

**FORT BEND COUNTY
DRAINAGE DISTRICT**

**FORT BEND COUNTY, TEXAS
Financial Report**

September 30, 2015

FORT BEND COUNTY DRAINAGE DISTRICT
TABLE OF CONTENTS

	<u>Page(s)</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i-iii
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Fund	10
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	11
Notes to Financial Statements	12-23
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – General Fund - Budgetary Basis	26
Notes to Budgetary Required Supplementary Information	27
Texas County and District Retirement System – Schedule of Funding Progress	28-29
<u>TEXAS SUPPLEMENTARY INFORMATION</u>	
General Fund Expenditures	32
Taxes Levied and Receivable	33
Comparative Schedule of Revenues and Expenditures - General Fund	34-35
Board Members, Key Personnel, and Consultants	36
Independent Auditors' Report on Internal Control over Financial Reporting	37-38



COUNTY AUDITOR

Fort Bend County, Texas

Robert Ed Sturdivant
County Auditor

281-341-3769, 281-341-3744 (fax)
Ed.Sturdivant@fortbendcountytx.gov

March 31, 2016

To the Board of Directors of the Fort Bend County 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 County Drainage District (the "District"), a component unit of Fort Bend County, Texas (the "County"), for the fiscal year ended September 30, 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 has issued an unmodified ("clean") opinion on the District's financial statements for the year ended September 30, 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 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. It was created for the purpose of reclamation and drainage of its lands. The Fort Bend County Commissioners Court acts as the governing body of the District.

Local Economy

Fort Bend County experienced a slight upturn in the local economy for fiscal year 2015. This is evident by a modest increase 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 District 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 will allow the County and the District to meet the service

demands of the residents in Fort Bend County.

Long-Term Financial Planning and Relevant Financial Policies

Budget

The District adopts a one-year budget through its fully coordinated financial planning process. The budget implements strategies, both financial and operational, identified through the strategic and long-range planning process to meet existing challenges and to effectively plan for future needs. The budget is a financial plan for a fiscal year of operations that matches all planned revenues and expenditures with the services provided the citizens of Fort Bend County based on the established budget policy. Decisions are not based solely on current conditions but on the long-term welfare of the community. The budget is developed and resources allocated based on the vision, mission, and goals of the District and County.

Long-Term Comprehensive Plan

The District works with local governments and land developments to address drainage and flood control challenges within Fort Bend County in order to protect people, property and the environment.

Capital Improvement Program

Capital Improvement Projects are larger projects that focus on restoring or improving drainage as well as mitigating flooding. These projects represent a substantial investment of public funds and must pass a rigorous review before construction begins. Projects are first evaluated to ensure they meet technical criteria. Projects are then reviewed using criteria developed specifically for the District. The District's criteria support projects that:

- Promote safety and health of the public
- Reduce or mitigate impacts related to flooding
- Promote/improve habitat to support healthy watersheds
- Promote/improve water quality
- Promote economic health of the County
- Implement all, or a part of, a watershed plan
- Assist the County in meeting federal or state requirements

Debt Policy

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

Major Initiatives

The District is focused on allowing development to continue within the County, while maintaining, or reducing, flood risks. The District's development guidelines require individual developments to mitigate impacts to existing floodplains as well as maintain/improve drainage in their vicinity. The District also upgrades existing drainage systems to reduce flood risks. These initiatives include:

- Development of regional detention facilities
- Provide drainage capacity within channels with reimbursements requirements for developments
- Improve major drainage channels for flood risk reduction

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, our independent auditor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert E. Sturdivant". The signature is fluid and cursive, with a large loop at the end.

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Fort Bend County Drainage District, (the "District") a component unit of Fort Bend County, Texas as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position governmental activities and the major fund of the District, as of September 30, 2015, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 11 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for*

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

Contributions Made Subsequent to the Measurement Date for the year ending September 30, 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 and other required supplementary information, as listed in the table of contents, on pages 26 through 29 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 District's basic financial statements. The introductory section and Texas Supplementary Information ("TSI") section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The TSI has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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 County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 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 County's internal control over financial reporting and compliance.



Houston, Texas
March 31, 2016

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, 2015.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$32,412,157 (net position). Of this amount, there is a deficit of \$2,775,310 in unrestricted net position due to the continuing liability increase for other post-employment benefits ("OPEB") that now totals \$9,694,895.
- At the close of the current fiscal year, the District's General Fund reported a fund balance of \$7,296,120, an increase of \$3,891,428 from the prior fiscal year.

Overview of the Financial Statements

This 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 Position* presents financial information on all of the District's assets, liabilities, and deferred inflows/outflows, 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 District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District'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 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.

