**OFFICIAL STATEMENT**
**Dated April 24, 2012**

**Ratings:**
**Moody's: "A2"**
**Fitch: "A+"**
**See ("OTHER INFORMATION—Ratings" herein)**

**NEW ISSUE - Book-Entry-Only**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND THE BONDS ARE NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS AND CORPORATIONS, EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

# $30,775,000
# FORT BEND COUNTY, TEXAS
# SENIOR LIEN TOLL ROAD REVENUE BONDS, SERIES 2012

**Dated: May 15, 2012** **Due: March 1, as shown on inside cover**

**The Bonds** . . . The $30,775,000 Fort Bend County, Texas Senior Lien Toll Road Revenue Bonds, Series 2012 (the "Bonds"), are being issued by Fort Bend County, Texas (the "County") pursuant to the Constitution and general laws of the State of Texas, including Chapter 284, Texas Transportation Code, as amended, an order adopted by the Commissioners Court of the County (the "Bond Order"), a Master Trust Indenture (the "Master Indenture") between the County and Wells Fargo Bank, N.A. (the "Trustee") dated May 15, 2012, and a First Supplemental Trust Indenture (the "Supplemental Indenture") between the County and the Trustee dated May 15, 2012. The Master Indenture and the Supplemental Indenture are collectively referred to as the "Indenture." The Bonds and any additional senior lien toll road revenue bonds issued pursuant to the Master Indenture are collectively referred to herein as the "Toll Road Senior Lien Revenue Bonds."

Interest on the Bonds will accrue from May 15, 2012 (the "Dated Date"), and will be payable on March 1 and September 1 of each year, commencing September 1, 2012. The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Trustee to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry-Only System" herein. The initial Trustee is Wells Fargo Bank, N.A. See "THE BONDS—Trustee."

**Source of Payment** . . . The Bonds are special obligations of the County, secured by and payable solely from (i) a gross pledge of all Revenues of the Project (as defined herein), and (ii) certain funds established pursuant to the Indenture. **The Bonds do not constitute an indebtedness of the County, the State of Texas, or any political subdivision thereof within the meaning of any constitutional or statutory limitation on indebtedness, but are payable solely from and secured by a senior lien upon the Trust Estate (as defined herein). No owner of the Bonds shall ever have the right to demand payment of the Bonds or any interest or premium thereon from any funds raised or to be raised by taxation**. See "SECURITY AND SOURCE OF PAYMENT."

**Purpose** . . . Proceeds from the sale of the Bonds will be used (i) to finance the design, construction, equipment and other miscellaneous costs, including right-of-way costs and environmental and engineering costs, of an approximately 2-mile extension of the Fort Bend Parkway (the "Parkway Extension"), (ii) to finance a portion of the preliminary design and land acquisition for additional toll road facilities, and (iii) to pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING."

**Optional Redemption** . . . The Bonds maturing on March 1, 2023 and thereafter are subject to optional redemption by the County in whole, or from time to time in part, on March 1, 2022 or any date thereafter at par plus accrued interest to the date of redemption. See "THE BONDS—Optional Redemption."

**MATURITY SCHEDULE SHOWN ON THE INSIDE COVER**

**Legality** . . .The Bonds are offered when, as and if issued by the County and accepted by the underwriters listed below (the "Underwriters"), subject to the approval of legality by the Attorney General of the State of Texas and Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriters by Fulbright & Jaworski L.L.P., Houston, Texas, Counsel for the Underwriters. Certain legal matters will be passed upon for the County by Roy L. Cordes, Jr., County Attorney, Fort Bend County, Texas and by Allen Boone Humphries Robinson LLP, Special Disclosure Counsel.

**Delivery** . . . It is expected that the Bonds will be available for delivery through DTC on May 23, 2012.

**RBC CAPITAL MARKETS** **RICE FINANCIAL PRODUCTS COMPANY**

## MATURITY SCHEDULE

**$30,775,000**
**FORT BEND COUNTY, TEXAS**
**SENIOR LIEN TOLL ROAD REVENUE BONDS, SERIES 2012**

| Maturity Date (March 1) | Principal | Interest Rate | Yield [1] | CUSIP Number [2] |
|---|---|---|---|---|
| 2016 | $ 495,000 | 2.000 % | 1.460 % | 346817 AA7 |
| 2017 | 570,000 | 2.000 | 1.730 | 346817 AB5 |
| 2018 | 645,000 | 2.500 | 2.050 | 346817 AC3 |
| 2019 | 725,000 | 2.500 | 2.370 | 346817 AD1 |
| 2020 | 810,000 | 3.000 | 2.590 | 346817 AE9 |
| 2021 | 905,000 | 3.000 | 2.820 | 346817 AF6 |
| 2022 | 1,005,000 | 3.000 | 2.980 | 346817 AG4 |
| 2023 [3] | 1,055,000 | 3.000 | 3.130 | 346817 AH2 |
| 2024 [3] | 1,085,000 | 3.125 | 3.270 | 346817 AJ8 |
| 2025 [3] | 1,120,000 | 3.250 | 3.410 | 346817 AK5 |
| 2026 [3] | 1,150,000 | 3.375 | 3.540 | 346817 AL3 |
| 2027 [3] | 1,185,000 | 3.500 | 3.630 | 346817 AM1 |
| 2028 [3] | 1,220,000 | 3.500 | 3.720 | 346817 AN9 |

**$2,580,000 4.000% Term Bonds due March 1, 2030[3] - Priced to Yield 3.850%[1] - CUSIP 346817 AR0[2]**
**$10,700,000 4.000% Term Bonds due March 1, 2037[3] - Priced to Yield 4.140%[1] - CUSIP 346817 AP4[2]**
**$5,525,000 4.125% Term Bonds due March 1, 2040[3] - Priced to Yield 4.220%[1] - CUSIP 346817 AQ2[2]**

(1) The initial reoffering prices or yields of the Bonds are furnished by the Underwriters (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Underwriters at any time. Accrued interest from the Dated Date of the Bonds is to be added to the price.

(2) CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the County nor the Underwriters shall be responsible for the selection or accuracy of the CUSIP numbers set forth herein.

(3) The County reserves the right, at its option, to redeem the Bonds having stated maturities on and after March 1, 2023 in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS—Optional Redemption."

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the County or the Underwriters to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the County, the Underwriters or any other person. The information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the County or other matters described herein since the date hereof.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete, and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the County. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

**The Underwriters have provided the following sentence for inclusion in this official statement:**

> **The Underwriters have reviewed the information in this official statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.**

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither the County, its Financial Advisor, nor the Underwriters make any representations or warranties with respect to the information contained in this Official Statement regarding DTC or its Book-Entry-Only System.

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## REGISTRATION, SALE AND DISTRIBUTION

The Bonds have not been registered under the Federal Securities Act of 1933, as amended (in reliance upon an exemption therefrom), or the blue sky laws of any jurisdiction. The Indenture (as defined herein) has been qualified under the Federal Trust Indenture Act of 1939, as amended (in reliance upon an exemption therefrom).

## OFFICIAL STATEMENT SUMMARY

This Official Statement Summary, being part of the Official Statement, is subject in all respects to the more complete information contained therein. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary Statement from the Official Statement or otherwise to use same without the entire Official Statement.

| | |
|---|---|
| The County | The County is a political subdivision of the State of Texas, located in southeast Texas. The County covers approximately 886 square miles located in the greater Houston metropolitan area. The City of Richmond is the County Seat. |
| The Authority | The Fort Bend County Toll Road Authority (the "Authority"), a non-profit local government corporation established and operating pursuant to Chapters 431 and 284, Texas Transportation Code, as amended, was established by the County to assist in the construction, maintenance and operation of the toll road system in the County. The County has designated the Authority as the operating board of the system pursuant to Chapter 284, Texas Transportation Code, as amended. See "THE AUTHORITY." |
| The Bonds | $30,775,000 Fort Bend County, Texas Senior Lien Toll Road Revenue Bonds, Series 2012. The Bonds are dated May 15, 2012 (the "Dated Date"), and are being issued in the principal amounts and will mature on the dates set forth on the inside cover page hereof. The Bonds bear interest from the Dated Date, at the rates per annum set forth on the inside cover page hereof, which interest is payable September 1, 2012 and each March 1 and September 1 thereafter until the earlier of maturity or redemption of the Bonds. |
| Optional Redemption | The Bonds maturing on March 1, 2023 and thereafter are subject to optional redemption in whole or, from time to time, in part, on March 1, 2022 or any date thereafter at par plus accrued interest to the date of redemption. See "THE BONDS—Optional Redemption." |
| Payment Record | The County has never defaulted in paying the principal of or interest on any of its debt. |
| Ratings | The Bonds have been assigned ratings of "A2" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Fitch Ratings ("Fitch"). See "OTHER INFORMATION - Ratings" herein. |
| Authority for Issuance | The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 284, Texas Transportation Code, and Chapters 1201 and 1371, Texas Government Code, the Bond Order, and the Indenture. |
| Source of Payment for the Bonds | The Bonds are special obligations of the County, secured by and payable solely from (i) a gross pledge of all Revenues of the Project, and (ii) certain funds established pursuant to the Indenture. See "SECURITY AND SOURCE OF PAYMENT." |
| Purpose of the Bonds | Proceeds from the sale of the Bonds will be used (i) to finance the design, construction, equipment and other miscellaneous costs, including right-of-way costs and environmental and engineering costs, of an approximately 2-mile extension of the Fort Bend Parkway (the "Parkway Extension"), (ii) to finance a portion of the preliminary design and land acquisition for additional toll road facilities, and (iii) to pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING." |
| The Project | Consists of the Fort Bend Parkway Toll Road and the Westpark Tollway. |
| The System | Consists of the Project, together with any other roads designated by the Authority. |

| | |
|---|---|
| Trustee | The Trustee is Wells Fargo Bank, N.A. |
| Tax Matters | In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and the Bonds are not subject to the alternative minimum tax on individuals and corporations, except for certain alternative minimum tax consequences for corporations. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel. |
| Book-Entry-Only System | The Bonds are initially issuable only to Cede & Co., the nominee of DTC, pursuant to a book-entry-only system. No physical delivery of Bonds will be made to beneficial owners. See "THE BONDS—Book-Entry-Only System." |

## COUNTY OFFICIALS

### Elected Officials

| Commissioners Court | Position | Length of Service | Term Expires December 31 |
|---|---|---|---|
| Robert Hebert | County Judge | 8 Years | 2014 |
| Richard Morrison | Commissioner - Precinct 1 | 4 Years | 2012 |
| Grady Prestage | Commissioner - Precinct 2 | 19 Years | 2014 |
| Andy Meyers | Commissioner - Precinct 3 | 13 Years | 2012 |
| James Patterson | Commissioner - Precinct 4 | 12 Years | 2014 |

### Other Elected and Appointed Officials

| Name | Position | Length of Service to County |
|---|---|---|
| Ed Sturdivant | County Auditor | 8 Years |
| Jeff Council | County Treasurer | 4 Years |
| Patsy Schultz | Tax Assessor/Collector | 4 Years |
| Roy Cordes, Jr. | County Attorney | 4 Years |

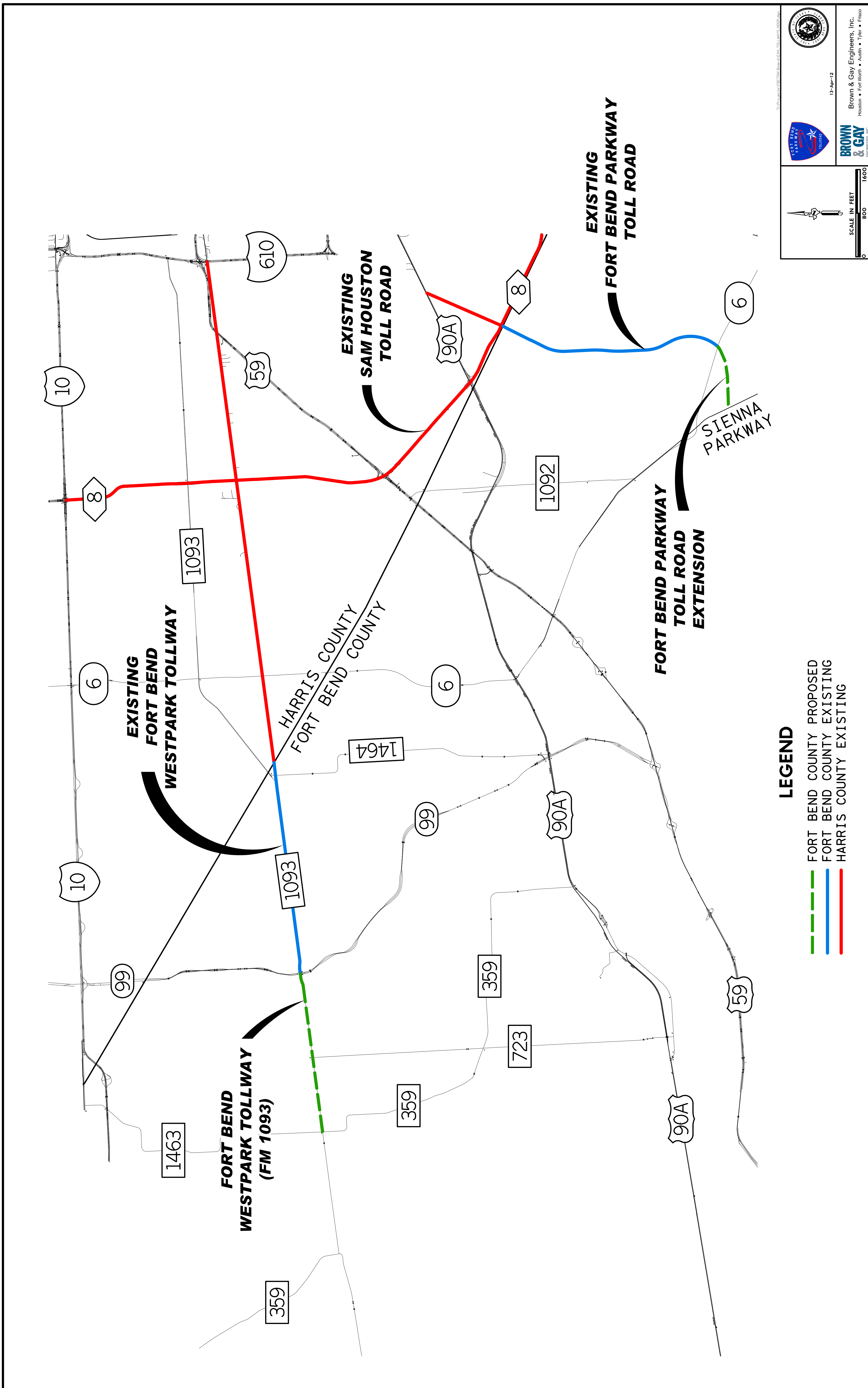
## FORT BEND COUNTY TOLL ROAD AUTHORITY OFFICIALS

### Board of Directors

| Name | Position | Length of Service | Term Expires January 22 |
|---|---|---|---|
| Jim Condrey | Chairman | 15 Years | 2016 |
| Bobbie Tallas | Vice Chairman | 15 Years | 2016 |
| Charles Rencher | Secretary | 15 Years | 2016 |
| Cliff Terrell | Treasurer | 4 Years | 2016 |
| Melody Hess | Assistant Secretary | 2 Years | 2016 |

## CONSULTANTS

| | |
|---|---|
| General Counsel, Bond Counsel and Special Disclosure Counsel | Allen Boone Humphries Robinson LLP |
| Financial Advisor | First Southwest Company |
| Transportation Consultant | W. J. Interests, LLC |
| General Engineering Consultants | Brown & Gay Engineers, Inc. |


EXISTING FORT BEND PARKWAY TOLL ROAD
EXISTING SAM HOUSTON TOLL ROAD
EXISTING FORT BEND WESTPARK TOLLWAY
FORT BEND PARKWAY TOLL ROAD EXTENSION
FORT BEND WESTPARK TOLLWAY (FM 1093)
HARRIS COUNTY
FORT BEND COUNTY
SIENNA PARKWAY
LEGEND
FORT BEND COUNTY PROPOSED
FORT BEND COUNTY EXISTING
HARRIS COUNTY EXISTING
SCALE IN FEET
0
800
1600
Brown & Gay Engineers, Inc.
Houston • Fort Worth • Austin • Tyler • Frisco
13-Apr-12
610
10
59
8
90A
1092
1093
6
1464
99
359
723
1463

# OFFICIAL STATEMENT

# $30,775,000
# FORT BEND COUNTY, TEXAS
# SENIOR LIEN TOLL ROAD REVENUE BONDS,
# SERIES 2012

## INTRODUCTION

This Official Statement is furnished in connection with the offering by Fort Bend County, Texas (the "County") of its $30,775,000 Fort Bend County, Texas Senior Lien Toll Road Revenue Bonds, Series 2012 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 284, Texas Transportation Code, as amended, an order adopted by the Commissioners Court of the County (the "Bond Order"), a Master Trust Indenture (the "Master Indenture") between the County and Wells Fargo Bank, N.A. (the "Trustee") dated May 15, 2012, and a First Supplemental Trust Indenture (the "Supplemental Indenture") between the County and the Trustee dated May 15, 2012. The Master Indenture and the Supplemental Indenture are referred to collectively as the "Indenture." All capitalized terms used herein, but not otherwise defined herein, shall have the meanings defined in Appendix C hereto.

The Bonds are the first series of senior lien toll road revenue bonds issued by the County pursuant to the Master Indenture. The Bonds and any additional senior lien toll road revenue bonds issued pursuant to the Master Indenture are collectively referred to herein as the "Toll Road Senior Lien Revenue Bonds." The County has previously issued two series of unlimited tax and subordinate lien toll road revenue bonds (collectively, the "Subordinate Lien Bonds").

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized.

## PLAN OF FINANCING

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 284, Texas Transportation Code, and Chapters 1201 and 1371, Texas Government Code, the Bond Order, and the Indenture for the following purposes: (i) to finance the design, construction, equipment and other miscellaneous costs, including right-of-way costs and environmental and engineering costs, of an approximately 2-mile extension of the Fort Bend Parkway from State Highway 6 to Sienna Parkway (the "Parkway Extension"), (ii) to finance a portion of the preliminary design and land acquisition for additional toll road facilities, and (iii) to pay the costs associated with the issuance of the Bonds.

