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 31, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Robert E. Hebert, County Judge  
and Members of Commissioners Court  
Fort Bend County, Texas


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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Houston, Texas  
March 31, 2016