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 fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund 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 District, assets exceeded liabilities by as of September 30, 2015. Below is a condensed schedule of net position for the District as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014*</u>
Current assets	\$ 8,544,522	\$ 4,406,617
Capital assets	35,187,467	35,594,742
Total Assets	<u>43,731,989</u>	<u>40,001,359</u>
Total Deferred Outflows of Resources	447,161	
Long-term liabilities	10,789,660	9,206,637
Other liabilities	970,331	769,789
Total Liabilities	<u>11,759,991</u>	<u>9,976,426</u>
Total Deferred Inflows of Resources	7,002	
Net Position (Deficit):		
Net investment in capital assets	35,187,467	35,594,742
Unrestricted	(2,775,310)	(5,569,809)
Total Net Position (Deficit)	<u>\$ 32,412,157</u>	<u>\$ 30,024,933</u>

*As noted above, during the fiscal year ended September 30, 2015, the District implemented GASB Statement No. 68 relating to the recognition of the net pension liability relating to District's employee retirement plan administered by the Texas County and District Retirement System. Prior year liabilities have been presented in this schedule for comparative purposes.

By far, the largest portion of the District's net position reflects its investment in capital assets (land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The District uses these assets to provide a variety of services to its citizens;

consequently, these assets are not available for future spending. The deficit balance for unrestricted net position is primarily due to the continued growth in OPEB payable, which now totals \$9,694,895.

The following table is a condensed schedule of changes in net position for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014**</u>
Program Revenues		
Capital contributions	\$ 1,549,975	\$ 55,115
Operating grants		40,728
Impact fees	461,343	11,348
Contribution from primary government		250,000
General Revenues		
Property taxes	10,577,052	6,547,401
Earnings on investments	24,294	20,266
Miscellaneous	83,162	81,369
Total Revenues	<u>12,695,826</u>	<u>7,006,227</u>
Program Expenses		
Flood control-maintenance	10,308,602	10,448,923
Total Expenses	<u>10,308,602</u>	<u>10,448,923</u>
Change in Net Position	2,387,224	(3,442,696)
Net Position, Beginning	30,588,177	34,030,873
Change in accounting principles**	(563,244)	(563,244)
Net Position, Ending	<u>\$ 32,412,157</u>	<u>\$ 30,024,933</u>

**During the fiscal year ended September 30, 2015, the District implemented GASB Statement No. 68 relating to the recognition of the net pension liability relating to District's employee retirement plan administered by the Texas County and District Retirement System. Prior year liabilities have been added to the ending Net Position balance but pension related activities have not been presented in this schedule as the information is not available. See Note 11 for more information.

The District's revenues are mainly general revenues received from property taxes levied in the District. The District's revenues were sufficient to cover all expenses incurred during the year ended September 30, 2015, resulting in a \$2,387,224 increase in net position. This increase is a change from the previous year's decrease of \$3,442,696 by \$6,393,164. The key elements of this change in net position are the following: an increase in capital contributions of \$1,494,860 primarily due to a lawsuit settlement regarding Big Creek; an increase in impact fees of \$449,995 due to increased development in the District; a decrease in contribution from the County of \$250,000 due to a transfer in 2014 to perform radar mapping of the County's drainage system; an increase in property tax revenues of \$4,029,651 due to an increase in the tax rate; and a decrease in flood control-maintenance expenses of \$703,565 primarily due to a recognition of the net pension liability of \$563,244 along with a reduction in fuel cost of \$197,917.

Fund Financial Analysis

As of September 30, 2015, the District's governmental fund reported an ending fund balance of \$7,296,120. The District's main source of revenue is property taxes, which totaled \$10,531,116 for the year ended September 30, 2015. The District's ending fund balance increased during the fiscal year by \$3,891,428 which is an improvement of \$5,384,547 from the previous year's decrease of \$1,493,119. This change was primarily due to: an increase in property tax revenues of \$3,962,123; an increase in impact fees revenue of \$449,995; and an increase in intergovernmental revenue of \$1,104,448.

General Fund Budgetary Highlights

During fiscal year 2015, expenditures of \$205,050 and \$9,946 were incurred in the Stafford Run, and Big Creek projects, respectively from the General Fund. All expenditures were capitalized at the end of fiscal year 2015, leaving no construction in progress at the end of fiscal year on any of these projects. The unexpended/unencumbered balances as of September 30, 2015 for the Big Creek, Lower Oyster Creek, Clear Creek, Stafford Run, 2014 Drainage Projects, 2015 Drainage Projects, Herbicide Building, Jones Creek Watershed Project, and Drainage Facility remodel Projects are \$3,750,339, \$150,978, \$145,296, \$1,966,025, \$3,012, \$650,000, \$49,999, \$243,425 and \$116,178, respectively.

Capital Assets

At the end of fiscal year 2015, the District had \$35,187,467 invested in capital assets, as reflected in the following schedule. This represents a decrease of \$407,275 from the previous year.