### Sources and Uses of the Proceeds

Proceeds from the sale of the Bonds are expected to be expended as follows:

| | |
|---|---|
| **Sources:** | |
| Par Amount of the Bonds | $30,775,000.00 |
| Accrued Interest | 24,915.56 |
| Net Original Issue Discount | (326,378.20) |
| Issuer Contribution | 2,023,225.00 |
| Total | $32,496,762.36 |
| **Uses:** | |
| Deposit to Construction Fund | $30,000,000.00 |
| Deposit to Debt Service Reserve Fund | 2,023,225.00 |
| Deposit to Debt Service Fund | 26,664.86 |
| Costs of Issuance | 252,050.00 |
| Underwriter's Discount | 194,822.50 |
| Total | $32,496,762.36 |

## THE BONDS

### General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Indenture. Certain terms not defined elsewhere in this Official Statement are defined in the Indenture.

Interest on the Bonds will accrue from the Dated Date, and will be payable on March 1 and September 1 of each year, commencing September 1, 2012. The Bonds will mature on the dates and in the amounts as provided on the inside cover page of this Official Statement. Principal of and interest on the Bonds will be payable by the Trustee to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "- Book-Entry-Only System" herein for a complete discussion of DTC and Cede & Co.

In the event of a nonpayment of interest on the Bonds on a scheduled payment date and for 30 days thereafter, a new record date (the "Special Record Date") for such interest payment will be established by the Trustee, if and when funds for the payment of such interest have been received from or on behalf of the County. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

### Optional Redemption

The County reserves the right, at its option, to redeem the Bonds maturing on March 1, 2023 and thereafter in whole, or from time to time in part, on March 1, 2022 or any date thereafter at par plus accrued interest to the date of redemption. Upon redemption, the Bonds will be payable at a price equal to the principal amount of Bonds or the portions thereof so called for redemption, plus accrued interest to the date of redemption.

Bonds may be redeemed only in integral multiples of $5,000. If a Bond is subject to redemption and is in a denomination larger than $5,000, a portion of such Bond may be redeemed, but only in integral multiples of $5,000. If less than all of the Bonds are redeemed within a stated maturity at any time, the County shall select the particular Bonds or portions thereof to be redeemed.

### Mandatory Sinking Fund Redemption

The Bonds maturing in the years 2030, 2037 and 2040 (collectively, the "Term Bonds") are subject to mandatory redemption prior to maturity on March 1 in each of the years and respective principal amounts set forth below, in each case at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption:

**$2,580,000 Term Bonds**
**Due March 1, 2030**

| Year | Amount |
|---|---|
| 2029 | $1,265,000 |
| 2030 (maturity) | 1,315,000 |

**$10,700,000 Term Bonds**
**Due March 1, 2037**

| Year | Amount |
|---|---|
| 2031 | $ 1,365,000 |
| 2032 | 1,415,000 |
| 2033 | 1,470,000 |
| 2034 | 1,525,000 |
| 2035 | 1,580,000 |
| 2036 | 1,640,000 |
| 2037 (maturity) | 1,705,000 |

**$5,525,000 Term Bonds**
**Due March 1, 2040**

| Year | Amount |
|---|---|
| 2038 | $1,770,000 |
| 2039 | 1,840,000 |
| 2040 (maturity) | 1,915,000 |

On or before January 15 of every year in which there are mandatory redemption requirements as defined above for Term Bonds, the Trustee shall (i) determine the principal amount of Term Bonds of the particular maturity that must be mandatorily redeemed on March 1 of such year, after taking into account deliveries for cancellation and optional redemptions of Term Bonds of such maturity as more fully provided below, (ii) select by lot or other customary random method the Term Bonds of such maturity (or portions thereof) to be mandatorily redeemed on January 10 of such year and (iii) give notice thereof in the manner described below. The mandatory redemption requirements stated above for the Term Bonds shall be reduced by the principal amount of any Term Bonds of such maturity purchased and delivered or tendered to the Trustee for cancellation by March 1 of such year. In addition, if in the exercise of its right of optional redemption contained in the Order, the County shall redeem less than all of the Term Bonds of a particular maturity then outstanding, the mandatory redemption requirements in any year for the Term Bonds of such maturity shall, at the option of the County, be reduced by the principal amount of such Term Bonds optionally redeemed and which has not previously been the basis for a credit against the mandatory redemption requirements for the Term Bonds.

**Notice of Redemption**

In the event any of the Bonds are called for redemption, the Trustee shall give notice, in the name of the County, of the redemption of such Bonds, which notice shall (i) specify the Bonds to be redeemed, the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the principal corporate trust office of the Trustee) and, if less than all of the Bonds are to be redeemed, the numbers of the Bonds, and the portions of the Bonds, to be so redeemed, (ii) state any condition to such redemption, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Holder of Bonds to be redeemed at its address shown on the registration books kept by the Trustee; provided, however, that failure to give such notice to any Bondholder or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Bonds. The Trustee shall send a second notice of redemption by certified mail return receipt requested to any registered Holder who has not submitted Bonds called for redemption 30 days after the redemption date, provided, however, that the failure to give any second notice by mailing, or any defect in such notice, shall not affect the validity of any proceedings for the redemption of any of the Bonds and the Trustee shall not be liable for any failure by the Trustee to send any second notice.

Any Bonds and portions of Bonds which have been duly selected for redemption and which are paid in accordance with the Indenture shall cease to bear interest on the specified redemption date.

**Book-Entry-Only System**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The County and the Financial Advisor believe the source of such information to be reliable, but neither of the County or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.*

*The County cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The

Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, printed certificates for the Bonds are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

*Use of Certain Terms in Other Sections of this Official Statement*. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the County, the Financial Advisor, or the Underwriters.

*Effect of Termination of Book-Entry-Only System.* In the event that the Book-Entry-Only System of the Bonds is discontinued, printed Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**Trustee**

The Trustee shall be Wells Fargo Bank, N.A. At all times while any Bonds are outstanding, the County will provide a legally qualified bank, trust company, financial institution or other duly qualified and legally authorized entity to act as Trustee for the Bonds. The County reserves the right to change the Trustee for the Bonds. Promptly upon the appointment of any successor Trustee, the previous Trustee shall deliver the Register or a copy thereof to the new Trustee, and the new Trustee shall notify each registered owner of Bonds by United States mail, first-class postage prepaid, of the effective date of such change and of the address of the new Trustee.

**Defeasance**

The County reserves the right to defease the Bonds in any manner now or hereafter permitted by law.

**Bondholders' Remedies**

The Indenture establishes various specific events of default with respect to the Bonds and permits the Trustee to take certain actions upon the occurrence of any of these events of default. The Trustee may and, upon the written request of the Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding, shall: (a) by mandamus or other suit, action or proceeding at law or in equity require the County to perform its covenants, representations and duties under the Indenture; (b) bring suit upon the Bonds; (c) by action or suit in equity require the County to account as if it were the trustee of an express trust for the Owners of the Bonds; (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; (e) take over the possession, administration and management of all funds and accounts required to be maintained by the County under the Indenture; or (f) take such other steps to protect and enforce its rights and the rights of the Owners of the Bonds, whether by action, suit or proceeding in aid of the execution of any power herein granted or for the enforcement of any other appropriate legal or equitable remedy.

**Toll Road Senior Lien Revenue Bonds**

Remedies available under the Indenture to an owner of Toll Road Senior Lien Revenue Bonds, including the Bonds, if a default occurs, are described in "APPENDIX D - SUMMARY OF THE INDENTURE" under the caption "Defaults and Remedies."

**Special Rights of Bond Insurers and Credit Providers**

The Indenture provides that any Supplemental Indenture may provide that issuers of municipal bond insurance, letters of credit or other instruments which guaranty the payment of principal of and interest on any Toll Road Senior Lien Revenue Bonds or Parity Obligations may exercise the rights of the Owners thereof, including to direct the exercise of any remedies in the event of default or to consent to any future amendments to the Indenture, except with respect to any change in the terms of redemption, maturity of principal amount of such Toll Road Senior Lien Revenue Bonds or Parity Obligations or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon.

## THE COUNTY

The County was organized in 1838 and operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical Commissioners Precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other County elected officers include the County Clerk, County Attorney, County Tax Assessor/Collector and County Treasurer. The County Auditor is appointed for a term of two years by and serves at the will of the State District Judges whose courts are located in Fort Bend County, Texas. The 2010 Census population for the County was 585,375, an increase of 65% over the 2000 population of 354,452. The County covers approximately 886 square miles located in the greater Houston metropolitan area. The City of Richmond is the County Seat.

## THE AUTHORITY

The Fort Bend County Toll Road Authority (the "Authority") was created by order of the County on January 28, 1997 to aid, assist and act on behalf of the County in the performance of its essential governmental purposes to provide county roads and turnpikes and other transportation related projects. The Authority is a non-profit local government corporation established and operating under Chapter 431, Texas Transportation Code, as amended.

The Authority is governed by a 5-member Board of Directors, each of whom is appointed by the Commissioners Court. The Authority may exercise, with regard to the County's toll road projects, the same power and authority as may be exercised by the Commissioners Court. Such powers include eminent domain. The Authority's Articles of Incorporation and Bylaws provide that Commissioners Court must approve all significant decisions of the Authority. The Authority currently has no staff or employees and does not anticipate hiring any employees in the foreseeable future. The Authority contracts with professional consultants for services needed.

The Authority is responsible for managing the operations and maintenance of the County's toll road system, which currently consists of the Fort Bend Parkway Toll Road (the "Fort Bend Parkway") and the Fort Bend Westpark Tollway ("Westpark Project") projects. The Fort Bend Parkway and the Westpark Project (collectively, the "Project"), together with any other roads designated by the Authority, are also collectively referred to herein as the "System." See "THE FORT BEND COUNTY TOLL ROAD SYSTEM."

## THE FORT BEND COUNTY TOLL ROAD SYSTEM

### The System - General

The existing network of free highways, roads and streets in the greater Houston area is extensive. Nevertheless, for a number of years many major thoroughfares in the area have carried traffic well in excess of their design capacities during commuting hours. In an election held on November 7, 2000, the voters of the County approved using toll roads to alleviate a portion of the County's traffic problems by authorizing the County to issue up to $140 million of bonds secured by a pledge of its unlimited ad valorem taxing power. Specifically, this authorization primarily relates to the Project. The Project connects directly to the existing toll road system in Harris County. See "MAP OF THE PROJECT" herein. The County has issued the entire authorization to finance the design and construction of the initial phases of the Project, and consequently the County has no unlimited tax toll road bonds authorized but unissued. The initial phase of the Fort Bend Parkway, from Beltway 8 at the Harris County-Fort Bend County line south to State Highway 6, became operational and started collecting tolls on August 30, 2004. The initial phase of the Westpark Project from its connection to the Harris County Westpark Tollway at the Harris County-Fort Bend County line westward to the Grand Parkway (State Highway 99) became operational and started collecting tolls on August 10, 2005. The Texas Department of Transportation ("TxDOT") financed and/or constructed the interchanges of the Westpark Project at F.M. 1464 and the Grand Parkway as well as certain improvements to F.M. 1093 discussed below.

The Master Indenture permits the County to acquire and construct other portions of the System, including all or any portion of the proposed extension of the Fort Bend Parkway from State Highway 6 to Sienna Parkway (the "Parkway Extension") and to make improvements, extensions and betterments of the Project. In addition, pursuant to the Indenture and the laws of the State of Texas, the County may pool the Project, in whole or in part, with one or more other projects or systems and issue additional Bonds, Parity Notes or Parity Obligations for all such purposes. See "SECURITY AND SOURCE OF PAYMENT."

**Fort Bend Parkway - General**

The initial phase of the Fort Bend Parkway connects east Fort Bend County to the Harris County toll road system. The Fort Bend Parkway consists of a 4-lane limited access toll road commencing at the intersection of Hillcroft Avenue and Beltway 8 (the "Sam Houston Parkway") which is located in east Fort Bend County approximately 12 miles from downtown Houston, Texas. The Sam Houston Parkway is a toll road and the second of two concentric roadways or loops around downtown Houston operated by the Harris County Toll Road Authority ("HCTRA"). From this intersection, the Fort Bend Parkway follows a generally southerly course, a distance of approximately 6 miles to an intersection with State Highway 6, a major traffic corridor in east Fort Bend County. See "MAP OF THE PROJECT" herein.

The Fort Bend Parkway connects to several transportation construction projects under the control of other governmental agencies. HCTRA constructed a northerly extension of the Fort Bend Parkway including a grade separated crossing of the Sam Houston Parkway from the Sam Houston Parkway to U.S. 90A. See "MAP OF THE PROJECT" herein. This project affords users of the Fort Bend Parkway access to southwest Houston and Loop 610 (the inner loop around Houston).

TxDOT has expanded U.S. Highway 90A (in the general vicinity of where the Fort Bend Parkway intersects) to a 6-lane freeway, including the grade separated interchange at the Fort Bend Parkway. TxDOT also improved and widened State Highway 6 (near the southern terminus of the Fort Bend Parkway), including widening a portion of State Highway 6 to a 7-lane facility. These improvements were completed in 2005.

**Fort Bend Parkway Extension – Project B**

The proposed extension of the Fort Bend Parkway (the "Parkway Extension" or "Project B") to be financed with proceeds of the Bonds is the first extension of the Parkway to its ultimate connection with the Grand Parkway in south Fort Bend County. Project B extends from State Highway 6 to the intersection of Sienna Parkway, a distance of approximately 2 miles. Project B consists of a 4-lane limited access toll road. The extension will be tolled using all electronic tolling. Extensive improvements to the intersection at Sienna Parkway will be accomplished with funding from the Authority, the City of Missouri City, and the Sienna Plantation Management District.

**Westpark Project**

The initial phase of the Westpark Project connects directly to and extends the Harris County Westpark Tollway by approximately 6 miles. The combined Westpark Tollway became operational in 2005 and provides a major east-west traffic corridor to west Harris County and north Fort Bend County and provides additional access to Loop 610 (the inner loop around Houston) and the Sam Houston Parkway (the current outer loop around Houston). HCTRA constructed the portion of the tollway from Loop 610 to F.M. 1464 near the Harris–Fort Bend County line (the "Harris County Westpark Tollway"). The Authority constructed the portion of the tollway from the Harris–Fort Bend County line to the Grand Parkway (State Highway 99).

In conjunction with the completion of the first phase of the Westpark Project, TxDOT widened F.M. 1093 to four lanes. This portion of the corridor is open to traffic as an eight-lane facility, with the exterior lanes (2 lanes in each direction) as free service roads and the interior lanes (2 lanes in each direction) subject to limited access and tolls.

Tolls on the Westpark Project are collected exclusively using the same system of electronic toll collection devices ("EZ-Tags") used by Harris County. Moreover, customers with electronic toll collection devices from other regions of the state (i.e., Dallas and Austin) may use those devices on the Harris-Fort Bend County toll road system.

On December 19, 2011, Fort Bend County entered into a Financial Assistance Agreement with TxDOT to jointly pay the costs of extending the Westpark Tollway approximately 4.2 miles from the Grand Parkway to FM 1463. The Westpark Extension is currently in design and environmental clearance has begun.

**Operation and Maintenance of the Fort Bend County Toll Road System**

The operation and maintenance of the System is the responsibility of the Authority. The Authority currently contracts with the Harris County Toll Road Authority (HCTRA) for processing all electronic toll collections for the System. The Authority pays HCTRA a fee per transaction for collection, processing and incident management services. The current fee is $0.05 per transaction. This agreement has a three-year term that automatically renews for successive three-year terms unless prior notice is given by either party. In addition, the Authority contracts with several outside vendors to provide roadside maintenance, trash collection and equipment maintenance.

The Authority has contracted with Fort Bend County Constable Precincts 2 and 3 to provide law enforcement on the Fort Bend Parkway and the Westpark Project, respectively. It is contemplated that these services will be expanded to include Project B.

**Fort Bend Grand Parkway System**

In 2007, during the 80th Texas Legislature, Senate Bill 792 was signed into law giving counties the option to take over development of the Grand Parkway from the TxDOT. Under the law, a county must begin their segment of the project within a two-year period, obtaining environmental impact clearance on their segment or the project reverts back to TxDOT. In September of 2009, Fort Bend County Commissioners Court signed their order to assume responsibility of financing, designing, constructing, operating and tolling Segment D of the Grand Parkway. The Fort Bend Grand Parkway Toll Road Authority (FBGPTRA) was created by the Fort Bend County Commissioners Court as a local government corporation pursuant to the Texas Transportation Code. FBGPTRA's purpose is to aid, assist, and act on behalf of the County in the performance of its essential government purposes: toll road projects.

The FBGPTRA has begun construction of overpass improvements to Segment D of the Grand Parkway. Segment D of the Grand Parkway will relieve traffic congestion and reduce travel time for northbound and southbound travelers through the County by providing free flowing travel between U.S. Highway 59 and Interstate 10. For Grand Parkway riders that do not want to pay a toll, toll free access on the Grand Parkway's feeder roads will still be an option.

In May of 2011, the FBGPTRA executed the "Right of Use" agreement with TxDOT, allowing the FBGPTRA to use state highway right-of-way and to begin construction of the nine new tolled overpasses and eight miles of main-lane development that ultimately create Segment D of the Grand Parkway. Construction of the first two overpasses began in August of 2011, with construction of additional overpasses and main lanes to begin in summer of 2012.

The FBGPTRA is a separate legal entity from the Authority, although the board members of both entities are the same. By law and contract between Fort Bend County, TxDOT and the other counties through which the Grand Parkway will be built, the Grand Parkway must be developed as a single project, separate from the counties' other toll roads or toll road projects. As a result, debt issued for the Grand Parkway and revenues derived from the Grand Parkway will be separate from debt and revenues of the Parkway and Westpark. Holders of the Bonds will have no right to revenues of the Grand Parkway and such revenues are not pledged to the Bonds and are not part of the Trust Estate.

## Table 1 - Traffic Count Table (unaudited)

| | Fiscal Year Ending September 30 | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| **Parkway:** | | | | | |
| Lake Olympia East | 25,300 | 26,841 | 37,156 | 39,967 | 37,586 |
| Lake Olympia West | 33,950 | 36,185 | 48,082 | 47,838 | 47,570 |
| McHard East [1] | 518,721 | 547,930 | 683,448 | 627,428 | 630,991 |
| McHard West | 516,621 | 543,955 | 693,692 | 649,054 | 643,996 |
| Main Line Plaza | 4,873,670 | 5,165,747 | 6,031,617 | 5,727,763 | 5,689,146 |
| Subtotal | 5,968,262 | 6,320,658 | 7,493,995 | 7,092,050 | 7,049,289 |
| Cash Transactions [2] | 2,904,296 | 2,411,606 | - | - | - |
| Total Parkway | 8,872,558 | 8,732,264 | 7,493,995 | 7,092,050 | 7,049,289 |
| **Westpark** | 15,740,320 | 16,621,641 | 14,925,065 | 14,535,380 | 15,224,942 |
| **Total Transactions** | 24,612,878 | 25,353,905 | 22,419,060 | 21,627,430 | 22,274,231 |

Source: The County.
(1) Includes credit tolls for travelers who also use the Main Line Plaza.
(2) Beginning in August 2008, all transactions on the Parkway are tolled electronically.

## Toll Rate Setting Policy

On September 27, 2011, the Commissioners Court of the County established a toll rate setting policy (the "Toll Policy") for future toll rate adjustments on the Authority's toll facilities. The Toll Policy establishes a process for an annual review and adjustment of toll rates, with provisions for rounding tolls to appropriate levels. The annual adjustment factor is determined by the greater of (a) 2%, or (b) the most recently published change in the Consumer Price Index All Urban Consumers (CPI-U) Houston-Galveston-Brazoria, as published by the Bureau of Labor Statistics. The policy provides that electronic tolling ("EZ-Tag") rates will be rounded to the nearest nickel. The Toll Policy provides guidelines for future rate increases which will be systematically implemented. The Toll Policy does not supersede toll rate covenants in existing or future bond documents. In the event a conflict exists, the bond toll covenants will prevail in determining the toll rates used on the Authority's toll facilities. The first automatic rate adjustment took effect on October 1, 2011. The Commissioners Court of the County can repeal or amend the Toll Policy at any time.

## Table 2 - Toll Rate Schedule

The following table sets forth the toll rate schedule for the System.

**Toll Rate Schedule Effective as of October 1, 2011**

| | 2 axle | 3 axle | 4 axle | 5 axle | 6 axle |
|---|---|---|---|---|---|
| ***Fort Bend Parkway Toll Road*** | | | | | |
| Mainline Plaza | $ 1.30 | $ 3.10 | $ 4.15 | $ 5.20 | $ 6.50 |
| McHard Road - North Ramp[1] | (0.40) | (0.40) | (0.40) | (0.40) | (0.40) |
| McHard Road - South Ramp | 0.65 | 1.05 | 1.55 | 2.70 | 3.35 |
| Lake Olympia - North Ramp | n/a | n/a | n/a | n/a | n/a |
| Lake Olympia - South Ramp | 0.35 | 1.05 | 1.55 | 2.20 | 2.55 |
| ***Fort Bend Westpark Tollway*** | | | | | |
| Harlem Main Lane Plaza | $ 0.60 | $ 1.05 | $ 1.55 | $ 2.70 | $ 3.35 |
| Peek Main Lane Plaza | 0.60 | 1.05 | 1.55 | 2.70 | 3.35 |

Source: The County.
(1) Represents a $0.40 credit, which results in a lower net toll for users from Beltway 8 to McHard Road.

## SECURITY AND SOURCE OF PAYMENT

### The Indenture and the Bonds

The Bonds are issued pursuant to a Master Trust Indenture (the "Master Indenture") between the County and the Trustee dated May 15, 2012 and a First Supplemental Trust Indenture (the "Supplemental Indenture") between the County and the Trustee dated May 15, 2012. The Master Indenture and the Supplemental Indenture are collectively referred to as the "Indenture." The Indenture establishes, among other things, the Flow of Funds and the conditions for issuing Additional Bonds and contains the necessary covenants related thereto. Selected provisions of the Master Indenture and the Supplemental Indenture are contained in APPENDIX D. For a complete copy of the Master Indenture or the Supplemental Indenture, contact the County's Bond Counsel, Allen Boone Humphries Robinson LLP, Attn: Richard Muller, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

### Pledge of the Trust Estate

The Bonds are secured, pursuant to the Indenture, by a pledge of and lien on all of the County's right, title, and interest in and to the following (collectively, the "Trust Estate"): (i) all moneys and securities in the Debt Service Fund as provided in the Indenture, (ii) all moneys and securities in the Debt Service Reserve Fund Participant Account of the Debt Service Reserve Fund as provided in the Indenture, (iii) the Revenues as further described below to the extent of Revenues collected, (iv) the proceeds of the Bonds and any additional bonds or Parity Notes issued pursuant to the Indenture ("Additional Bonds") required to be deposited in the Construction Fund pursuant to the Indenture and to Investment Securities held in the Construction Fund, (v) to the extent permitted by law, the proceeds from the sale of Toll Road Bonds and investments thereof from time to time on deposit in the Construction Fund required to be maintained pursuant to the Master Indenture and (vi) any and all property of every kind and nature which may be assigned, hypothecated, endorsed, pledged, granted, or delivered to or deposited with the Trustee as additional security under the Indenture. A summary of the Indenture is included in "APPENDIX D – SUMMARY OF THE INDENTURE."

The term "Revenues" is defined in the Indenture to mean all amounts derived from the ownership or operation of the Project which constitute revenues in accordance with generally accepted accounting principles including any amounts derived from the ownership or operation of any project or projects with which the Project may be pooled. The Bonds and any Additional Bonds are secured by and payable only from the Trust Estate and are not secured by or payable from a mortgage or deed of trust on any real, personal, or mixed properties constituting the Project.

**The Bonds are special obligations of the County and do not constitute an indebtedness or general obligation of the County, the State of Texas or any political subdivision thereof within the meaning of any constitutional or statutory limitation of indebtedness, but shall be payable solely from and secured by a senior lien upon the Trust Estate. No owner of the Bonds shall ever have the right to demand payment of the Bonds or any interest or premium thereon from any funds raised or to be raised by taxation.**

### Toll Covenant

Under the Indenture, the County has covenanted that it will at all times fix, charge and collect such tolls for use of the Project as will be required to produce Revenues which will equal at least 1.25 times the Aggregate Debt Service on all Bonds and any Additional Bonds accruing in such Fiscal Year.

The Indenture requires that, before the beginning of each Fiscal Year, the County must review the financial status of the Project in order to estimate and determine whether Revenues for the current Fiscal Year and for the following Fiscal Year will be sufficient to comply with the toll covenant. In connection with the preparation of the annual budget for each Fiscal Year, the County is also required to prepare and file with the Trustee a copy of its estimate of Revenues and Debt Service Requirements, together with a statement of pertinent estimates and assumptions, which must take into consideration the cost of completing any uncompleted portion of the Project and the issuance of future series of Additional Senior Lien Obligations (as defined herein), if necessary, to finance the completion of the Project. If the County, in adopting any annual budget, determines that Revenues may be inadequate to meet this toll covenant, or if the audited financial reports of the County show that the County did not satisfy such covenant for the prior Fiscal Year, the County promptly must engage Independent Traffic Engineers to make a study and recommend a schedule of tolls that (except as otherwise provided in the following paragraph) will provide sufficient Revenues in the following Fiscal Year to comply with the toll covenant and that will provide additional Revenues in such following Fiscal Year and later years in order to eliminate any deficiency at the earliest practicable time. The County will place the recommended schedule of tolls in effect no later than 90 days after the receipt of the recommendation from such Independent Traffic Engineers.

Failure to comply with the toll covenant described above will not constitute an Event of Default if either (i) the County complies with the procedures described in the preceding paragraph or (ii) its Independent Traffic Engineers are of the opinion that a toll schedule which will comply with the toll covenant described above is impracticable at that time, and the County therefore cannot comply with the covenant described in the preceding paragraph, and the County establishes a schedule of tolls which is recommended by its Independent Traffic Engineers to comply as nearly as practicable with the toll covenant described above.

**Maintenance Tax Covenant**

So long as any Bonds or Additional Senior Lien Obligations (as defined herein) are Outstanding, the County shall in each year levy, assess, and collect an annual tax on all taxable property within the County fully sufficient in each year (taking into account delinquencies and costs of collection) to produce revenues which shall be sufficient to (i) pay as they become due all Project Expenses for which there are insufficient available Revenues or (ii) produce revenues for the Project equal to the amounts budgeted for such purpose in such year by the County, whichever is greater. **Any such revenues are not part of the Trust Estate and may not be applied to the payment of Debt Service on the Bonds or any Additional Bonds.**

### Flow of Funds (Application of Revenues) Under Provisions of the Indenture

**Revenues Derived From the Project**

**Debt Service Fund**

1. (i) Pay any principal and interest to become due and payable on each series of outstanding Toll Road Senior Lien Revenue Bonds and Parity Notes; and (ii) if provided in any Supplemental Indenture, any amounts required to be paid under any other Parity Obligation, including pursuant to Parity Credit Agreements and Parity Hedge Agreements.

**Debt Service Reserve Fund**

2. Deposit 1/60 of the Debt Service Reserve Fund Requirement or the amount needed, if any, to attain the Debt Service Reserve Fund Requirement.

**Junior Lien Obligations***

3. Pay all deposits, payments or transfers required by any indenture, resolution, order or other instrument creating or evidencing any Junior Lien Obligation at the time and manner provided in such instrument.

**Project Expenses**

4. Pay Project Expenses, to the extent not paid from other sources.

**Operating Reserve**

5. Pay, out of money held in the Revenue Fund, the amount, if any, required to establish and maintain the Operating Reserve, equal to two months of Project Expenses.

**Renewal and Replacement Fund**

6. Set aside, out of money in the Revenue Fund, the amount, if any, required by the County to be deposited into the Renewal and Replacement Fund.

**Subordinate Indebtedness**

7. Pay all deposits, payments or transfers required by any indenture, resolution, order or other instrument creating or evidencing any Subordinate Lien Bonds which is not payable as a first or prior charge on Revenues.

**Surplus Fund**

8. Transfer any remaining money to the Surplus Fund. See "–Flow of Funds–Other Funds."

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* To date, the County has not issued any Junior Lien Obligations under the Indenture.

**Flow of Funds**

The Indenture provides for the maintenance of the following funds:

| Name of Fund | Held by |
|---|---|
| Construction Fund | County |
| Revenue Fund | County |
| Debt Service Fund | Trustee |
| Debt Service Reserve Fund | Trustee |
| Renewal & Replacement Fund | County |
| Surplus Fund | County |

The Indenture requires that, except as specifically provided, all Revenues must be deposited into the Revenue Fund, as received. All money at any time in the Revenue Fund must be applied to make transfers to the following funds or to make payments for the following purposes in the following order of priority: (i) into the Debt Service Fund; (ii) into the Debt Service Reserve Fund; (iii) to any funds or accounts established in connection with any Junior Lien Obligations; (iv) for payment or provision for payment of Project Expenses, to the extent not paid from other sources; (v) to maintain the Operating Reserve; (vi) into the Renewal and Replacement Fund; (vii) for payment of subordinate indebtedness, including the Subordinate Lien Bonds; and (viii) into the Surplus Fund. The Debt Service Fund and the Debt Service Reserve Fund are held by the Trustee, while all other Funds and Accounts are held by the County.

***Debt Service Fund***. The Indenture provides that there must be paid from the Revenue Fund into the Debt Service Fund on or before the last day of each month, amounts which, when added to other amounts in the Debt Service Fund, will provide for the accumulation, in substantially equal monthly installments, of the amounts required to pay the following: (i) any interest to become due and payable on the next Interest Payment Date; (ii) any Principal Installments to become due and payable on or before the next date on which such Principal Installment is payable; and (iii) any amounts required to be paid to any bank, securities dealer, financial institution or other party in connection with the Bonds for the payment thereof.

***Debt Service Reserve Fund***. The Indenture further requires the establishment of a Debt Service Reserve Fund for the Bonds and any Parity Obligations, and the maintenance therein, in accordance with the provisions of the Indenture, of amounts equal to the Debt Service Reserve Fund Requirement. Within the Debt Service Reserve Fund, the County shall establish a Debt Service Reserve Fund Participant Account and one or more Debt Service Reserve Fund Non-Participant Accounts. Any series of Toll Road Senior Lien Revenue Bonds shall be designated as a Debt Service Reserve Fund Participant or not. Debt Service Reserve Fund Participants shall have a parity lien on the Debt Service Reserve Fund Participant Account. Any series of Toll Road Senior Lien Revenue Bonds that is not a Debt Service Reserve Fund Participant shall only have a lien on its Debt Service Reserve Fund Non-Participant Account. If the Debt Service Reserve Fund contains less than the aggregate Debt Service Reserve Fund Requirement (as defined in APPENDIX C) for all Outstanding Bonds, on or before the last day of each month, there must be transferred into the Debt Service Reserve Fund, out of the Revenue Fund, an amount equal to 1/60 of the aggregate Debt Service Reserve Fund Requirement or the amount needed to attain the aggregate Debt Service Reserve Fund Requirement, whichever is less, which transfers must continue each month until the Debt Service Reserve Fund contains the aggregate Debt Service Reserve Fund Requirement.

The County may satisfy all or any portion of its Debt Service Reserve Fund Requirement by purchasing a reserve fund surety policy, surety bond, letter of credit or other similar instrument from a financial institution having a long-term credit rating in one of the two highest generic rating categories from at least two nationally recognized rating agencies and having a credit rating or claims paying ability such that it will not cause any nationally recognized rating agency which then has outstanding rating on the Outstanding Bonds to be withdrawn or lowered.

In addition, the County may purchase liquidity facilities or put agreements with certain qualifying financial institutions that enable the County to sell any investments in the Debt Service Reserve Fund at agreed upon prices at any time the proceeds thereof are required to prevent a default in the payment of Debt Service on any Outstanding Bonds. The purchase of such facility will enable the County to invest a corresponding amount in the Debt Service Reserve Fund in Permitted Investments with maturities not exceeding the final maturity on the Outstanding Bonds and to continuously value such Permitted Investments at not less than the purchase price agreed to in such facility.

The Debt Service Reserve Requirement for the Bonds is $2,023,225.00. The County will satisfy the requirement with cash on hand. The Bonds will be designated as a Debt Service Reserve Fund Participant and will be secured by the Debt Service Reserve Fund Participant Account.

***Provision for Junior Lien Obligations***. The Indenture permits the establishment of debt service funds, debt service reserve funds and any other funds and accounts required in connection with the issuance of Junior Lien Obligations and the deposit and transfer of Revenues into such funds and accounts after making all required deposits to the Debt Service Fund and Debt Service Reserve Fund but prior to the payment of Project Expenses. To date, the County has not issued any Junior Lien Obligations under the Indenture.

***Project Expenses***. After the required payments, provisions for payment, deposits and transfers have been made to the Debt Service Fund, Debt Service Reserve Fund, or funds and accounts required for Junior Lien Obligations, as described above, on or before the last day of each month, to the extent not paid from other sources, Project Expenses will be paid from the Revenue Fund. The County has covenanted to levy, assess and collect an annual maintenance tax sufficient to pay as they become due all Project Expenses for which there are insufficient available Revenues. See "- Maintenance Tax Covenant" above.

***Other Funds***. The Indenture requires the establishment and maintenance of certain other funds. The Operating Reserve, which must be kept in the Revenue Fund, must retain an amount of money equal to two months of Project Expenses, as set out in the County's current annual budget for the Project. The County also must maintain a Renewal and Replacement Fund, to be held by the County, which must contain the amount, if any, required by the County from time to time. Money in the Renewal and Replacement Fund may be used for repairs, replacements, extensions, renewals, betterments, improvements, and reconstruction of the Project that are not Project Expenses, and for transfers to the Debt Service Fund and Debt Service Reserve Fund to maintain the required balances in such funds if no other funds are available for such purpose or for transfers to the Debt Service Fund for the Subordinate Lien Bonds. The Indenture also requires the County to maintain a Surplus Fund, into which moneys will be transferred from the Revenue Fund after all prior transfers and provisions for payment, including provisions for payment of the then Outstanding Subordinate Lien Bonds, have been made. Moneys in the Surplus Fund may be used for certain expenses related to the Project, for redemption of Toll Road Senior Lien Revenue Bonds or Subordinate Lien Bonds, for toll rate stabilization, and for any other purpose relating to any other powers or functions of the County authorized by law. There is, therefore, no assurance that any surplus Revenues produced in any future period will be retained by the County or be otherwise available to offset any deficit or shortfall in Revenues from operation of the Project in any future periods. See "– Subordinate Lien Revenue Bonds and Bonds for Special Toll Road Projects" below.

In addition, under the terms of the Indenture, and in order to facilitate compliance by the County with the covenants contained therein regarding the exclusion from federal income taxation of the interest on the Bonds, the County reserves the right to request the Trustee to establish rebate accounts with respect to the Bonds to account for the excess arbitrage profits and interest thereon that must be accounted for, or rebated to the United States of America. See "TAX MATTERS."

**Additional Toll Road Senior Lien Revenue Bonds and Parity Notes**

One or more series of Toll Road Senior Lien Revenue Bonds or Parity Notes (collectively, "Additional Senior Lien Obligations") in addition to and on a parity with the Bonds may be issued under the Indenture, provided that the following conditions and tests are satisfied:

(i) If such Additional Senior Lien Obligations are being issued to complete the Parkway Extension, an Independent Traffic Engineer must certify that such series of Additional Senior Lien Obligations is required to be issued to finance Costs of the Project for which there are not funds otherwise available and such Cost of the Project must be incurred in order to complete a Project segment or to make such improvements, replacements, or major repairs thereto as are essential to the operational and structural integrity and safety thereof;

(ii) In the case of Additional Senior Lien Obligations issued to refund any Toll Road Senior Lien Revenue Bonds or Debt Service incurred in connection with the Project, the County's Financial Advisor must provide a certificate containing either (a) a calculation showing that the Aggregate Debt Service on all Toll Road Senior Lien Revenue Bonds that will be Outstanding after the issuance of such refunding series of Toll Road Senior Lien Revenue Bonds will not increase the Aggregate Debt Service in any year that such Aggregate Debt Service would be scheduled to be payable without the issuance of such refunding series of Toll Road Senior Lien Revenue Bonds; or (b) a statement to the effect that the issuance of such refunding series of Toll Road Senior Lien Revenue Bonds is necessary or is intended to cure or prevent an Event of Default; or (c) a calculation demonstrating that such refunding series of Toll Road Senior Lien Revenue Bonds is necessary to refinance and amortize one or more Principal Installments which cause Aggregate Debt Service in the Fiscal Year in which they are payable to exceed the average annual Aggregate Debt Service by more than 20%; or

(iii) For all Additional Senior Lien Obligations or Parity Notes for which the requirements of (i) or (ii) above are not met, and as an alternative to those requirements, the following must be provided:

(a) An Accountant must certify that for any 12 consecutive months out of the 24 months preceding the month in which the order is adopted authorizing the issuance of Additional Senior Lien Obligations, the coverage of Aggregate Debt Service for such 12 months on all Toll Road Senior Lien Revenue Bonds Outstanding prior to the issuance of the Additional Senior Lien Obligations must either be:

(1) at least 1.25 times Net Revenues during such period, as adjusted for any toll increases placed in effect prior to the date the order is adopted authorizing the issuance of the particular Additional Senior Lien Obligations; or

(2) at least 1.50 times Revenues during such period, as adjusted for any toll increases placed in effect prior to the date the order is adopted authorizing the issuance of the particular Additional Senior Lien Obligations; and

(b) An Independent Traffic Engineer must provide a certificate or report for the five-year period ending with the fifth complete Fiscal Year following the date that the Project (or any pooled project to be financed with such series of Additional Senior Lien Obligations or Parity Notes) is to be placed in service containing estimates for each Fiscal Year during such period by such Independent Traffic Engineer of the Aggregate Debt Service on all Additional Senior Lien Obligations (including the series of Additional Senior Lien Obligations to be issued and any Additional Senior Lien Obligations estimated to be required by such Independent Traffic Engineer to finance the completion of the Project or the pooled project being financed with such series of Additional Senior Lien Obligations), together with estimates of Revenues or Net Revenues (based upon such assumptions as he will set forth in his certificate or report), and calculating that in each of such five Fiscal Years the estimated Aggregate Debt Service will be covered either:

(1) At least 1.25 times Net Revenues during such period; or

(2) At least 1.50 times Revenues during such period.