	<u>2015</u>	<u>2014</u>
Non-Depreciable Capital Assets		
Land	\$ 2,420,105	\$ 2,420,105
Construction in progress		796,525
Other Capital Assets, Net		
Infrastructure-drainage improvements	27,990,028	27,715,705
Vehicles	504,511	440,647
Office furniture and equipment	38,360	13,292
Machinery and equipment	3,571,963	3,513,833
Buildings and facilities	662,500	694,635
Total Capital Assets	<u>\$ 35,187,467</u>	<u>\$ 35,594,742</u>

Construction in progress was placed in service in infrastructure upon the completion of Gapps Slough and Stafford Run. Although there was no additional activity recognized in construction in progress for the committed projects outlined under “General Fund Budgetary highlights” on this page, these projects are all ongoing.

Economic Factors

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

The population of the County is estimated at 685,345 in 2015 and is expected to grow to 804,228 by 2020.

The number of households has increased to 221,896 in 2015 and is expected to grow to 260,307 by 2020. Average household income for 2015 is \$119,163 and is estimated to rise to \$134,687 by 2020.

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

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 POSITION
September 30, 2015

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,239,747
Receivables:	
Property taxes, net	186,477
Penalties and interest receivable on delinquent taxes, net	91,594
Intergovernmental	6,013
Miscellaneous	17,296
Prepaid items	3,395
Capital assets, not subject to depreciation	2,420,105
Capital assets, net of accumulated depreciation	32,767,362
Total Assets	43,731,989
 Deferred Outflows of Resources	
Deferred outflows related to pension activities	447,161
Total Deferred Outflows of Resources	447,161
 Liabilities	
Retainage payable	19,839
Due to primary government	950,492
Long-term Liabilities:	
Long-term liabilities due within one year	43,123
Long-term liabilities due in more than one year	9,824,265
Net pension liability	922,272
Total Liabilities	11,759,991
 Deferred Inflows of Resources	
Deferred inflows related to pension activities	7,002
Total Deferred Inflows of Resources	7,002
 Net Position (Deficit)	
Net investment in capital assets	35,187,467
Unrestricted	(2,775,310)
Total Net Position (Deficit)	\$ 32,412,157

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

FORT BEND COUNTY DRAINAGE DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

	Governmental Activities
Program Expenses	
Flood control-maintenance	\$ 10,308,602
Total Program Expenses	<u>10,308,602</u>
Program Revenues	
Capital contributions	1,549,975
Impact fees	461,343
Total Program Revenues	<u>2,011,318</u>
General Revenues	
Property taxes	10,577,052
Earnings on investments	24,294
Miscellaneous	83,162
Total General Revenues	<u>10,684,508</u>
Increase in Net Position	2,387,224
Net Position, Beginning	30,588,177
Prior period adjustments	<u>(563,244)</u>
Net Position, Ending	<u>\$ 32,412,157</u>

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

FORT BEND COUNTY DRAINAGE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2015

	General Fund
Assets	
Cash and cash equivalents	\$ 8,239,747
Property taxes receivable, net	186,477
Penalties and interest receivable on delinquent taxes, net	91,594
Intergovernmental receivable	6,013
Miscellaneous receivable	17,296
Prepaid items	3,395
Due from primary government	4,336
Total Assets	<u><u>\$ 8,548,858</u></u>
Liabilities	
Retainage payable	19,839
Due to primary government	954,828
Total Liabilities	<u><u>974,667</u></u>
Deferred Inflow of Resources	
Unavailable revenue - property taxes	186,477
Unavailable revenue - other	91,594
Total Deferred Inflow of Resources	<u><u>278,071</u></u>
Fund Balance	
Nonspendable	3,395
Committed	7,075,251
Unassigned	217,474
Total Fund Balance	<u><u>7,296,120</u></u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balance	<u><u>\$ 8,548,858</u></u>
Fund Balance - Governmental Fund	\$ 7,296,120
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.	35,187,467
Other long-term assets (property taxes receivable, including penalties and interest on delinquent taxes) are not available to pay for current period expenditures and are therefore deferred in the governmental fund.	278,071
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.	
Accrued compensated absences	(172,493)
Other post-employment benefits ("OPEB")	(9,694,895)
Net pension liability and related deferred outflows and inflows do not represent assets or liabilities in the current period and are not recognized in the governmental fund financial statements.	<u>(482,113)</u>
Net Position of Governmental Activities	<u><u>\$ 32,412,157</u></u>

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

FORT BEND COUNTY DRAINAGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended September 30, 2015