(c) In lieu of satisfying the coverage test with respect to future Aggregate Debt Service by providing a certificate or report of an Independent Traffic Engineer, the County may alternatively provide an Accountant's certification that for any 12 consecutive months out of the 24 months preceding the month in which the order is adopted authorizing the issuance of such Additional Senior Lien Obligations or Parity Obligations, either the historical Revenues or historical Net Revenues during such period satisfy the requisite coverage test with respect to the future Aggregate Debt Service on all Toll Road Senior Lien Revenue Bonds (including the series then being issued and any additional series estimated to be required to complete any Project Segment being financed with such series) for the five-year period that would be covered by the certificate or report of such Independent Traffic Engineer.

**Additional Parity Obligations**

In addition to providing for the issuance of and security for Toll Road Senior Lien Revenue Bonds, the Indenture provides that the County may issue or incur, on a parity with Toll Road Senior Lien Revenue Bonds, other "Parity Obligations" including (i) "Parity Notes" (pursuant to commercial paper programs or otherwise), (ii) reimbursement obligations with respect to "Parity Credit Agreements" acquired to enhance the security for any Toll Road Senior Lien Revenue Bonds or Parity Notes, and (iii) payment obligations pursuant to certain qualifying "Parity Hedge Agreements" (such as swap agreements) with respect to the payment of Debt Service on any Toll Road Senior Lien Revenue Bonds or Parity Notes.

Generally, the issuance or incurrence of such Parity Obligations secured on a parity with Toll Road Senior Lien Revenue Bonds will be subject to the County's compliance with the same tests (including revenue coverage tests) that must be satisfied in connection with the issuance of additional Toll Road Senior Lien Revenue Bonds, (see "- Additional Toll Road Senior Lien Revenue Bonds" above) except that (i) for purposes of calculating Debt Service on Parity Obligations, in the case of issuance of Parity Notes (including commercial paper notes), the principal amount thereof is deemed to be continuously refinanced under a program that will provide for approximately level amortization of debt service over a period of 30 years after the expiration of any period of time for which capitalized interest is provided, (ii) the County may combine payment obligations under Parity Hedge Agreements with interest due on those Toll Road Senior Lien Revenue Bonds or Parity Notes to which such Parity Hedge Agreements relate in order to obtain a combined Debt Service calculation (e.g. synthetic rate) and (iii) future payments of interest or interest components that are variable, adjustable or not ascertainable at the time of calculation will be estimated in the same manner currently provided for Toll Road Senior Lien Revenue Bonds in the Indenture (See "APPENDIX C - GLOSSARY OF TERMS" - definition of "Debt Service") and (iv) once Parity Notes are initially authorized, they may be continually refunded and refinanced through the issuance of other Parity Notes or Toll Road Senior Lien Revenue Bonds without having to resatisfy such revenue coverage tests.

**Subordinate Lien Revenue Bonds and Bonds for Special Toll Road Projects**

The County has previously issued its Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2003 (the "Series 2003 Bonds") and Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2004 (the "Series 2004 Bonds") to finance portions of the Fort Bend Parkway Toll Road and the Fort Bend Westpark Tollway, respectively. Such bonds are collectively secured by a subordinate lien on Revenues and a pledge of County taxes and are collectively referred to herein as the "Subordinate Lien Bonds."

In addition to the Toll Road Senior Lien Revenue Bonds described above, the County reserves the right to issue, for any lawful purpose, bonds, notes, or other obligations secured, in whole or in part, by liens on the Revenues that are junior to the lien on Revenues securing payment of the Toll Road Senior Lien Revenue Bonds and Parity Obligations. (Such bonds, notes, or other obligations may be secured by liens on the Revenues that are senior to the lien on Revenues securing payment of the Subordinate Lien Bonds.) Under such authority, the County has further secured the Subordinate Lien Bonds by a lien on Net Revenues that is subordinate to the lien on Revenues of the Toll Road Senior Lien Revenue Bonds. See "Flow of Funds (Application of Revenues) Under Provisions of the Indenture" above. To the extent that surplus Revenues are used to pay the Subordinate Lien Bonds, or for any other authorized purpose, such Revenues will not be available to offset any deficit or shortfall that may occur in Revenues from operation of the Project in any future periods.

The County also reserves the right to issue revenue bonds secured by liens and pledges of revenues and proceeds derived from special toll road projects that are not a part of the Project. A toll road facility will be deemed not to be part of the Project if it is declared by the County not to be part of the Project, the costs of construction, acquisition, and improvement are paid from proceeds of a financing transaction other than the issuance of bonds payable from Revenues of the Project, and all maintenance and operation expenses are payable from sources other than Revenues of the Project, but only to the extent that and for so long as all or any part of the revenues or proceeds of the toll road facility are or will be pledged to secure the payment or repayment of such costs of construction, acquisition, and improvement under such financing transaction.

## TOLL ROAD FINANCIAL INFORMATION

### Table 3 - Selected Financial Information

The following table sets forth the audited revenues and expenses of the Authority for Fiscal Years 2007 through 2011.

| | Fiscal Year Ending September 30 | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| **Operating Revenues** | | | | | |
| Toll revenue | 15,504,417 | 15,715,542 | 17,027,190 | 17,185,507 | 17,694,231 |
| Capital grants and contributions | 802,322 | 91,500 | 3,792 | 480,002 | |
| Operating contribution from FBGPTRA | | | | | 518,338 |
| **Total Operating Revenues** | 16,306,739 | 15,807,042 | 17,030,982 | 17,665,509 | 18,212,569 |
| **Operating Expenses** | | | | | |
| Salaries and personnel costs | 0 | 0 | 20,554 | 20,020 | 30,849 |
| Fees | 1,799,192 | 3,403,869 | 3,965,993 | 3,752,419 | 3,975,986 |
| Utilities | 154,071 | 162,089 | 129,811 | 129,679 | 124,226 |
| Depreciation | 14,047 | 4,190,221 | 4,190,221 | 4,201,662 | 4,225,092 |
| **Total Operating Expenses** | 1,967,310 | 7,756,179 | 8,306,579 | 8,103,780 | 8,356,153 |
| **Operating Income** | 14,339,429 | 8,050,863 | 8,724,403 | 9,561,729 | 9,856,416 |
| **Non-Operating Revenues** | | | | | |
| Earnings on investments | 925,535 | 763,184 | 319,012 | 165,305 | 354,629 |
| Amortization of bond premiums | 142,955 | 142,955 | 142,956 | 142,955 | 142,955 |
| Miscellaneous income | 1,155 | 0 | 0 | 8,175 | 54,501 |
| **Total Non-Operating Revenues** | 1,069,645 | 906,139 | 461,968 | 316,435 | 552,085 |
| **Non-Operating Expenses** | | | | | |
| Interest on long-term debt | 6,756,541 | 6,753,431 | 6,753,431 | 6,753,431 | 6,720,764 |
| Debt service fees | 0 | 6,000 | 6,000 | 6,000 | 6,000 |
| Amortization of debt issuance costs | 35,188 | 35,188 | 35,188 | 35,188 | 35,188 |
| **Total Non-Operating Expenses** | 6,791,729 | 6,794,619 | 6,794,619 | 6,794,619 | 6,761,952 |
| Change in Net Assets | 8,617,345 | 2,162,383 | 2,391,752 | 3,083,545 | 3,646,549 |
| **Total Net Assets, Beginning of Year** | 37,878,688 | 46,496,033 | 48,658,416 | 51,050,168 | 45,467,397 |
| **Total Net Assets, End of Year** | 46,496,033 | 48,658,416 | 51,050,168 | 54,133,713 | 49,113,946 |

Source: The County.

**Table 4 - Historical Toll Road Operating Results and Coverages**

| Fiscal Year 9/30 | Project Revenues | Other Earnings | Senior Lien Debt Service | Coverage Ratio on Senior Lien Debt Service | O&M Expenses[1] | Revenues Available for Subordinate Lien Debt Service | Subordinate Lien Debt Service | Coverage Ratio on Subordinate Lien Debt Service |
|---|---|---|---|---|---|---|---|---|
| 2007 | $15,504,417 | $ 1,729,012 | n/a | n/a | $ 1,953,261 | $15,280,168 | $ 6,753,431 | 2.263 x |
| 2008 | 15,715,542 | 854,684 | n/a | n/a | 3,565,958 | 13,004,268 | 6,753,431 | 1.926 x |
| 2009 | 17,027,190 | 322,802 | n/a | n/a | 4,116,358 | 13,233,634 | 6,753,431 | 1.960 x |
| 2010 | 17,185,507 | 653,483 | n/a | n/a | 3,902,118 | 13,936,872 | 6,753,431 | 2.064 x |
| 2011 | 17,694,231 | 691,819 | n/a | n/a | 4,131,061 | 14,254,989 | 8,125,431 | 1.754 x |

Source: County records.
(1) Excludes capital expenditures and depreciation pursuant to certain covenants under the Indenture.

For fiscal year 2011, the System produced revenues of $18,386,050 and revenues available for subordinate lien debt service of $14,254,989. Subordinate lien debt service was $8,125,431, resulting in coverage of subordinate lien debt service of 1.754 times.

## Table 5 - Debt Service Requirements

| Fiscal Year September 30 | The Bonds Principal | Interest | Total | Outstanding Subordinate Lien Debt Service [1] | Total Debt Service |
|---|---|---|---|---|---|
| 2012 | | $ 330,131 | $ 330,131 | $ 8,310,741 | $ 8,640,872 |
| 2013 | | 1,121,200 | 1,121,200 | 8,496,050 | 9,617,250 |
| 2014 | | 1,121,200 | 1,121,200 | 8,844,425 | 9,965,625 |
| 2015 | | 1,121,200 | 1,121,200 | 9,190,300 | 10,311,500 |
| 2016 | $ 495,000 | 1,116,250 | 1,611,250 | 9,739,138 | 11,350,388 |
| 2017 | 570,000 | 1,105,600 | 1,675,600 | 10,249,488 | 11,925,088 |
| 2018 | 645,000 | 1,091,838 | 1,736,838 | 10,824,250 | 12,561,088 |
| 2019 | 725,000 | 1,074,713 | 1,799,713 | 11,059,250 | 12,858,963 |
| 2020 | 810,000 | 1,053,500 | 1,863,500 | 11,220,500 | 13,084,000 |
| 2021 | 905,000 | 1,027,775 | 1,932,775 | 11,232,500 | 13,165,275 |
| 2022 | 1,005,000 | 999,125 | 2,004,125 | 11,238,250 | 13,242,375 |
| 2023 | 1,055,000 | 968,225 | 2,023,225 | 11,222,625 | 13,245,850 |
| 2024 | 1,085,000 | 935,447 | 2,020,447 | 11,254,125 | 13,274,572 |
| 2025 | 1,120,000 | 900,294 | 2,020,294 | 11,232,000 | 13,252,294 |
| 2026 | 1,150,000 | 862,688 | 2,012,688 | 11,245,750 | 13,258,438 |
| 2027 | 1,185,000 | 822,544 | 2,007,544 | 11,248,750 | 13,256,294 |
| 2028 | 1,220,000 | 780,456 | 2,000,456 | 11,240,500 | 13,240,956 |
| 2029 | 1,265,000 | 733,806 | 1,998,806 | 11,230,250 | 13,229,056 |
| 2030 | 1,315,000 | 682,206 | 1,997,206 | 11,256,000 | 13,253,206 |
| 2031 | 1,365,000 | 628,606 | 1,993,606 | 11,217,250 | 13,210,856 |
| 2032 | 1,415,000 | 573,006 | 1,988,006 | 11,213,500 | 13,201,506 |
| 2033 | 1,470,000 | 515,306 | 1,985,306 | | 1,985,306 |
| 2034 | 1,525,000 | 455,406 | 1,980,406 | | 1,980,406 |
| 2035 | 1,580,000 | 393,306 | 1,973,306 | | 1,973,306 |
| 2036 | 1,640,000 | 328,906 | 1,968,906 | | 1,968,906 |
| 2037 | 1,705,000 | 262,006 | 1,967,006 | | 1,967,006 |
| 2038 | 1,770,000 | 191,400 | 1,961,400 | | 1,961,400 |
| 2039 | 1,840,000 | 116,944 | 1,956,944 | | 1,956,944 |
| 2040 | 1,915,000 | 39,497 | 1,954,497 | | 1,954,497 |
| Total | $ 30,775,000 | $ 21,352,581 | $ 52,127,581 | $ 222,765,641 | $ 274,893,222 |

(1) Represents debt service requirements on the County's Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2003 and Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2004.

## TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not includable in the alternative minimum tax on individuals, or except as described below, corporations, except for certain alternative minimum tax consequences for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The County has covenanted in the Bond Order that it will comply with these requirements.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than and S corporation, regulated investment company REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the County, the County's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the County, the County's Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. If the County should fail to comply with the covenants in the Bond Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the County as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

**Tax Accounting Treatment of Original Issue Discount Bonds**

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement).

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the County nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price plus the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership and redemption, sale or other disposition of such Bonds.

## CONTINUING DISCLOSURE INFORMATION

In the Indenture, the County has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The County is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the County will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

### Annual Reports

The County will provide certain updated financial information and operating data which is customarily prepared by the County and is publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the County includes all quantitative financial information and operating data of the general type included in this Official Statement under Tables 1 through 5 and in Appendices A and B. The County will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2012. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the County may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the County is not complete within such period, then the County shall provide unaudited financial statements for the fiscal year within six months of the end of the fiscal year, and audited financial statements when the audit report becomes available.

The County's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the County changes its fiscal year. If the County changes its fiscal year, it will notify the MSRB of the change.

### Material Event Notices

The County will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The County will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the County or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the County or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the County or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the County will provide timely notice of any failure by the County to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

### Availability of Information from MSRB

The County has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

**Limitations and Amendments**

The County has agreed to update information and to provide notices of material events only as described above. The County has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The County makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The County disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the County to comply with its agreement.

The County may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the County, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the County (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The County may amend or repeal the agreement in the Bond Order if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriters from lawfully purchasing the Bonds in the initial offering. If the County so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**Compliance with Prior Undertakings**

The County has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

## OTHER INFORMATION

**Ratings**

The Bonds have been assigned a rating of "A2" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Fitch Ratings ("Fitch"). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the County makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies , if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

**Registration and Qualification of Bonds for Sale**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The County assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

**No Litigation**

Neither the County nor the Authority is a party to any litigation nor aware of any pending or threatened litigation (i) to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds, (ii) other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the County, would have a material adverse effect on the financial condition of the County.

**Environmental Regulations and Air Quality**

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston area ("HGB area") – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2008 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "8-hour" ozone standards are met. Both the TCEQ and EPA took comments on the submission of a new State Implementation Plan ("SIP") which would account for the severe classification of the HGB area, and on March 10, 2010, the Commission adopted a series of SIP revisions and associated rule revisions for the HGB nonattainment area for the 1997 eight-hour ozone standard. New designation submittals were due to the EPA in March 2011 to comply with a newly lowered EPA ozone standard – because the standard was lowered in 2010, the HGB area remains in severe nonattainment. To provide for reductions in ozone concentrations to reach the newly lowered ozone standard, the EPA and the TCEQ will continue to impose increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA's standards for the HGB area, the TCEQ has proposed SIPs setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. In response to the severe ozone nonattainment designation, the TCEQ adopted additional control technologies in order to achieve attainment, and it is possible that these additional controls could have a negative impact on the HGB area's economic growth and development.

**Legal Investments and Eligibility to Secure Public Funds in Texas**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the County has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

**Legal Matters**

The County will furnish complete transcripts of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the County, and based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel, to a like effect. The form of Bond Counsel's opinion is included in APPENDIX E.

Except as noted below, Bond Counsel has reviewed the information related to the Bonds and the Indenture and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Indenture. Moreover, Allen Boone Humphries Robinson LLP has been engaged by the County to serve as Special Disclosure Counsel for this transaction and is expected to render the customary opinion with respect to the material contained in this Official Statement. Allen Boone Humphries Robinson LLP also serves as general counsel to the Authority. The legal fees to be paid Bond Counsel and Special Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

**Financial Advisor**

First Southwest Company is employed as Financial Advisor to the County in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the County has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the County and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

**Underwriting**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the County, pursuant to a bond purchase agreement with the County for a purchase price of $30,253,799.30 (representing the par amount of the Bonds, less an original issue discount of $326,378.20 less an underwriter's discount of $194,822.50) plus accrued interest on the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

**Forward-Looking Statements**

The statements contained in this Official Statement that are not purely historical, are forward-looking statements, including statements regarding the expectations, hopes, intentions, or strategies of the County regarding the future. Investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the County on the date hereof, and the County assumes no obligation to update any such forward-looking statements. The actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the County. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

**Miscellaneous**

The financial data and other information contained herein have been obtained from the County's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Indenture authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

## CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. Information in this Official Statement has been derived by the County from official and other sources and is believed by the County to be accurate and reliable. Information other than that obtained from official records of the County has not been independently confirmed or verified by the County and its accuracy is not guaranteed.

*/s/ Robert Hebert*
County Judge
Fort Bend County, Texas

ATTEST:

*/s/ Dianne Wilson*
County Clerk
Fort Bend County, Texas

**APPENDIX A**

**EXCERPTS FROM THE COUNTY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Sandersen Knox & Co, L.L.P.
Certified Public Accountants
130 Industrial Blvd, Suite 130 · Sugar Land, Texas 77478 · 281/242-3232 · fax 281/242-3252 · www.sktx.com

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Fort Bend County, Texas (the "County"), as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County, as of September 30, 2011, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 3 through 13 and 62 through 74 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information 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 and statistical sections have 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 them.

Sanford Kahn & Co.

Sugar Land, Texas
March 16, 2012

As management of Fort Bend County (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2011. The following narrative includes approximate values and percentages in the wording to summarize the schedules and financials in this report that include the exact values. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

**Financial Highlights**

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by $717.7 million (net assets). Of this amount, there is a deficit of $60.1 million in unrestricted net assets due to the continued liability increase for other post-employment benefits that now totals $101.8 million.
- The County's total net assets increased by $1.9 million.
- As of the close of the current fiscal year, the County's governmental funds reported a combined ending fund balance of $79.4 million, a decrease of $68.4 million from the prior year.
- At the end of the current fiscal year approximately $10.8 million is available for spending at the government's discretion in the General Fund (unassigned fund balance). This fund balance amounts to 5% of total General Fund expenditures. There is a deficit unassigned fund balance in the 2009 Mobility capital projects fund of $4.4 million.
- The County's total long-term liabilities increased by $13.7 million during the current fiscal year. The increase was primarily due to an increase in the other post-employment benefit obligations (OPEB) of $26.6 million less net change in long-term debt related to bonds of $13.1 million.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. As noted above this narrative includes approximate values and percentages in the wording to summarize the schedules and financials in this report that include the exact values. This report also contains other supplementary information in addition to the basic financial statements themselves.

***Government-wide financial statements***

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

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present functions of the County that are principally supported by taxes (governmental activities). The governmental activities of the County include general administration, financial administration, administration of justice, construction and maintenance, health and welfare, cooperative service, public safety, parks and recreation, libraries and education, and interest on long-term debt.

The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate entities for which the County is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The County's five discretely presented component units consist of the following:

- Fort Bend County Toll Road Authority
- Fort Bend Grand Parkway Toll Road Authority
- Fort Bend County Surface Water Supply Corporation
- Fort Bend County Housing Finance Corporation
- Fort Bend County Industrial Development Corporation

The government-wide financial statements can be found on pages 17 through 19 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 County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds*

Governmental funds are used to account for essentially the same functions 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 governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 62 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, both of which are considered to be major funds. Data from the other 60 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the comprehensive annual financial report.

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

*Proprietary funds*

The County uses internal service funds to report activities that provide services for the County's other programs and activities. The Employee Benefits Fund and Other Self-Funded Insurance Fund are the County's internal service funds. Their purpose is to provide for the accumulation of money for insurance and employee benefits used in County operations. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in the comprehensive annual financial report.

The basic proprietary fund financial statements can be found on pages 24 through 26 of this report.

*Fiduciary funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 27 of this report.

*Combining component unit financial statements*

The County's four discretely presented component units shown in aggregate on the face of the government-wide financial statements have individual information for each of the major discretely presented component units presented in the form of combining statements immediately following the fund financial statements of the primary government.

The combining component unit financial statements can be found on pages 29 through 31 of this report.

*Notes to the financial statements*

The notes 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 on pages 32 through 60 of this report.

*Other information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees. The County adopts an annual appropriated budget for its general, debt service and certain special revenue funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 62 through 73 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $717.7 million at the close of the most recent fiscal year.

The County's capital assets (e.g., land, buildings, vehicles, machinery and equipment, office furniture and equipment, infrastructure, and construction-in-progress), less any related debt used to acquire those assets that is still outstanding, total $773.3 million. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### CONDENSED SCHEDULE OF NET ASSETS

***September 30, 2011 and 2010***

| | Primary Government Governmental Activities | |
|---|---|---|
| | **2011** | **2010** |
| Current and other assets | $ 140,500,675 | $ 204,573,205 |
| Capital assets, net | 1,064,035,810 | 977,884,351 |
| **Total Assets** | 1,204,536,485 | 1,182,457,556 |
| Long-term liabilities | 437,628,727 | 423,953,977 |
| Other liabilities | 49,183,445 | 42,658,491 |
| **Total Liabilities** | 486,812,172 | 466,612,468 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 773,322,172 | 714,396,078 |
| Restricted | 4,477,906 | 4,168,945 |
| Unrestricted | (60,075,765) | (2,719,935) |
| **Total Net Assets** | $ 717,724,313 | $ 715,845,088 |

A portion of the County's net assets, $4.5 million, represents resources that are subject to external restrictions on how they may be used. The deficit balance for unrestricted net assets of $60.1 million was primarily due to the expense of current assets to purchase and construct capital assets.

The County's assets exceeded its liabilities by $717.7 million, resulting in an increase of $1.9 million from the prior year. This increase is primarily due to the following: decrease in cash of $64.1 million due to expense of bond funds for facilities and road projects; increase in capital assets of $86.1 million due to construction of new facilities and construction and contribution of new roads; increase in long term liabilities of $13.6 million due to an increase of $26.6 million for other post-employment benefits (OPEB) offset by a decrease of $13 million in outstanding long-term debt; and an increase in other liabilities of $6.5 million due to an increase in accounts payables for construction projects.

## SCHEDULE OF CHANGES IN NET ASSETS

***For the years ended September 30, 2011 and 2010***

| | Primary Government Governmental Activities | |
|---|---|---|
| | **2011** | **2010** |
| **Revenues** | | |
| Program revenues: | | |
| Charges for services | $ 37,241,289 | $ 35,156,664 |
| Operating grants and contributions | 35,820,119 | 23,313,282 |
| Capital grants and contributions | 25,214,312 | 30,358,341 |
| General revenues: | | |
| Property taxes | 196,820,339 | 198,888,176 |
| Earnings on investments | 2,925,202 | 3,870,155 |
| Other | 6,065,510 | 4,237,069 |
| **Total Revenues** | 304,086,771 | 295,823,687 |
| **Expenses** | | |
| General administration | 47,061,517 | 43,485,772 |
| Financial administration | 8,648,273 | 8,059,389 |
| Administration of justice | 86,081,856 | 78,173,873 |
| Construction and maintenance | 46,150,023 | 46,946,163 |
| Health and welfare | 25,283,662 | 23,718,848 |
| Cooperative services | 1,177,426 | 1,123,951 |
| Public safety | 55,190,407 | 55,269,509 |
| Parks and recreation | 2,915,986 | 2,263,280 |
| Libraries and education | 14,810,488 | 13,468,700 |
| Interest on long-term debt | 14,887,908 | 15,494,994 |
| **Total Expenses** | 302,207,546 | 288,004,479 |
| Change in Net Assets | 1,879,225 | 7,819,208 |
| **Net Assets, Beginning** | 715,845,088 | 708,025,880 |
| **Net Assets, Ending** | $ 717,724,313 | $ 715,845,088 |

At the end of the current fiscal year, the County was able to report a positive balance in net assets for the government as a whole. The same situation held true for the prior fiscal year.

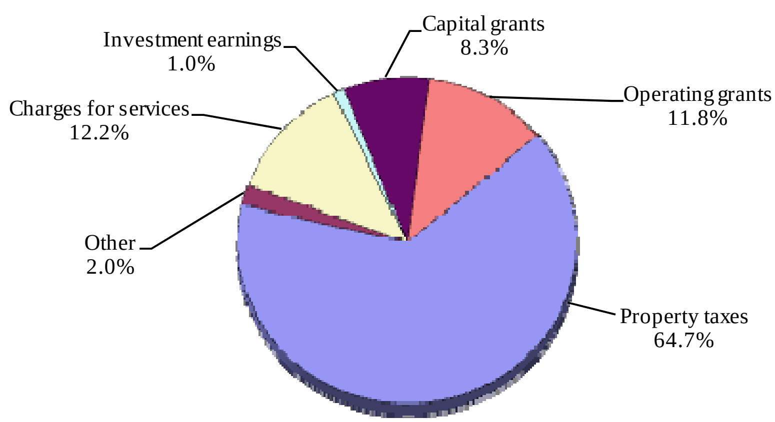
Governmental activities increased the County's net assets by $1.9 million. This increase is down from last year's increase of $7.8 million. The key elements of the lower increase in net assets are as follows:

- Increase in charges for services of $2.1 million primarily due to increased collections of fines, fees, and court costs.
- Decrease in earnings on investments of $0.9 million due to lower cash balances caused by expenditure of bond funds.
- Increase in other revenue of $1.8 million due to increase in forfeited assets of $246 thousand by order of the courts, increase in miscellaneous revenue of $245 thousand due to a settlement agreement of $225 thousand and a cost sharing agreement of $25 thousand, increase in fuel reimbursement of $307 thousand due to an increase in fuel costs, increase in miscellaneous reimbursements of $375 thousand for payments received from local cities for road repairs, and an increase in miscellaneous reimbursements of $100 thousand for payment from Houston Galveston Area Council of Governments for purchase of equipment.

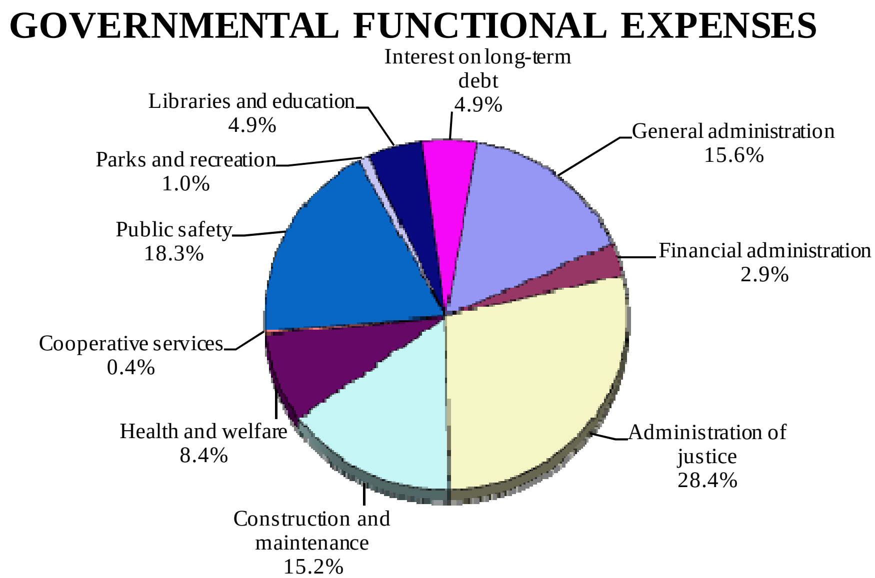
- Decrease from the prior year for capital grants and contributions of $5.1 million resulting from a decrease in right of way reimbursements from the State of Texas for ongoing mobility projects.
- Increase in operating grants and contributions of $12.5 million primarily due to increase of funds received from the Texas Commission on Environmental Quality of $1.4 million, increase in local revenue of $1.2 million for participation in Upper Oyster Creek Project, increase in federal funding of $1.3 million of energy efficiency grant, increase in federal funding of $4.3 million for Urban Area Security Initiative grants, increase in federal funding of $2.8 million for transportation grants, and an increase in federal funding of $1.3 million for Community Development Block Grants.
- Expenses increased in several governmental functions: Administration of justice expenses increased by $7.9 million primarily due to an increase in health benefits cost of $6.1 million caused by rising healthcare costs, and depreciation expense of $1.6 million due to the opening of the new justice center; Libraries and education expenses increased by $1.3 million due to the opening of a new library branch; Health and welfare expenses increased by $1.6 million primarily due to an increase in health benefits cost of $520 thousand caused by rising healthcare costs, and public assistance payments of $1.1 million for Community Development Block Grant allotments; General administration expenses increased by $3.6 million primarily due to an increase in health benefits cost of $1.2 million caused by rising healthcare costs, increase in depreciation expense of $1.7 million due to prior period adjustment relating to capital assets, and increased fuel costs of $881 thousand due to rising fuel prices.

Governmental revenues for fiscal year 2011 are graphically displayed as follows:

**GOVERNMENTAL REVENUES**



Governmental functional expenses were as follows:




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

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds** - The focus of the County's governmental funds is to provide information of near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

The County's governmental funds reflect a combined fund balance of $79.4 million. Of this, $10.8 million is unassigned fund balance and available for day-to-day operations within General Fund. There is a deficit unassigned fund balance of $4.4 million in the 2009 Mobility capital projects fund due to an advance from General Fund to enable this capital project fund to proceed until the issuance of the next mobility bond issue, which is expected in April 2012. $33.1 million is committed fund balance for capital projects within General Fund. $39.7 million is restricted fund balance for debt service and the non-major governmental funds in the amount of $5.2 million and $34.5 million respectively. $205.4 thousand is designated as nonspendable fund balance for General Fund and the non-major governmental funds in the amount of $136.0 thousand and $69.4 thousand respectively for prepaid items.

There was a decrease in the combined fund balance of $68.4 million from the prior year for the governmental funds. This overall decrease was primarily due to net expenditures and transfers out in capital project funds as follows: Mobility 2009 Projects of $24.8 million; 2007 Facilities Bonds of $14.7 million; Justice Center Project of $19.0 million; and 2001-2007 Mobility Projects of $9.0 million. Debt Service fund balance increased by $0.3 million due to the refunding of the 2001 Flood Control Water Supply Corporation bonds bringing ending fund balance to $5.2 million. General Fund Balance increased by $0.7 million which is down from the previous year's increase of $8.8 million. This reduction in fund balance increase of $8.1 million is primarily due to the following factors:

- Decrease in General Fund property tax allocation of $3.5 million due to a shift of a *portion* of the 2011 operating and maintenance tax rate to the interest and sinking tax rate to accommodate the increase in debt service.
- Increase in fees of office collections of $2.0 million due to increase in services from all the governmental functions.
- Increase in federal funds of $9.2 million primarily due to increase in federal funding of $1.3 million for energy efficiency grant, increase in federal funding of $4.3 million for Urban Area Security Initiative grants, and an increase in federal funding of $2.8 million for transportation grants.
- Decrease in state funds of $3.7 million primarily due to a decrease in right of way reimbursements from the State of Texas for ongoing mobility projects.
- Increase in payroll costs of $1.8 million primarily due to staffing of new library branch and new jail facility.
- Increase in healthcare costs of $5.9 million due to rising healthcare costs.
- Increase in contract fees of $1.6 million primarily for energy efficiency grant for County facilities.
- Decrease in supply costs of $0.9 million primarily due to the required costs to outfit the new library in fiscal year 2010.
- Increase in janitorial maintenance costs of $0.7 million due to increased facilities to maintain.
- Increase in utility costs of $0.5 million due to expansion of County facilities.
- Increase in fuel costs of $0.9 million due to rising fuel prices.
- Increase in capital acquisitions of $4.6 million primarily for equipment purchased under the Urban Area Security Initiative grant and various transportation grants.
- Decrease in construction in progress of $2.8 million primarily due to facilities projects funded within the General Fund in fiscal year 2010.

**Proprietary Funds -** The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Employee Benefits Fund had a net assets balance at fiscal year-end of $0.6 million, which is a $1.6 million decrease from the prior year. This decrease was primarily caused by increased healthcare costs in fiscal year 2011. The Other Self-Funded Insurance Fund has a deficit net assets balance of $2.5 million at fiscal year-end which is the same as the previous year. The allocation for the Other Self-Funded Insurance Fund will continue to be increased by 33% annually over the next three fiscal years to eliminate this deficit net assets balance.

**General Fund Budgetary Highlights**

During the year there was a net decrease of $7.0 million in expenditure appropriations between the original and final amended budget. The main components of this were based on the following: $2.2 million budgeted for capital projects; $1.2 million from surplus indigent healthcare funds; $2.0 million from surplus non-departmental funds; $1.8 million from public transportation for local match of transportation grants transferred to multi-year grant budgets. The surplus amounts from indigent healthcare and non-departmental were transferred to multi-year capital projects with budgets that extend beyond the County's fiscal year.

General Fund revenues exceeded the amended budget by $3.6 million for the year. The reasons for this surplus are detailed as follows:

- Property taxes resulted in revenues of $0.3 million excess over budget due to underestimation of the collection rate.
- Fees and fines resulted in $1.7 million in excess revenues due to continued increased collections of fines, fees and court costs.
- Intergovernmental revenue resulted in $0.5 million in excess revenues primarily due to increased federal funding for transportation and energy efficiency offset by a decrease in state reimbursements for right of way acquisitions.
- Earnings on investments decreased by $0.1 million due to reduced cash balance for General Fund caused by expenditure of multi-year project budgets for facilities.
- Miscellaneous revenue resulted in $1.3 million in excess revenues primarily due to increased fuel reimbursements from outside entities due to higher fuel prices, a settlement agreement contract, and cost sharing agreements with local municipalities.

General Fund expenditures fell short of the amended budget by $1.1 million for the year primarily due to turnover within each of the departments. There were minor budgetary shortfalls within budget categories of some departments. These minor shortfalls were not covered by budget transfers at the end of the year due to materiality and that the overall departmental expenditure budget had a surplus. The individual governmental function's budgetary performance is detailed as follows:

- General administration expenditures had minor budget shortfalls within individual budget categories for Commissioner Precinct 1, Commissioner Precinct 2, and Purchasing that were funded by other budget categories within those departments. Non-departmental had a budget shortfall of $321 thousand in operating costs due to a correction for appellate fees that were improperly posted as a negative expenditure. This was corrected by the end of the year; however it allowed an over-expenditure of the amended budget. This did not cause an overall budget deficit for General administration, however, procedures have been put in place to prevent this in the future.
- Financial administration expenditures had minor budget shortfalls within individual budget categories for County Auditor that were funded by another budget category within that department.
- Administration of justice had minor budget shortfalls within individual budget categories for Courts Administration and Indigent Defense Program that were funded by other budget categories within those departments.
- Health and welfare had a budget shortfall of $120 thousand in Social Services under the operating costs budget category due to a negative encumbrance that allowed expenditures to exceed actual available funding. This did not cause an overall budget deficit for Health and welfare, however, procedures have been put in place to prevent this in the future.
- Public safety had minor budget shortfalls within individual budget categories for Constable Precinct 2 and Constable Precinct 3 that were funded by other budget categories within those departments.