	General Fund
Revenues	
Property taxes	\$ 10,531,116
Earnings on investments	24,294
Impact fees	461,343
Intergovernmental revenues	1,150,000
Miscellaneous	58,662
Total Revenues	<u>12,225,415</u>
Expenditures	
Current operating:	
Flood control-maintenance	7,513,211
Capital outlay	958,286
Total Expenditures	<u>8,471,497</u>
Net Change in Fund Balance	3,891,428
Fund Balance, Beginning	<u>3,404,692</u>
Fund Balance, Ending	<u>\$ 7,296,120</u>
Net Change in Fund Balance - Governmental Fund	<u>\$ 3,891,428</u>
Adjustments for the Statement of Activities:	
 The governmental fund reports 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 depreciation expense (\$1,665,337) exceeded capital outlay (\$399,976) in the current period.	 (831,751)
 Increase in capital assets during the current fiscal year, which includes the contribution of assets constructed from bond proceeds of the Fort Bend Flood Control Water Supply Corporation and maintained by the Drainage District.	 399,976
 The gain 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 position differs from the change in fund balance by the gain realized on the disposal of capital assets.	 24,500
 Pension contributions made during the year, are treated as expenditures in the governmental funds but are treated as a reduction in pension liability in government wide financial statements.	 400,381
 Revenues that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment reflects the net change in property taxes receivable and penalties and interest receivable on delinquent taxes on the accrual basis of accounting.	 45,935
 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.	
Accrued compensated absences	(8,172)
Pension expense for the pension plan measurement year	(319,250)
Other post-employment benefits ("OPEB")	(1,215,823)
Change in Net Position of Governmental Activities	<u><u>\$ 2,387,224</u></u>

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

FORT BEND COUNTY DRAINAGE DISTRICT
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 County Drainage District (the “District”), which is a component unit of Fort Bend County, Texas (the “County”). Financial statements of the District are included as a blended component unit in the County’s financial statements.

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. 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.

B. Implementation of New Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”), replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirement of Statement No. 50, *Pension Disclosures*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation of GASB 68 is reflected in the financial statements, notes to financial statements, and required supplemental information.

C. 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 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.

D. 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 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 a fund basis, 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, relating to general operations.

E. Budgets

The Board of Directors adopts an annual budget for the District.

F. Cash and Cash Equivalents

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

G. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures in the General Fund 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 Flood Control Water Supply Corporation (the "Corporation") was formed for the purpose of financing and constructing flood control projects and improvements, and any infrastructure that has been constructed, as well as any land or easements purchased by the Corporation during the projects, are conveyed to and maintained by the District. The District is responsible for maintaining these projects, and records these capital assets in its annual financial statements. The District also funds capital assets from general revenues through the annual budget process.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets' lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Office furniture and equipment	5 to 7 years
Machinery and equipment	7 to 15 years
Buildings and facilities	5 to 39 years
Infrastructure-drainage improvements	20 to 40 years

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has only one items that qualify for reporting in this category:

- Deferred outflows of resources for pension items - This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 6 years for the District plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualifies for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported by the District in the government-wide financial statement of net position, these deferred inflows result primarily from of differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

I. 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.

Fund Balance Classifications

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of September 30, 2015, fund balance for the government fund is 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 District's highest level of decision-making authority, the District's Board. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the District's Board or (b) a body (for example: a budget or finance committee) or official to which the District'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. GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District's policy is to budget to maintain a minimum fund balance of 15% of the District's General Fund annual operating expenditures. If the actual fund balance drops below 15%, it shall be budgeted for recovery the following year. This policy is reviewed annually.

Fund balance for the District as of September 30, 2015, is comprised of nonspendable in the amount of \$3,395 and committed in the amount of \$7,075,251 for capital projects, with the remaining balance of \$217,474 classified as unassigned.

J. 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.

K. Date of Managements' Review

In preparing the financial statements, the District 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 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.

As of September 30, 2015, the District reported deposits in the amount of \$8,194,982 and the bank balance was \$8,194,976. 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 as of September 30, 2015.

B. Interest Rate Risk

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

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Demand Deposits	\$ 8,194,982	1
Investment Pools:		
Texas CLASS	43,422	53
Texas TERM	334	37
LOGIC	1,009	33
Total Fair Value	<u>\$ 8,239,747</u>	
Portfolio weighted average maturity (days)	<u>1</u>	

C. 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, 2015, all of the District's investments were rated "AAAm" by Standard and Poor's.

D. 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, 2015, 99.5% of the District's cash and cash equivalents are contained in demand deposit accounts.

NOTE 3 – RECEIVABLES

Receivables as of September 30, 2015, consist primarily of property tax receivables, including penalties and interest, of \$308,968, less an allowance for doubtful accounts of \$30,897.

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 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2015, is as follows:

	Balances 9/30/14	Increases	(Decreases)	Balances 9/30/15
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 2,420,105	\$	\$	\$ 2,420,105
Construction in progress	796,525	477,462	(1,273,987)	-
Total capital assets not depreciated	3,216,630	477,462	(1,273,987)	2,420,105
Other capital assets:				
Infrastructure-drainage improvements	29,691,684	1,287,962		30,979,646
Vehicles	1,435,723	162,784	(147,953)	1,450,554
Office furniture and equipment	171,456	32,073	(1,227)	202,302
Machinery and equipment	9,074,132	559,339	(299,068)	9,334,403
Buildings and facilities	1,721,497	13,593		1,735,090
Total other capital assets	42,094,492	2,055,751	(448,248)	43,701,995
Less accumulated depreciation for:				
Infrastructure-drainage improvements	(1,975,979)	(1,013,639)		(2,989,618)
Vehicles	(995,076)	(98,920)	147,953	(946,043)
Office furniture and equipment	(158,164)	(7,005)	1,227	(163,942)
Machinery and equipment	(5,560,299)	(501,209)	299,068	(5,762,440)
Buildings and facilities	(1,026,862)	(45,728)		(1,072,590)
Total accumulated depreciation	(9,716,380)	(1,666,501)	448,248	(10,934,633)
Other capital assets, net	32,378,112	389,250		32,767,362
Totals	\$ 35,594,742	\$ 866,712	\$ (1,273,987)	\$ 35,187,467