## Capital Assets and Debt Administration

**Capital Assets -** At the end of fiscal year 2011, the County's governmental activities had invested $1,064.0 million in a variety of capital assets and infrastructure, as reflected in the following schedule. This represents an increase of approximately $86.2 million over the previous fiscal year.

| | Governmental Activities | |
|---|---|---|
| | **2011** | **2010** |
| **Non-Depreciable Capital Assets** | | |
| Land | $ 333,434,751 | $ 318,334,776 |
| Construction-in-progress | 120,250,614 | 152,903,502 |
| **Other Capital Assets, Net** | | |
| Vehicles | 11,780,089 | 8,791,182 |
| Office furniture and equipment | 11,259,478 | 10,768,112 |
| Machinery and equipment | 12,080,859 | 11,292,998 |
| Buildings, facilities and improvements | 251,258,481 | 171,658,164 |
| Infrastructure | 323,971,538 | 304,135,617 |
| **Totals** | $ 1,064,035,810 | $ 977,884,351 |

Construction-in-progress at year-end represents numerous ongoing projects, the largest of which are: 2000 Mobility Bond projects for $38.5 million; 2007 Mobility Bond projects for $47.8 million; Big Creek project for $2.1 million; Big Creek Flood Control Water Supply Corporation project for $12.0 million; and Upper Oyster Creek project for $7.6 million.

**Long-Term Debt -** At the end of the current fiscal year, the County had total bonds outstanding of $318.3 million. This is a decrease of $13.1 million from the prior year due to scheduled debt service payments made during fiscal year 2011. OPEB liability increased by $26.6 million based on the actuarial valuation dated September 30, 2011 to a total balance of $101.8 million.

| | Governmental Activities | |
|---|---|---|
| | **2011** | **2010** |
| General obligation bonds | $ 318,265,000 | $ 331,410,000 |
| Premiums on bonds | 12,043,251 | 12,038,573 |
| Accrued compensated absences | 5,560,434 | 5,392,775 |
| Other post-employment benefits (OPEB) obligation | 101,760,042 | 75,112,628 |
| **Total** | $ 437,628,727 | $ 423,953,976 |

The County received an insured rating of Aaa from Moody's and Standard and Poors on issuances prior to 2009. The three issuances in 2009 were not insured and therefore retained the uninsured ratings. The uninsured ratings were as follows:

Moody Investor Service Aa2
Standard and Poor's AA+

The Fort Bend County Housing Finance Corporation ("FBCHFC"), a component unit of the County, issues conduit debt in the form of tax-exempt bonds for the purpose of providing below-market interest rate financing to qualified homebuyers and developers of affordable rental housing, and sponsorship or the federal low-income housing tax credit program. The tax-exempt bonds issued by FBCHFC do not constitute a debt or pledge of faith by FBCHFC, but are payable by the user pursuant to terms defined in the loan agreement underlying each issue. As of September 30, 2011, approximately $11.0 million of total bonds were outstanding.

The Fort Bend County Industrial Development Corporation ("FBCIDC"), a component unit of the County, issues conduit debt in the form of bonds to finance all or part of the cost of one or more projects as defined in the Development Corporation Act of 1979, Article 5190.6, Vernon's Annotated Texas Civil Statutes, as amended. The bonds issued by the Corporation do not constitute a debt or pledge of faith by FBCIDC, but are payable by the user pursuant to terms defined in the loan agreement underlying each issue. As of September 30, 2011, approximately $13.8 million of total bonds were outstanding.

Additional information on capital assets and long-term debt is available in Notes 6 and 7 respectively.

## Economic Factors and Next Year's Budgets and Rates

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

The population of the County is estimated at 606,786 in 2011 and is expected to grow by 4.44% annually through 2015. Total employment is estimated at 235,961 in 2011 and is expected to grow by 3.37% annually over the same period.

The number of households has increased to 195,264 in 2011 and is expected to grow to 230,330 by 2015. Mean household income for 2011 is $129,337 and is estimated to rise to $146,579 by 2015. Income per capita is currently at $41,986 and is expected to grow to $48,116 by 2015. Retail sales increased by 7.8% to $6.19 billion in 2011 and are expected to grow to $7.37 billion by 2015.

The Commissioners Court approved a $252.1 million total budget for the 2012 fiscal year. This is a 5.2% increase over the adopted 2011 fiscal year budget. The increase in the budget is due to increased debt service along with increases in operating expenditures for a new branch library and new facilities now in service. The overall tax rate remained constant from 2011 to 2012 at $0.49976 per $100 of assessed valuation.

## Requests for Information

This financial report is designed to provide a general overview of Fort Bend County's finances for all of those with an interest in the County's finances. Questions concerning this report or requests for additional financial information should be directed to Ed Sturdivant, County Auditor, 301 Jackson, Suite 533, Richmond, TX 77469, telephone (281) 341-3760.

# BASIC FINANCIAL STATEMENTS

## FORT BEND COUNTY, TEXAS

***STATEMENT OF NET ASSETS***

***September 30, 2011***

| | Primary Government<br>Governmental Activities | Component Units |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 103,640,117 | $ 32,466,202 |
| Receivables: | | |
| Taxes, net | 7,547,814 | |
| Grants | 7,493,205 | |
| Fees and fines | 4,319,143 | 365 |
| Accrued interest | 7,557 | 26,288 |
| Other | 3,689,173 | 2,847,331 |
| Prepaid items | 205,387 | 124 |
| Deferred issuance costs | 3,311,493 | 738,947 |
| Due from Fort Bend Grand Parkway Toll Road Authority | | 2,000,000 |
| Due from component units | 10,286,786 | |
| Due from primary government | | 1,286,978 |
| Capital assets, not being depreciated | 453,685,365 | 11,561,227 |
| Capital assets, net of accumulated depreciation | 610,350,445 | 145,748,541 |
| **Total Assets** | 1,204,536,485 | 196,676,003 |
| | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | 37,773,482 | 3,900 |
| Retainage payable | 4,076,700 | 204,202 |
| Accrued interest payable | 1,224,897 | 590,800 |
| Unearned revenues | 3,556,645 | |
| Due to component units | 1,286,978 | |
| Due to primary government | | 10,286,786 |
| Due to Fort Bend County Toll Road Authority | | 2,000,000 |
| Due to other governments | 1,264,743 | |
| Long-term liabilities due within one-year | 14,690,109 | 1,645,000 |
| Long-term liabilities due in more than one-year | 422,938,618 | 135,847,059 |
| **Total Liabilities** | 486,812,172 | 150,577,747 |
| | | |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 773,322,172 | 19,817,709 |
| Restricted for: | | |
| Debt service | 4,477,906 | |
| Unrestricted | (60,075,765) | 26,280,547 |
| **Total Net Assets** | $ 717,724,313 | $ 46,098,256 |

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

**FORT BEND COUNTY, TEXAS**

***STATEMENT OF ACTIVITIES***

***For the Year Ended September 30, 2011***

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| **Primary Government** | | | | |
| **Governmental Activities:** | | | | |
| General administration | $ 47,061,517 | $ 7,520,478 | $ 11,285,351 | $ |
| Financial administration | 8,648,273 | 3,988,371 | | |
| Administration of justice | 86,081,856 | 7,222,932 | 7,719,264 | |
| Construction and maintenance | 46,150,023 | 6,679,429 | 1,381,572 | 25,214,312 |
| Health and welfare | 25,283,662 | 5,930,364 | 6,479,035 | |
| Cooperative services | 1,177,426 | | | |
| Public safety | 55,190,407 | 5,621,993 | 8,623,225 | |
| Park and recreation | 2,915,986 | 141,893 | 157,468 | |
| Libraries and education | 14,810,488 | 246,699 | 174,204 | |
| Interest on long-term debt | 14,887,908 | | | |
| **Total Primary Government** | $ 302,207,546 | $ 37,352,159 | $ 35,820,119 | $ 25,214,312 |
| **Component Units:** | | | | |
| FBC Surface Water Supply Corporation | $ | $ | $ | $ |
| FBC Toll Road Authority | 14,975,150 | 17,694,231 | | 518,338 |
| FB Grand Parkway Toll Road Authority | 3,745,092 | | | |
| FBC Housing Finance Corporation | 11,060 | 141,870 | | |
| FBC Industrial Development Corporation | 2,856.0 | 23,000.0 | | |
| **Total Component Units** | $ 18,734,158 | $ 17,859,101 | $ | $ 518,338 |

**General Revenues:**

Property taxes, penalties, and interest

Earnings on investments

Miscellaneous

**Total General Revenues**

Changes in Net Assets

**Net Assets, Beginning of Year**

**Net Assets, End of Year**

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

| Net (Expense) Revenue and Changes in Net Assets | |
|---|---|
| **Primary Government** | **Component Units** |
| **Governmental Activities** | |
| $ (28,255,688) | $ |
| (4,659,902) | |
| (71,139,660) | |
| (12,874,710) | |
| (12,874,263) | |
| (1,177,426) | |
| (40,945,189) | |
| (2,616,625) | |
| (14,389,585) | |
| (14,887,908) | |
| (203,820,956) | |
| | 3,237,419 |
| | (3,745,092) |
| | 130,810 |
| | 20,144 |
| | (356,719) |
| 196,820,339 | |
| 2,925,202 | 358,798 |
| 5,954,640 | 54,573 |
| 205,700,181 | 413,371 |
| 1,879,225 | 56,652 |
| 715,845,088 | 46,041,604 |
| $ 717,724,313 | $ 46,098,256 |

## FORT BEND COUNTY, TEXAS

***BALANCE SHEET***

***GOVERNMENTAL FUNDS***

***September 30, 2011***

| | General Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 44,762,938 | $ 5,165,917 | $ 48,294,533 | $ 98,223,388 |
| Taxes receivable, net | 5,918,057 | 521,045 | 1,108,712 | 7,547,814 |
| Grants receivable | 6,474,269 | | 1,018,936 | 7,493,205 |
| Fines and fees receivable | 4,319,143 | | | 4,319,143 |
| Accrued interest receivable | 7,557 | | | 7,557 |
| Other receivables | 2,251,733 | 15,841 | 1,401,111 | 3,668,685 |
| Due from other funds | 15,317,511 | | 9,512,732 | 24,830,243 |
| Due from component units | 10,286,786 | | | 10,286,786 |
| Prepaid items | 136,007 | | 69,379 | 205,386 |
| **Total Assets** | $ 89,474,001 | $ 5,702,803 | $ 61,405,403 | $ 156,582,207 |
| | | | | |
| **Liabilities and Fund Balances** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 26,067,578 | $ | $ | $ 26,067,578 |
| Accrued payroll | 3,965,469 | | | 3,965,469 |
| Retainage payable | 61,506 | | 4,006,314 | 4,067,820 |
| Due to other funds | 2,198,840 | | 22,914,538 | 25,113,378 |
| Due to component units | 1,286,978 | | | 1,286,978 |
| Due to other governments | 1,242,379 | | 22,364 | 1,264,743 |
| Deferred revenue | 10,592,270 | 521,045 | 4,310,287 | 15,423,602 |
| **Total Liabilities** | 45,415,020 | 521,045 | 31,253,503 | 77,189,568 |
| | | | | |
| Fund Balances: | | | | |
| Nonspendable | 136,007 | | 69,379 | 205,386 |
| Restricted | | 5,181,758 | 34,501,665 | 39,683,423 |
| Committed | 33,106,759 | | | 33,106,759 |
| Unassigned | 10,816,215 | | (4,419,144) | 6,397,071 |
| **Total Fund Balances** | 44,058,981 | 5,181,758 | 30,151,900 | 79,392,639 |
| | | | | |
| **Total Liabilities and Fund Balances** | $ 89,474,001 | $ 5,702,803 | $ 61,405,403 | $ 156,582,207 |

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

## FORT BEND COUNTY, TEXAS
***RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS***
***September 30, 2011***

| | |
|---|---|
| Total fund balances, governmental funds | $ 79,392,639 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. | 1,063,947,000 |
| Other long-term assets are not available to pay for current-period expenditures and are therefore deferred in the funds. | 11,866,957 |
| Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets. | (1,940,152) |
| Some liabilities (such as long-term claims and judgments payable, long-term compensated absences, and bonds payable) are not due and payable in the current period and are not included in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. | |
| Bonds payable | (318,265,000) |
| Deferred issuance costs | 3,311,493 |
| Compensated absences | (5,560,434) |
| Other post-employment benefits (OPEB) obligation | (101,760,042) |
| Premiums on issuance of debt | (12,043,251) |
| Accrued interest is not due and payable in the current period and therefore not reported in the funds. | (1,224,897) |
| Net Assets of Governmental Activities | $ 717,724,313 |

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

## FORT BEND COUNTY, TEXAS

***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES***
***GOVERNMENTAL FUNDS***
***For the Year Ended September 30, 2011***

| | General Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Taxes | $ 150,611,129 | $ 28,251,456 | $ 18,544,313 | $ 197,406,898 |
| Fees and fines | 26,538,216 | 76,613 | 10,867,165 | 37,481,994 |
| Intergovernmental | 23,894,468 | | 13,077,519 | 36,971,987 |
| Earnings on investments | 1,457,487 | 141,647 | 1,198,905 | 2,798,039 |
| Miscellaneous | 3,372,764 | | 3,151,627 | 6,524,391 |
| **Total Revenues** | 205,874,064 | 28,469,716 | 46,839,529 | 281,183,309 |
| **Expenditures** | | | | |
| Current: | | | | |
| General administration | 41,583,032 | | 769,305 | 42,352,337 |
| Financial administration | 7,158,932 | | 17,254 | 7,176,186 |
| Administration of justice | 54,210,526 | | 17,628,820 | 71,839,346 |
| Construction and maintenance | 2,843,242 | | 26,699,183 | 29,542,425 |
| Health and welfare | 17,345,040 | | 4,722,704 | 22,067,744 |
| Cooperative services | 986,392 | | | 986,392 |
| Public safety | 42,751,912 | | 1,404,590 | 44,156,502 |
| Parks and recreation | 2,263,590 | | | 2,263,590 |
| Libraries and education | 12,113,853 | | 62,784 | 12,176,637 |
| **Capital Outlay** | 20,234,349 | | 68,693,447 | 88,927,796 |
| **Debt Service:** | | | | |
| Principal | | 12,590,000 | | 12,590,000 |
| Interest and fiscal charges | | 15,528,257 | | 15,528,257 |
| Bond issuance costs | | 249,266 | | 249,266 |
| **Total Expenditures** | 201,490,868 | 28,367,523 | 119,998,087 | 349,856,478 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 4,383,196 | 102,193 | (73,158,558) | (68,673,169) |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 5,260,901 | | 9,141,885 | 14,402,786 |
| Transfers (out) | (8,965,489) | | (5,437,297) | (14,402,786) |
| Refunding bonds issued | | 9,675,000 | | 9,675,000 |
| Payment to refunded bond escrow agent | | (10,230,000) | | (10,230,000) |
| Premium on refunding bonds issued | | 784,853 | | 784,853 |
| **Total Other Financing Sources (Uses)** | (3,704,588) | 229,853 | 3,704,588 | 229,853 |
| Net change in fund balances | 678,608 | 332,046 | (69,453,970) | (68,443,316) |
| **Fund Balances, Beginning of Year** | 43,380,373 | 4,849,712 | 99,605,870 | 147,835,955 |
| **Fund Balances, End of Year** | $ 44,058,981 | $ 5,181,758 | $ 30,151,900 | $ 79,392,639 |

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

**FORT BEND COUNTY, TEXAS**

***RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (GOVERNMENTAL FUNDS) TO THE STATEMENT OF ACTIVITIES***

***For the Year Ended September 30, 2011***

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (68,443,316) |
| Adjustments for the Statement of Activities: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which current year capital outlay ($88.9 million) exceeded depreciation expense ($26.2 million) in the current period. | 62,699,787 |
| Capital contributions of infrastructure are reported in the governmental-wide financial statements but not in the fund financial statements. | 23,717,658 |
| Governmental funds report the entire net sales prices (proceeds) from the sales of capital assets as revenue because they provide current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the capital assets. Thus, the change in net assets differs from the change in fund balance by the costs of capital assets sold. | (354,795) |
| The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | (10,210,587) |
| The long-term portion of accrued compensated absences is not due and payable in the current period and is therefore not reported in governmental funds. | (167,658) |
| Changes in the other post-employment benefits (OPEB) obligation are not due and payable in the current period, and therefore are not reported in the governmental funds. | (26,647,414) |
| Revenues that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment reflects the net change in receivables on the accrual basis of accounting. | (586,559) |
| 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. | 63,535 |
| Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 576,813 |
| Principal payments on bonds are reported as expenditures in governmental funds but not as expenses in the government-wide statements. | 22,820,000 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenues (expenses) are reported with governmental activities. | (1,588,239) |
| Change in net assets of governmental activities | $ 1,879,225 |

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

**FORT BEND COUNTY, TEXAS**

***STATEMENT OF NET ASSETS***

***PROPRIETARY FUNDS***

***September 30, 2011***

| | Governmental Activities |
|---|---|
| | **Internal Service Funds** |
| **Assets** | |
| Current Assets: | |
| Cash and cash equivalents | $ 5,416,728 |
| Due from other funds | 283,237 |
| Other receivables | 20,490 |
| Total Current Assets | 5,720,455 |
| Noncurrent Assets: | |
| Capital Assets: | |
| Construction-in-progress | 88,810 |
| Total Capital Assets | 88,810 |
| Total Noncurrent Assets | 88,810 |
| **Total Assets** | 5,809,265 |
| **Liabilities** | |
| Current Liabilities: | |
| Benefits payable | 7,740,434 |
| Retainage payable | 8,881 |
| Due to other funds | 102 |
| Total Current Liabilities | 7,749,417 |
| **Total Liabilities** | 7,749,417 |
| **Net Assets (Deficit)** | |
| Invested in capital assets, net of related debt | 88,810 |
| Unrestricted | (2,028,962) |
| **Total Net Assets (Deficit)** | $ (1,940,152) |

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

**FORT BEND COUNTY, TEXAS**

***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS***

***PROPRIETARY FUNDS***

***For the Year Ended September 30, 2011***

| | Governmental Activities<br>Internal Service Funds |
|---|---|
| **Operating Revenues** | |
| Charges for services | $ 30,686,672 |
| **Total Operating Revenues** | 30,686,672 |
| **Operating Expenses** | |
| Current operations - general administration | 411,575 |
| Benefits provided | 31,990,499 |
| **Total Operating Expenses** | 32,402,074 |
| **Operating (Loss)** | (1,715,402) |
| **Non-Operating Revenues** | |
| Earnings on investments | 127,163 |
| **Total Non-Operating Revenues** | 127,163 |
| Change in Net Assets | (1,588,239) |
| **Total Net Assets (Deficit), Beginning of Year** | (351,913) |
| **Total Net Assets (Deficit), End of Year** | $ (1,940,152) |

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

## FORT BEND COUNTY, TEXAS

***STATEMENT OF CASH FLOWS***

***PROPRIETARY FUNDS***

***For the Year Ended September 30, 2011***

| | Governmental Activities Internal Service Funds |
|---|---|
| **Cash Flows from Operating Activities** | |
| Charges for services | $ 32,151,762 |
| Payment of benefits | (31,400,379) |
| Payment of general administration expenses | (411,575) |
| **Net Cash Provided by Operating Activities** | 339,808 |
| | |
| **Cash Flows from Investing Activities** | |
| Interest earned on investments | 127,163 |
| **Net Cash Provided by Investing Activities** | 127,163 |
| | |
| **Cash Flows from Capital and Related Financing Activities:** | |
| Purchase of capital assets | (79,929) |
| **Net Cash (Used) by Capital and Related Financing Activities** | (79,929) |
| | |
| **Net Increase in Cash and Cash Equivalents** | 387,042 |
| | |
| **Cash and Cash Equivalents, Beginning of Year** | 5,029,686 |
| | |
| **Cash and Cash Equivalents, End of Year** | $ 5,416,728 |
| | |
| **Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities** | |
| Operating (Loss) | $ (1,715,402) |
| Change in assets and liabilities: | |
| (Increase) in other receivables | (19,965) |
| Decrease in due from other funds | 1,593,183 |
| (Decrease) in due to other funds | (108,128) |
| Increase in benefits payable | 590,120 |
| **Total adjustments** | 2,055,210 |
| | |
| **Net Cash Provided by Operating Activities** | $ 339,808 |

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

## FORT BEND COUNTY, TEXAS
***STATEMENT OF FIDUCIARY NET ASSETS***
***September 30, 2011***

| | Agency Funds |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 29,051,344 |
| Miscellaneous receivables | 311,599 |
| **Total Assets** | $ 29,362,943 |
| **Liabilities** | |
| Due to other governments | $ 29,362,943 |
| **Total Liabilities** | $ 29,362,943 |

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

## FORT BEND COUNTY, TEXAS

***STATEMENT OF NET ASSETS***

***COMPONENT UNITS***

***September 30, 2011***

| | Fort Bend County Surface Water Supply Corporation | Fort Bend County Toll Road Authority | Fort Bend Grand Parkway Toll Road Authority | Fort Bend County Housing Finance Corporation | Fort Bend County Industrial Development Corporation | Totals |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 7,614 | $ 31,734,552 | $ 72 | $ 700,944 | $ 23,020 | $ 32,466,202 |
| Accounts receivable | | | | 365 | | 365 |
| Due from Fort Bend Grand Parkway Toll Road Authority | | 2,000,000 | | | | 2,000,000 |
| Due from primary government | | 1,286,978 | | | | 1,286,978 |
| Accrued interest receivable | | 25,125 | | 1,163 | | 26,288 |
| Miscellaneous receivables | | 2,847,331 | | | | 2,847,331 |
| Deferred bond issuance costs | | 738,947 | | | | 738,947 |
| Prepaid items | | | | | 124 | 124 |
| Capital assets, not being depreciated | | 2,782,650 | 8,778,577 | | | 11,561,227 |
| Capital assets, net of accumulated depreciation | | 145,748,541 | | | | 145,748,541 |
| **Total Assets** | 7,614 | 187,164,124 | 8,778,649 | 702,472 | 23,144 | 196,676,003 |
| **Liabilities and Net Assets** | | | | | | |
| **Liabilities** | | | | | | |
| Accounts payable | | | | 3,900 | | 3,900 |
| Retainage payable | | | 204,202 | | | 204,202 |
| Due to Fort Bend County Toll Road Authority | | | 2,000,000 | | | 2,000,000 |
| Due to primary government | | | 10,286,786 | | | 10,286,786 |
| Accrued interest payable | | 558,119 | 32,681 | | | 590,800 |
| Long-term liabilities | | | | | | |
| Due within one year | | 1,645,000 | | | | 1,645,000 |
| Due in more than one year | | 135,847,059 | | | | 135,847,059 |
| **Total Liabilities** | | 138,050,178 | 12,523,669 | 3,900 | | 150,577,747 |
| **Net Assets** | | | | | | |
| Invested in capital assets, net of related debt | | 11,039,132 | 8,778,577 | | | 19,817,709 |
| Unrestricted | 7,614 | 38,074,814 | (12,523,597) | 698,572 | 23,144 | 26,280,547 |
| **Total Net Assets** | $ 7,614 | $ 49,113,946 | $ (3,745,020) | $ 698,572 | $ 23,144 | $ 46,098,256 |

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

**FORT BEND COUNTY, TEXAS**

***STATEMENT OF ACTIVITIES***

***COMPONENT UNITS***

***For the Year Ended September 30, 2011***

| | | Program Revenues | |
|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Capital Grants and Contributions** |
| **Fort Bend County Surface Water Supply Corporation** | | | |
| Health and welfare | $ | $ | $ |
| **Total Fort Bend County Surface Water Supply Corporation** | | | |
| **Fort Bend County Toll Road Authority** | | | |
| Toll road operations | 8,356,153 | 17,694,231 | 518,338 |
| Interest on long-term debt | 6,618,997 | | |
| **Total Fort Bend County Toll Road Authority** | 14,975,150 | 17,694,231 | 518,338 |
| **Fort Bend Grand Parkway Toll Road Authority** | | | |
| Toll road operations | 3,712,411 | | |
| Operating interest | 32,681 | | |
| **Total Fort Bend Grand Parkway Toll Road Authority** | 3,745,092 | | |
| **Fort Bend County Housing Finance Corporation** | | | |
| Programs | 345 | | |
| General administration | 10,715 | 141,870 | |
| **Total Fort Bend County Housing Finance Corporation** | 11,060 | 141,870 | |
| **Fort Bend County Industrial Development Corporation** | | | |
| General administration | 2,856 | 23,000 | |
| **Total Fort Bend County Industrial Development Corporation** | 2,856 | 23,000 | |
| **Total Component Units** | $18,734,158 | $17,859,101 | $ 518,338 |

**General Revenues:**
Earnings on investments
Miscellaneous
**Total General Revenues**
Changes in Net Assets
**Net Assets, Beginning of Year**
**Net Assets, End of Year**

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

| Net (Expense) Revenue and Changes in Net Assets | | | | | |
|---|---|---|---|---|---|
| Fort Bend County Surface Water Supply Corporation | Fort Bend County Toll Road Authority | Fort Bend Grand Parkway Toll Road Authority | Fort Bend County Housing Finance Corporation | Fort Bend County Industrial Development Corporation | Totals |
| $ | $ | $ | $ | $ | $ |
| | 9,856,416 | | | | 9,856,416 |
| | (6,618,997) | | | | (6,618,997) |
| | 3,237,419 | | | | 3,237,419 |
| | | (3,712,411) | | | (3,712,411) |
| | | (32,681) | | | (32,681) |
| | | (3,745,092) | | | (3,745,092) |
| | | | (345) | | (345) |
| | | | 131,155 | | 131,155 |
| | | | 130,810 | | 130,810 |
| | | | | 20,144 | 20,144 |
| | | | | 20,144 | 20,144 |
| | 3,237,419 | (3,745,092) | 130,810 | 20,144 | (356,719) |
| 75 | 354,629 | | 4,094 | | 358,798 |
| | 54,501 | 72 | | | 54,573 |
| 75 | 409,130 | 72 | 4,094 | | 413,371 |
| 75 | 3,646,549 | (3,745,020) | 134,904 | 20,144 | 56,652 |
| 7,539 | 45,467,397 | | 563,668 | 3,000 | 46,041,604 |
| $ 7,614 | $ 49,113,946 | $ (3,745,020) | $ 698,572 | $ 23,144 | $ 46,098,256 |

## Note 1 - Summary of Significant Accounting Policies

### A. Financial Reporting Entity

Fort Bend County, Texas (the "County") is a public corporation and a political subdivision of the State of Texas. The Commissioners Court, composed of four County Commissioners and the County Judge, all of whom are elected officials, govern the County.

The County is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the County's financial reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the County's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the County is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the County's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

### Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the County's operations and so data of these units are combined with data of the County. Each of the County's blended component units has a September 30 year-end. The following component units have been identified and are presented in a blended format in the government-wide financial statements:

**Fort Bend County Drainage District ("District")**
Established under Section 59 of Article XVI of the Constitution of Texas, the District includes all of the property within Fort Bend County. The District was created for the purpose of reclamation and drainage of its lands. Commissioners Court acts as the governing body of the District. Complete financial statements for the District can be obtained at the Fort Bend County Auditor's Office located at 301 Jackson, Suite 533, Richmond, Texas.

**Fort Bend Flood Control Water Supply Corporation ("FBFCWSC")**
The FBFCWSC is a non-profit corporation organized for the benefit of 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 County. Commissioners Court appoints the Board of Directors and approves all budgets and expenditures. Complete financial statements for the Corporation can be obtained at the Fort Bend County Auditor's Office located at 301 Jackson, Suite 533, Richmond, Texas.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**A. Financial Reporting Entity (continued)**

**Discretely Presented Component Units**

Discretely presented component units are presented in a separate column in the government-wide statements to emphasize that they are legally separate from the County. Each of the County's discretely presented component units has a September 30 year-end. The following component units have been identified and are presented in a discrete format in the County's financial statements:

**Fort Bend County Toll Road Authority**
The Fort Bend County Toll Road Authority is organized under the Texas Transportation Corporation Act and the Texas Non-Profit Corporation Act. The Authority was created to assist in the planning, designing, financing and building of county roads and highways. In particular, the Authority is to assist in the building and operation of the Fort Bend Toll Road system that will extend from Sam Houston Parkway in Harris County to the Brazos River and the City of Fulshear in Fort Bend County. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will. Financial information is available at the County Auditor’s Office located at 301 Jackson, Suite 533, Richmond, Texas.

**Fort Bend Grand Parkway Toll Road Authority**
The Fort Bend Grand Parkway Toll Road Authority is organized under the Texas Transportation Corporation Act and the Texas Non-Profit Corporation Act. The Authority was created to assist in the planning, designing, financing and building of county roads and highways. In particular, the Authority is to assist in the building and operation of the Fort Bend Grand Parkway Toll Road that will extend from the Westpark Tollway along State Highway 99 to US 59. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will. Financial information is available at the County Auditor’s Office located at 301 Jackson, Suite 533, Richmond, Texas.

**Fort Bend County Surface Water Supply Corporation**
The Fort Bend County Surface Water Supply Corporation was established for the purpose of conducting a feasibility study of a surface water facility in the area. Currently, revenue sources are primarily from special districts, private corporations, and other entities interested in the study. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will. Financial information is available at the County Auditor’s Office located at 301 Jackson, Suite 533, Richmond, Texas.

**Fort Bend County Housing Finance Corporation**
The Fort Bend County Housing Finance Corporation was established under the Texas Housing Finance Corporation Act. The Corporation provides down payment assistance programs for individuals meeting certain income guidelines and serves as a conduit for activity related to bond issues for affordable housing in Fort Bend County. The tax-exempt bonds issued by the Corporation do not constitute a debt or a pledge of faith by the Corporation, but are payable by the user pursuant to terms defined in the loan agreements underlying each issue. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will. Complete financial statements for The Fort Bend Housing Finance Corporation are prepared and can be obtained at the East Fort Bend County Annex Building located at 3030 Texas Parkway, Suite 213, Missouri City, Texas.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**A. Financial Reporting Entity (continued)**

**Discretely Presented Component Units (continued)**

**Fort Bend County Industrial Development Corporation**
The Fort Bend County Industrial Development Corporation was established under the Development Corporation Act of 1979 (Act). The Corporation facilitates the issuance of obligations in the form of bonds to finance all or part of the cost of one or more projects as defined by the Act. The bonds issued by the Corporation do not constitute a debt or a pledge of faith by the Corporation, but are payable by the user pursuant to terms defined in the loan agreements underlying each issue. The County has accountability because it appoints a voting majority of the Board and the County can impose its will. Financial information is available at the County Auditor's Office.

**B. Government-wide and Fund Accounting**

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), the GASB 34 reporting model focuses on either the County as a whole or on major individual funds (within the fund financial statements). Typically, both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. All primary activities of the County are considered to be governmental type activities; therefore no business type activities are presented within the basic financial statements. In the government-wide Statement of Net Assets, governmental activities are presented on a full accrual, economic resource basis, which incorporates long-term assets and receivables, as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general administration, financial administration, public safety, etc.), which are otherwise being supported by general government revenues (property taxes, earnings on investments, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. The program revenues must be directly associated with the function (general administration, financial administration, public safety, etc.).

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. 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.

The County's fiduciary funds are presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Since the County only reports agency funds, a statement of changes in fiduciary net assets is not presented. All assets reported in agency funds should be offset by a corresponding liability, resulting in zero net assets.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**B. Government-wide and Fund Accounting (continued)**

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

The County reports the following major governmental funds:

**General Fund**
The General Fund is the County's primary operating fund. It is used to account for all financial transactions not properly includable in other funds. The principal source of revenue is local property taxes. Expenditures include all costs associated with the daily operations of the County.

**Debt Service Fund**
This fund is used to account for the debt service transactions relating to the following bond issues: Permanent Improvements Refunding Bonds Series 2003, Unlimited Tax Road Bonds Series 2006, Unlimited Tax Road Bonds Series 2007, Fort Bend Flood Control Water Supply Corporation (FBFCWSC) Refunding Bonds Series 2010, Limited Tax Facilities Bonds Series 2007, Unlimited Tax Road Bonds Series 2009, Justice Center Limited Tax Bonds Series 2009, and Unlimited Tax Road Refunding Series 2009. Revenues in this fund are comprised of property taxes levied against property located in the County.

The County also reports the following funds types:

**Internal Service Funds**
These funds are used to account for the County's employee benefits for employees, retirees, and their dependents, including medical and dental; and self-insurance programs, including workers' compensation, personal injury and property damage. The principal source of revenue is contributions paid by individual funds.

**Agency Funds**
These funds are custodial in nature and do not report operating results. They are used to account for assets held by the County as an agent for various local governments and individuals.

**C. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund-types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**C. Basis of Accounting (continued)**

The accounts of the Governmental Fund Types (the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds) and certain Component Units are maintained, and the financial statements have been prepared, on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they become susceptible to accrual (i.e., both measurable and available). Available means collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Substantially all revenues, except property taxes, are considered to be susceptible to accrual. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as expenditures when due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is that interfund services provided and used within the County are not eliminated in the process of consolidation. Elimination of these services would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Revenues that are generated internally are reported as general revenues, including property taxes.

Proprietary funds present both operating revenues and expenses as well as non-operating revenues and expenses. Operating revenues and expenses are generally derived from providing services and producing goods as part of ongoing operations. The principal operating revenues of the County's internal service funds are charges to users for services. The operating expenses for the County's internal service funds include administrative expenses and all costs associated with providing services. All other revenue and expenses are reported as non-operating revenue.

The accrual basis of accounting is used for the proprietary fund types and certain component units. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

The statements of net assets, statements of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

**D. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used as an extension of formal budgetary control. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities of the current year and are re-appropriated in the budget of the subsequent year. Unencumbered appropriations lapse at the end of the year.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Cash and Cash Equivalents**

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturities of three months or less when purchased to be cash equivalents.

**F. Investments**

The County's investments, when held, are comprised primarily of U.S. Government Securities. Obligations with maturities of one year or less when purchased are reported on the balance sheet at their amortized cost, which approximates fair value. All other investments are reported at fair value. The investments in U.S. Government Securities are generally held to maturity.

**G. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**H. Due To and Due From Other Funds**

During the course of operations, transactions occur between individual funds for specified purposes, such as lending/borrowing arrangements or amounts. In addition, the County maintains numerous bank accounts among all the funds and occasionally monies are deposited into the incorrect account. Therefore, a receivable and payable are recorded in the proper funds. These receivables and payables are classified as "due from other funds" or "due to other funds" (or "due from component unit/primary government" or "due to component unit/primary government" if the transactions are between the primary government and its component unit).

**I. Interfund Transfers**

The County maintains numerous special revenue and capital project funds to account separately for monies that have been set aside for particular purposes. Often, these monies are initially budgeted in the General Fund during the annual budget process and are then transferred to various funds during the course of the fiscal year. In addition, when these projects are complete, these same funds often transfer residual monies back to the General Fund or some other fund, as determined by where the monies should be returned. These interfund transfers are classified as "transfers in" and "transfers out" within the primary government.

**J. Interest Receivable**

Interest on investments is recorded as revenue in the year the interest is earned and available to pay liabilities of the current period.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**K. Capital Assets**

Capital assets used in governmental fund types of the government are recorded as expenditures of the General, Special Revenue and Capital Projects Funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold (currently $5,000 on new assets) is met. All betterments to existing assets are capitalized, without any threshold. Depreciation is recorded on capital assets on a government-wide basis. Major outlays for capital assets and improvements are capitalized as projects are constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at the government-wide levels. 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 costs of normal maintenance and repairs that do not add to the value of the asset 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 resulting gain or loss is included in the results of operations.

The County 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 estimated useful life for the type of assets as follows:

| Asset Description | Estimated Useful Life |
|---|---|
| Vehicles | 5 to 7 years |
| Office furniture and equipment | 5 to 7 years |
| Machinery and equipment | 7 to 15 years |
| Buildings, facilities and improvements | 10 to 39 years |
| Infrastructure | 20 to 40 years |

**L. Accrued Compensated Absences**

All full-time employees accumulate vacation benefits in varying annual number of days up to a maximum of twenty days a year. Accumulated vacation exceeding twenty days lapses on December 31 of each year.

Compensatory time exceeding 80 hours is paid to nonexempt employees. In the event of termination, an employee is paid for all maximum allowable accumulation of vacation and compensatory time.