Construction in progress as of September 30, 2015, consisted of the following projects:

Project	Balances 10/1/14	Increases- Retainage Included	(Decreases- Capitalizations)	Balances 9/30/15	Commitments
Big Creek	\$	\$ 9,946	\$ (9,946)	\$	\$ 438,032
Big Creek FBFCWSC - Bonds		237,051	(237,051)		
Oyster Creek FBFCWSC - Bonds		25,414	(25,414)		
Gapps Slough	81,489		(81,489)		
Stafford Run Creek	715,037	205,050	(920,087)		2,711
Facility Remodel					3,977
Totals	\$ 796,525	\$ 477,462	\$ (1,273,987)	\$	\$ 444,720

The capitalization of the construction in progress represents portions of each project that were placed in service during fiscal year 2015. Commitments of \$444,720 represent contracts that were still active as of September 30, 2015.

NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities applicable to the District’s governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental fund.

A summary of long-term liability transactions of the District for the year ended September 30, 2015, is as follows:

	Balance 10/1/14	Additions	(Retirements)	Balance 9/30/15	Amounts Due Within One Year
Accrued compensated absences	\$ 164,321	\$ 183,162	\$ (174,990)	\$ 172,493	\$ 43,123
Other post-employment benefits ("OPEB") obligation	<u>8,479,072</u>	<u>1,780,416</u>	<u>(564,593)</u>	<u>9,694,895</u>	
Total Long-term Liabilities	<u><u>\$ 8,643,393</u></u>	<u><u>\$ 1,963,578</u></u>	<u><u>\$ (739,583)</u></u>	<u><u>\$ 9,867,388</u></u>	<u><u>\$ 43,123</u></u>

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM

General Information about the Pension Plan

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 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. Because the District participates in TCDRS as a component unit of the County plan, no distinctly separate actuarial calculations are performed or separate fiduciary net position maintained for the District. As such, the District’s participation in the plan is being reported as a participation in a cost-sharing plan (with the County) in accordance with U.S. generally accepted accounting principles.

B. Benefits Provided

The plan provisions are adopted by the governing body of the employer for the benefit of all full-time employees of the County, 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.

All employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two times the employee's final full-year salary. An employee who leaves County service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are one-half of the change in the Consumer Price Index, limited to a maximum increase in retirement allowance of 2 percent for general employees and 3 percent for public safety employees. The Commissioners Court considers providing an additional cost-of-living adjustment after the employee's retirement date beyond the terms of the plan during the budget process if sufficient funds are available.

C. 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 12.14% for calendar year 2015. 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 2015 was approximately \$127.2 million and the County's contributions were based on a payroll of approximately \$125.3 million. Contributions made by employees totaled \$8,772,422, and the County made contributions of \$15,314,629 during the fiscal year ended September 30, 2015, of which \$400,381 was attributable to the District.

Discount Rate Sensitivity Analysis

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Fort Bend County net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
District's proportional share of the net pension liability / (asset)	\$ 2,769,276	\$ 922,272	\$ (596,704)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the District reported a liability of \$922,272 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the combined contributions of the County and the District. At December 31, 2014, the District’s proportion was 2.65 percent, which was not materially different from its proportion measured as of December 31, 2013.

Deferred Inflows / Outflows of Resources

For the year ended September 30, 2015, the District recognized pension expense of \$319,250. At September 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 7,002	
Net difference between projected and actual earnings		\$ 133,114
Contributions made subsequent to measurement date	N/A	\$ 317,408

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

NOTE 7 – OTHER POST-EMPLOYMENT 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. As of September 30, 2015, there were 42 retirees receiving benefits and approximately 74 active members not yet 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, 2010, 2012, and 2014.

For fiscal year 2015, the District's annual OPEB cost for the plan was \$1,215,823. 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, 2015, were as follows:

	Fiscal Year Ending 9/30/15
Determination of Annual Required Contribution	
Normal Cost at Fiscal Year End	\$ 685,556
Amortization of Unfunded Actuarial Accrued Liability	1,227,183
Annual Required Contribution	<u>1,912,739</u>
Determination of Net OPEB Obligation	
Annual Required Contribution	1,912,739
Interest on prior year Net OPEB Obligation	339,163
Adjustment to ARC	(471,486)
Annual OPEB Cost	<u>1,780,416</u>
Less Assumed Contributions Made	<u>(564,593)</u>
Estimate Increase in Net OPEB Obligation	1,215,823
Net OPEB Obligation – Beginning of Year	<u>8,479,072</u>
Net OPEB Obligation – End of Year	<u><u>\$ 9,694,895</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
2013	4%	1,524,712	18.8%	7,255,425
2014	4%	1,731,470	29.3%	8,479,072
2015	4%	1,780,416	31.7%	9,694,895

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 as of September 30, 2015.

NOTE 9 – RISK MANAGEMENT

The District 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, which covers the District, encompasses various means of protecting the District 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 District 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. In 2011, the Corporation issued refunding bonds in the amount of \$9,675,000 to refund the remaining portion of the 2001 revenue bonds. Any property acquired during the projects is conveyed to and maintained by the District. The Corporation was dissolved on October 28, 2015.

NOTE 11 – RESTATEMENT OF BEGINNING NET POSITION

Implementation of New Accounting Standards

The District has implemented the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ending September 30, 2015. As a result, the beginning net position of the District's governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan. The impact of the implementation of GASB 68 is a decrease of \$563,244 in beginning net position. The detail of this restatement is as follows:

Net Pension Liability (measurement date as of 12/31/2013)	\$ (866,144)
Deferred Outflow of Resources (contributions made prior to measurement date)	<u>302,900</u>
Net restatement due to change in accounting principles	<u><u>\$ (563,244)</u></u>

NOTE 12 – IMPACT FEES

Impact fees are authorized by resolution of the Commissioners Court pursuant to chapter 395 of the Local Government Code. These fees are collected from property owners within the service area of the Oyster Creek watershed. Impact fees have been collected by the County and were previously deposited with the Corporation to support debt service. After the Oyster Creek bonds were paid off by the Corporation in fiscal year 2008, it was determined that these impact fees should be deposited with the District to support the Oyster Creek projects managed by the District.



REQUIRED SUPPLEMENTARY INFORMATION

FORT BEND COUNTY DRAINAGE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - BUDGETARY BASIS
For the Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance from Final Positive (Negative)</u>
Revenues				
Property taxes	\$ 10,514,639	\$ 10,514,639	\$ 10,531,116	\$ 16,477
Fines and fees	50,000	50,000	461,343	411,343
Earnings on investments	25,000	25,000	24,294	(706)
Miscellaneous	70,000	70,000	58,662	(11,338)
Total Revenues	<u>10,659,639</u>	<u>10,659,639</u>	<u>11,075,415</u>	<u>415,776</u>
Expenditures				
Current:				
Salaries and personnel costs	5,644,598	5,341,026	5,324,605	16,421
Operating costs	2,310,718	2,122,803	1,945,389	177,414
Information technology costs	4,766	8,086	5,470	2,616
Capital acquisitions	945,715	783,882	729,697	54,185
Total Expenditures	<u>8,905,797</u>	<u>8,255,797</u>	<u>8,005,161</u>	<u>250,636</u>
Excess of Revenues Over Expenditures	<u>1,753,842</u>	<u>2,403,842</u>	<u>3,070,254</u>	<u>666,412</u>
Other Financing Sources (Uses)				
Transfers in				
Transfers (out)	(1,000,000)			
Total Other Financing Sources (Uses)	<u>(1,000,000)</u>			
Net Change in Fund Balance- Budgetary Basis	753,842	2,403,842	3,070,254	666,412
Net Adjustment to Reflect Operations in Accordance with GAAP (a)			821,174	
Fund Balance, Beginning of Year	3,404,692	3,404,692	3,404,692	
Fund Balance, End of Year	<u>\$ 4,158,534</u>	<u>\$ 5,808,534</u>	<u>\$ 7,296,120</u>	<u>\$ 666,412</u>

(a) See reconciliation on the following page.

FORT BEND COUNTY DRAINAGE DISTRICT
NOTES TO BUDGETARY 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 expenditures for unexpected revenues or beginning fund balance 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 the General Fund. These annual budgetary allocations are transferred to the multi-year budgets within the 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
	<hr/>	<hr/>	<hr/>
Revenues	\$ 11,075,415	\$ 1,150,000	\$ 12,225,415
Expenditures	8,005,161	466,336	8,471,497
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	3,070,254	821,174	3,891,428
Fund Balance, Beginning of Year			3,404,692
Fund Balance, End of Year			<u><u>\$ 7,296,120</u></u>

FORT BEND COUNTY DRAINAGE DISTRICT
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
September 30, 2015

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM (UNAUDITED)
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios

	Measurement Year 2014
Total pension liability:	
Service cost	\$ 437,863
Interest on total pension liability	1,011,196
Effect of economic/demographic gains or losses	(8,403)
Benefit payments, including refunds of employee contributions	(445,778)
Net change in total pension liability	994,878
Total pension liability - Beginning of Year	12,487,778
Total pension liability - End of Year (a)	\$ 13,482,656
Plan fiduciary net position:	
Member contributions	\$ 221,935
Employer contributions	386,704
Net investment income	790,181
Benefit payments, including refunds of employee contributions	(445,778)
Administrative expenses	(9,322)
Other	(4,970)
Net change in plan fiduciary net position	938,750
Plan fiduciary net position - Beginning of Year	11,621,634
Plan fiduciary net position - End of Year (b)	12,560,384
Net pension liability - End of Year (a) - (b)	\$ 922,272
Plan fiduciary net position as a percentage of total pension liability	93.16%
Covered employee payroll (measurement year)	\$ 3,167,115
Net pension liability as a percentage of covered employee payroll	29.12%

Note: GASB 68 requires 10 years of net pension liability and related ratios information. This information is not available and has not been calculated prior to the first measurement year ended December 31, 2014. In the future, such information will be used to populate this schedule as it becomes available.

FORT BEND COUNTY DRAINAGE DISTRICT
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
September 30, 2015

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM (UNAUDITED)
Schedule of Contributions
Last Ten Fiscal Years

<u>Year ending September 30</u>	<u>Actuarially determined contribution</u>	<u>Actual contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2015	\$ 400,381	\$ 400,381	\$	\$ 3,276,336	12.2%
2014	386,704	386,704		3,167,115	12.2%
2013	342,938	352,262	(9,324)	2,969,159	11.9%
2012	323,308	323,308		2,907,450	11.1%
2011	306,801	306,801		2,880,888	10.6%
2010	304,333	304,333		2,810,090	10.8%
2009	284,326	284,326		2,782,050	10.2%
2008	247,230	247,230		2,440,568	10.1%
2007	223,090	223,090		2,155,455	10.3%
2006	194,853	194,853		1,958,325	10.0%

(This page intentionally left blank)

TEXAS SUPPLEMENTARY INFORMATION

Contents	<u>Page(s)</u>
TSI-1. Services and Rates	n/a
TSI-2. General Fund Expenditures	32
TSI-3. Temporary Investments	n/a
TSI-4. Taxes Levied and Receivable	33
TSI-5. Long-Term Debt Service Requirements by Years	n/a
TSI-6. Changes in Long-Term Bonded Debt	n/a
TSI-7. Comparative Schedule of Revenues and Expenditures - General Fund	34-35
TSI-8. Board Members, Key Personnel, and Consultants	36

FORT BEND COUNTY DRAINAGE DISTRICT
GENERAL FUND EXPENDITURES
For the Year Ended September 30, 2015

TSI-2

Salary and Personnel Costs:

Salaries and labor	\$ 3,308,561
Board pay	12,000
Payroll taxes	245,827
Retirement	400,381
Insurance	925,026
Insurance-retirees	432,810

Operating and Training Costs:

Fees	556,736
Travel	12,566
Rental	21,180
Office supplies	5,122
Operating supplies	1,080,066
Repairs and maintenance	146,147
Fuel	324,169
Property and equipment	37,151

Information Technology Costs

5,470

Capital Acquisition Costs

958,286

TOTAL EXPENDITURES

\$ 8,471,498

Number of employees employed by the District:

74

FORT BEND COUNTY DRAINAGE DISTRICT
TAXES LEVIED AND RECEIVABLE
September 30, 2015

TSI-4

	Maintenance Taxes
Taxes receivable - Beginning of Year	\$ 162,990
Adjustments	41,946
Adjusted receivable	<u>204,936</u>
2014 Tax Levy:	
Original tax levy	9,899,965
Adjustments and corrections	679,570
Adjusted 2014 tax levy	<u>10,579,535</u>
Total to be Accounted for	<u>10,784,471</u>
Tax Collections:	
Current year	10,511,656
Prior years	65,618
Total Collections	<u>10,577,274</u>
Taxes Receivable - End of Year	<u>\$ 207,197</u>
Taxes Receivable - By Years:	
2014	\$ 67,880
2013	19,778
2012	19,190
2011	16,613
2010	16,734
2009 and prior	67,002
Taxes Receivable - End of Year	<u>\$ 207,197</u>

Note: Taxes receivable above does not include the allowance for uncollectibles of \$20,720.

Assessed	2014	2013	2012	2011	2010
Property Valuations:					
Land	\$15,245,762,915	\$14,699,071,456	\$14,500,146,320	\$14,113,725,080	\$13,869,532,868
Improvements	40,420,977,909	36,770,530,058	34,202,942,871	32,372,060,606	31,830,319,819
Personal property	5,346,224,119	5,003,828,350	4,673,417,953	4,628,171,833	4,638,064,034
Less: exemptions	(16,013,122,396)	(15,035,125,611)	(14,418,705,295)	(13,518,350,054)	(13,427,949,974)
Total	<u>\$44,999,842,547</u>	<u>\$41,438,304,253</u>	<u>\$38,957,801,849</u>	<u>\$37,595,607,465</u>	<u>\$36,909,966,747</u>

Tax Rates Per \$100					
Valuations					
Maintenance tax rates	\$ 0.02200	\$ 0.01500	\$ 0.01900	\$ 0.01880	\$ 0.01960
Total Tax Rate per					
\$100 Valuation	<u>\$ 0.02200</u>	<u>\$ 0.01500</u>	<u>\$ 0.01900</u>	<u>\$ 0.01880</u>	<u>\$ 0.01960</u>
Original Tax Levy	<u>\$ 9,899,965</u>	<u>\$ 6,215,746</u>	<u>\$ 7,401,982</u>	<u>\$ 7,067,974</u>	<u>\$ 7,234,353</u>

Percent of Taxes Collected					
to Taxes Levied	<u>99.31%</u>	<u>99.68%</u>	<u>99.74%</u>	<u>99.76%</u>	<u>99.77%</u>

Maximum Tax Rate Approved by Voters: \$ 0.25 on 6/25/49

FORT BEND COUNTY DRAINAGE DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
GENERAL FUND
Last Five Fiscal Years

	Amounts				
	2015	2014	2013	2012	2011
Revenues:					
Property taxes	\$10,531,116	\$ 6,568,993	\$ 7,744,811	\$ 7,379,908	\$ 7,589,103
Investment income	24,294	20,266	26,841	96,789	106,925
Impact fees	461,343	11,348	937,129	669,106	
Intergovernmental revenues	1,150,000	40,728			
Miscellaneous	58,662	86,194	41,273	603,681	1,262,525
Total Revenues	<u>12,225,415</u>	<u>6,727,529</u>	<u>8,750,054</u>	<u>8,749,484</u>	<u>8,958,553</u>
Expenditures:					
Current	7,513,211	7,519,958	6,676,920	6,882,253	6,484,649
Capital outlay	958,286	950,690	3,307,468	965,274	3,158,060
Total Expenditures	<u>8,471,497</u>	<u>8,470,648</u>	<u>9,984,388</u>	<u>7,847,527</u>	<u>9,642,709</u>
Excess (Deficiency) Revenues Over (Under) Expenditures	<u>\$ 3,753,918</u>	<u>\$ (1,743,119)</u>	<u>\$ (1,234,334)</u>	<u>\$ 901,957</u>	<u>\$ (684,156)</u>
Total Active Retail Water Connections	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total Active Retail Wastewater Connections	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Percent of Total Fund Revenues				
2015	2014	2013	2012	2011
86.1 %	97.6 %	88.5 %	84.3 %	84.7 %
0.2	0.3	0.3	1.2	1.2
3.8	0.2	10.7	7.6	
9.4	0.6			
0.5	1.3	0.5	6.9	14.1
<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
61.5	111.8	76.3	78.7	72.4
7.8	14.1	37.8	11.0	35.3
<u>69.3 %</u>	<u>125.9 %</u>	<u>114.1 %</u>	<u>89.7 %</u>	<u>107.7 %</u>
<u>30.7 %</u>	<u>(25.9) %</u>	<u>(14.1) %</u>	<u>10.3 %</u>	<u>(7.7) %</u>

FORT BEND COUNTY DRAINAGE DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
For the Year Ended September 30, 2015

TSI-8

Complete District Mailing Address: 1004 Blume Road, PO Box 1028, Rosenberg, TX 77471
 District Business Telephone Number: (281) 342-2863
 Submission date of most recent District Registration Form
 (TWC Sections 36.054 and 49.054): 5/2/11
 Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200
 (Set by Board Resolution - TWC Section 49.6000)

<u>Names:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid * 09/30/15</u>	<u>Expense Reimburse- ments 09/30/15</u>	<u>Title at Year-end</u>
<u>Board Members:</u>				
Robert Hebert	(Elected) 1/11 - 12/14	\$ 2,400	\$	Chairman
Richard Morrison	(Elected) 1/13 - 12/16	2,400		Board Member
Grady Prestage	(Elected) 1/11 - 12/14	2,400		Board Member
Andy Meyers	(Elected) 1/13 - 12/16	2,400		Board Member
James Patterson	(Elected) 1/11 - 12/14	2,400		Board Member
<u>Key Administrative Personnel:</u>				
Mark Vogler	1/1/07	\$ 116,473	\$ 3,091	Drainage District Manager/ Chief Engineer
<u>Consultants:</u>				
Cobb, Fendley, and Associates		\$ 6,660		Engineering Design
Pape-Dawson Engineers		67,269		Engineer
Freese & Nichols, Inc.		67,326		Engineer
Carroll & Blackman, Inc.		24,496		Engineer
Fort Bend County Appraisal District		62,493		Tax Appraiser
Sandersen Knox & Company, L.L.P.		21,522		Independent Auditor

* *Fees of Office* are the amounts actually paid to a Director during the District's fiscal year.

**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 Board of Directors
Fort Bend County Drainage District
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 Drainage District (the “District”), a component unit of Fort Bend County, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District’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 District’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 District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’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 District’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 Board of Directors
Fort Bend County Drainage District
Fort Bend County, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
March 31, 2016