Sick leave benefits are earned by all full-time employees at a rate of eight days per year and may be accumulated without limit. Upon retirement, an employee may be eligible to receive a payment for up to one-half of their unused sick leave balance, not to exceed a maximum of $5,000. In the event of any termination other than retirement, an employee is not paid for any unused sick leave.

A liability for accrued compensated absences is recorded in the government-wide financial statements.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**M. Restricted/Unrestricted Net Assets**

It is the County's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**O. Reclassifications**

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenditures.

**P. Date of Managements' Review**

In preparing the financial statements, the County has evaluated events and transactions for potential recognition or disclosure through March 16, 2012, the date that the financial statements were available to be issued.

**Q. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**Note 2 - Deposits (Cash) and Investments**

**A. Authorization for Deposits and Investments**

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

In accordance with applicable statutes, the County has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the County incurs for banking services received. The County 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. County policy requires the collateralization level to be at least 110% of market value of principal and accrued interest.

**Note 2 - Deposits (Cash) and Investments (continued)**

**A. Authorization for Deposits and Investments (continued)**

Commissioners Court has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the County are in compliance with this policy. State statutes authorize the County to invest in fully collateralized or insured time deposits, direct debt obligations of the United States, and certain repurchase agreements. Investments in security repurchase agreements are authorized when the investment has a defined termination date, is secured by obligations described in the Public Funds Investment Act, is pledged to the County, is deposited with a third party selected and approved by the entity, and is placed through a primary government securities dealer or national bank domiciled in the State of Texas. The County did not invest in repurchase agreements for the year ended September 30, 2011.

**B. Deposit and Investment Amounts**

The County's cash and investments are classified as: cash and cash equivalents, and investments. Cash and cash equivalents include cash on hand, deposits with financial institutions, and short-term investments in a privately-managed public funds investment pool account.

At September 30, 2011, the County's cash deposits are either insured by FDIC or covered by collateral held by the County's agent in the County's name.

The following schedule shows the County's recorded cash and cash equivalents and investment pools at year-end, excluding Agency Funds:

| | Total Fair Value |
|---|---|
| Cash deposits | $ 133,404,234 |
| Certificates of deposit | 495,579 |
| Investment pools: | |
| Texas CLASS | 2,193,082 |
| TexasTERM | 5,358 |
| LOGIC | 8,066 |
| **Total cash and investment pools** | $ 136,106,319 |

Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, Texas Government Code, and the Public Funds Investment Act, chapter 2256, Texas Government Code. Texas CLASS was established in 1996. Pursuant to the Trust Agreement, Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator. Cutwater Investor Services Corp. serves as Program Administrator. Cutwater Investor Services Corp. is a subsidiary of Cutwater Asset Management. Texas CLASS is considered a '2a-7 like pool' under Governmental Accounting Standards Statement No. 31; it will operate the pool consistent with the SEC's Rule 2a7. It maintains a Net Asset Value of approximately $1 per share.

**Note 2 - Deposits (Cash) and Investments (continued)**

**B. Deposit and Investment Amounts (continued)**

The TexasTERM Local Government Investment Pool (TexasTERM) is organized in conformity with the Texas Public Funds Investment Act of the Texas Government Code. It provides for a fixed-rate, fixed-term investment for a period of 60 days to one year and includes TexasDAILY, a portfolio of the Local Government Pool, providing daily access to funds. An Advisory Board composed of participants in TexasTERM and other parties who do not participate in the Pool, has responsibility for the overall management of the Pool, including formulation and implementation of its Investment and Operating Policies. PFM Asset Management LLC ("PFM"), a leading national financial and investment advisory firm, is the investment advisor to the pool. TexasTERM's TexasDAILY portfolio is considered a '2a-7 like pool' under Governmental Accounting Standards Statement No. 31; it will operate the pool consistent with the SEC's Rule 2a7. It maintains a Net Asset Value of approximately $1 per share.

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, Texas Government Code, and the Public Funds Investment Act, chapter 2256, Texas Government Code. The Pool was created in April, 1994 through a contract among its participating governmental units, and is governed by a board of directors ('the board'), to provide for the joint investment of participant's public funds and funds under their control. LOGIC is considered a '2a-7 like pool' under Governmental Accounting Standards Statement No. 31; it will operate the pool consistent with the SEC's Rule 2a7. It maintains a Net Asset Value of approximately $1 per share.

**Interest Rate Risk**

At year-end, the County had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

| | Fair Value | Weighted Average Maturity (days) | Percentage of Total Portfolio |
|---|---|---|---|
| Certificates of deposit | $ 495,579 | 271 | 18.3% |
| Investment pools: | | | |
| Texas CLASS | 2,193,082 | 30 | 81.2% |
| TexasTERM | 5,358 | 50 | 0.2% |
| LOGIC | 8,066 | 42 | 0.3% |
| Total Fair Value | $ 2,702,085 | | |
| Portfolio weighted average maturity | | 74 | |

It is the County's policy to select any individual investment with a maximum stated maturity of thirty-six (36) months. Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest rate of return of interest. When the County has funds not required to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for the group of funds.

The County's investments in the state investment pools via Texas CLASS, TexasTERM, and LOGIC were rated Aaa by Moody Investments and AAAm by Standard and Poor's.

**Note 2 - Deposits (Cash) and Investments (continued)**

**B. Deposit and Investment Amounts (continued)**

**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 in 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:

| Investment Type | Maximum Investment % |
|---|---|
| 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% |

It is the County's policy to select investments in order to provide stability of income and reasonable liquidity.

**Note 3 - Receivables**

Receivables, including applicable allowances for uncollectible accounts, as of September 30, 2011, were as follows:

| | Governmental Activities | | | |
|---|---|---|---|---|
| | **General** | **Debt Service** | **Other Governmental Funds** | **Total** |
| Receivables: | | | | |
| Taxes | $ 6,575,619 | $ 578,939 | $ 1,231,902 | $ 8,386,460 |
| Grants | 6,474,269 | | 1,018,936 | 7,493,205 |
| Fees and fines | 4,319,143 | | | 4,319,143 |
| Accrued interest | 7,557 | | | 7,557 |
| Other | 2,251,733 | 15,841 | 1,401,111 | 3,668,685 |
| Gross receivables | 19,628,321 | 594,780 | 3,651,949 | 23,875,050 |
| Less: allowance for uncollectibles | (657,562) | (57,894) | (123,190) | (838,646) |
| **Total** | $ 18,970,759 | $ 536,886 | $ 3,528,759 | $ 23,036,404 |

**Note 3 – Receivables (continued)**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2011, the various components of deferred revenue reported in the governmental funds are as follows:

| | Unavailable | Unearned |
|---|---|---|
| Delinquent property taxes (general fund) | $ 5,918,057 | $ |
| Delinquent property taxes (road and bridge fund) | 753,585 | |
| Delinquent property taxes (drainage district fund) | 355,127 | |
| Delinquent property taxes (debt service fund) | 521,045 | |
| Fees and fines (general fund) | 4,319,143 | |
| Grant funds received prior to meeting all eligibility requirements | | 3,556,645 |
| **Total deferred revenue for governmental funds** | $ 11,866,957 | $ 3,556,645 |

**Note 4 - Property Taxes**

The County's tax year covers the period October 1 through September 30. The County's property taxes are levied annually in October on the basis of the Fort Bend Central Appraisal District's (CAD) assessed values as of January 1 of that calendar year. Such taxes become delinquent on February 1 of the subsequent calendar year. The CAD establishes appraised values at 100% of market value less exemptions. The County's property taxes are billed and collected by the County's Tax Assessor/Collector.

**A. 2010 Tax Year**

Property taxes are prorated between the General, certain Special Revenue, and Debt Service Funds based on rates adopted for the year of the levy. For the 2011 fiscal year (2010 tax year), the County levied property taxes of $0.49976 per $100 of assessed valuation. The 2010 rates resulted in total adjusted tax levies of approximately $194.6 million based on a total adjusted valuation of approximately $37.4 billion. The total tax rate in the 2010 tax year was prorated as follows:

| | 2010 Rate | 2010 Limit |
|---|---|---|
| General, certain special revenue and debt service funds | $ 0.45246 | $ 0.80000 |
| Special road & bridge funds | $ 0.02770 | $ 0.15000 |
| Fort Bend County Drainage District | $ 0.01960 | $ 0.25000 |
| **Total Tax Rate** | $ 0.49976 | $ 1.20000 |

## Note 4 - Property Taxes (continued)

### B. Fort Bend Central Appraisal District

The Fort Bend Central Appraisal District (CAD), a separate governmental entity, is responsible for the recording and appraisal of property for all taxing units in the County.

The CAD is required by state law to assess property at 100% of its appraised value. Further, real property must be appraised at least every four years. Under certain circumstances, the taxpayers and taxing units, including the County, may challenge orders of the CAD's Appraisal Review Board through various appeals and, if necessary, legal action may be taken.

The Commissioners Court will continue to set the tax rates on the property. State law also provides that, if approved by the qualified voters in the County, collection functions may be assigned to the CAD.

## Note 5 - Interfund Activity

During the year, cash advances are occasionally made between funds for various projects and situations, which create receivables and payables between these funds. All of these interfund balances are expected to be paid within one year. At September 30, 2011, the interfund receivables and payables were as follows:

| | Interfund Receivable | Interfund Payable |
|---|---|---|
| General Fund | $ 15,317,511 | $ 2,198,840 |
| Non-major Governmental Funds | 9,512,732 | 22,914,538 |
| | 24,830,243 | 25,113,378 |
| Internal Service Funds | 283,237 | 102 |
| Total Governmental Activity | $ 25,113,480 | $ 25,113,480 |

### Interfund transfers

Transfers totaling approximately $14.4 million were made during the year primarily for the purpose of moving unrestricted fund revenues to finance various programs that the government must account for in other funds in accordance with the budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

| | Transfers In | Transfers Out |
|---|---|---|
| General Fund | $ 5,260,901 | $ 8,965,489 |
| Non-major Governmental Funds | 9,141,885 | 5,437,297 |
| | $ 14,402,786 | $ 14,402,786 |

## Note 6 - Capital Assets

A summary of changes in the primary government's capital assets for the year ended September 30, 2011, is as follows:

| | Primary Government | | | |
|---|---|---|---|---|
| | Balance 10/01/10 | Increases | Decreases | Balance 09/30/11 |
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 318,334,776 | $ 15,099,975 | $ | $ 333,434,751 |
| Construction-in-progress | 152,903,502 | 66,560,089 | (99,212,977) | 120,250,614 |
| **Total capital assets not being depreciated** | 471,238,278 | 81,660,064 | (99,212,977) | 453,685,365 |
| Other capital assets: | | | | |
| Vehicles | 22,628,966 | 6,060,587 | (2,615,345) | 26,074,209 |
| Office furniture and equipment | 24,137,597 | 3,810,303 | (899,313) | 27,048,587 |
| Machinery and equipment | 24,517,102 | 2,533,314 | (1,397,649) | 25,652,766 |
| Buildings, facilities and improvements | 225,992,477 | 86,282,555 | | 312,275,031 |
| Infrastructure | 415,884,110 | 31,587,290 | | 447,471,401 |
| **Total other capital assets** | 713,160,252 | 130,274,049 | (4,912,307) | 838,521,994 |
| Accumulated depreciation for: | | | | |
| Vehicles | (13,837,784) | (2,897,397) | 2,441,061 | (14,294,120) |
| Office furniture and equipment | (13,369,485) | (3,288,600) | 868,976 | (15,789,109) |
| Machinery and equipment | (13,224,104) | (1,570,927) | 1,223,124 | (13,571,907) |
| Buildings, facilities and improvements | (54,334,313) | (6,682,237) | | (61,016,550) |
| Infrastructure | (111,748,493) | (11,751,370) | | (123,499,863) |
| **Total accumulated depreciation** | (206,514,179) | (26,190,531) | 4,533,161 | (228,171,549) |
| Other capital assets, net | 506,646,073 | 104,083,518 | (379,146) | 610,350,445 |
| **Total Governmental Activities capital assets, net** | $ 977,884,351 | $ 185,743,582 | $ (99,592,123) | $1,064,035,810 |

Depreciation expenses were charged to the following functions in the statement of activities:

| **Fiscal Year 2011 Depreciation Expense** | |
|---|---|
| General administration | $ 1,179,617 |
| Financial administration | 211,010 |
| Administration of justice | 5,265,772 |
| Construction and maintenance | 13,990,660 |
| Health and welfare | 1,106,550 |
| Cooperative services | 58,409 |
| Public safety | 2,796,140 |
| Parks and recreation | 430,233 |
| Library | 1,152,140 |
| **Total Depreciation Expense** | $ 26,190,531 |

## Note 6 - Capital Assets (continued)

Construction-in-progress and remaining commitments under related construction contracts for general government construction projects at September 30, 2011, is as follows:

**2011 CONSTRUCTION COSTS**

| Project | Balance 10/01/10 | Increases- Retainage Included | Decreases- Capitalizations | Decreases- Adjustments | Balance 09/30/11 | Remaining Commitments |
|---|---|---|---|---|---|---|
| 2000 Mobility Projects - Bonds | $ 37,300,220 | $ 9,111,704 | $ (7,898,972) | $ | $ 38,512,952 | $ 1,252 |
| 2007 Mobility Projects - Bonds | 30,864,194 | 25,058,579 | (8,154,184) | | 47,768,589 | 7,411,884 |
| Animal Control Expansion | | 58,746 | | | 58,746 | 474,458 |
| Animal Control Satellite Office | 250 | 66,888 | | | 67,138 | |
| Big Creek | 2,137,832 | 241,123 | | (272,700) | 2,106,255 | 300,338 |
| Big Creek FBFCWSC - Bonds | 11,676,161 | 64,522 | | 272,700 | 12,013,383 | 300 |
| Bridge Construction | 24,067 | | | | 24,067 | 8,155 |
| CAD Expansion | | 5,140 | | | 5,140 | 26,568 |
| Commissioners' Courtroom AV Upgrade | | 226 | | | 226 | |
| Courthouse Renovation Grant | 48,311 | 338,711 | | | 387,022 | |
| Crabb River Rd Expansion | 600,608 | 27,842 | | | 628,450 | 64,794 |
| Employee Clinic | | 88,810 | | | 88,810 | 282,109 |
| EMS Facility Prop 3 - Bonds | | 108,099 | | | 108,099 | |
| Facilities - Eugene Heimann Circle - Bonds | | 36,357 | (877) | | 35,480 | |
| Facilities Tracking Software | 26,500 | | | | 26,500 | 26,900 |
| Fairgrounds Renovations | 178,237 | | | | 178,237 | |
| FM762 Landscaping | | 10,268 | | | 10,268 | |
| GML Library Prop 2 - Bonds | 717,827 | 10,318 | | | 728,145 | |
| Integrated Library System - Polaris | | 98,998 | | | 98,998 | 22,571 |
| JP2 Expansion | 113,941 | 440,201 | | | 554,142 | |
| Kitty Hollow Park Expansion | | 28,140 | | | 28,140 | 72,751 |
| Lawson Upgrade | | 149,751 | | | 149,751 | 199,195 |
| Parkway Road District - Bonds | 3,704 | | | | 3,704 | |
| Phone System Upgrade | 26,954 | 422,482 | | | 449,436 | 79,250 |
| Senior Citizens' Community Center | 167,511 | 18,179 | | | 185,690 | 138,920 |
| Sugar Land Library Prop 2 - Bonds | 708,162 | 6,557,110 | | | 7,265,272 | |
| Sugarland Annex Parking Lot | | 52,154 | | | 52,154 | |
| Tax Office Missouri City | 802,523 | | | | 802,523 | |
| Taylor House | 43,986 | 9,312 | | | 53,298 | |
| Time Management System-GHG | | 1,040 | | | 1,040 | |
| Travis Building Renovation | | 262,884 | | | 262,884 | 37,521 |
| U of H Library | 25,855 | | | | 25,855 | |
| Upper Oyster Creek | 5,321,540 | 2,248,680 | | | 7,570,220 | |
| Projects Completed in FY2011 | 62,115,119 | 21,043,825 | (83,158,944) | | | 344,813 |
| Totals | $ 152,903,502 | $ 66,560,089 | $ (99,212,977) | $ | $ 120,250,614 | $ 9,491,779 |

**Note 6 - Capital Assets (continued)**

A summary of changes in the discretely presented component units (Fort Bend County Toll Road Authority and Fort Bend Grand Parkway Toll Road Authority) capital assets for the year ended September 30, 2011, is as follows:

| | Discretely Presented Component Units | | | |
|---|---|---|---|---|
| | **Balance 10/01/10** | **Increases** | **Decreases** | **Balance 09/30/11** |
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 2,694 | $ 1,686,072 | $ | $ 1,688,766 |
| Construction-in-progress | | 10,687,100 | (814,638) | 9,872,461 |
| **Total capital assets not being depreciated** | 2,694 | 12,373,172 | (814,638) | 11,561,227 |
| Other capital assets: | | | | |
| Infrastructure | 167,192,767 | 817,332 | | 168,010,099 |
| **Total other capital assets** | 167,192,767 | 817,332 | | 168,010,099 |
| Accumulated depreciation for: | | | | |
| Infrastructure | (18,036,467) | (4,225,092) | | (22,261,558) |
| **Total accumulated depreciation** | (18,036,467) | (4,225,092) | | (22,261,558) |
| Other capital assets, net | 149,156,300 | (3,407,759) | | 145,748,541 |
| **Total Governmental Activities capital assets, net** | $ 149,158,994 | $ 8,965,413 | $ (814,638) | $ 157,309,768 |

Depreciation expense for the Fort Bend County Toll Road Authority and the Fort Bend Grand Parkway Toll Road Authority totaled $4,225,092 for fiscal year 2011.

Construction-in-progress and remaining commitments under related construction contracts for the Fort Bend County Toll Road Authority and the Fort Bend Grand Parkway Toll Road Authority construction projects at September 30, 2011, is as follows:

**2011 CONSTRUCTION COSTS**

| Project | Balance 10/01/10 | Increases- Retainage Included | Decreases- Capitalizations | Balance 09/30/11 | Remaining Commitments |
|---|---|---|---|---|---|
| Fort Bend County Toll System | $ | $ 1,908,522 | $ (814,638) | $ 1,093,884 | $ 53,825 |
| Grand Parkway Toll Road | | 8,778,578 | | 8,778,578 | 5,180,620 |
| Totals | $ | $ 10,687,100 | $ (814,638) | $ 9,872,461 | $ 5,234,445 |

## Note 7 - Long-Term Debt

### A. General Obligation Bonds and Long-term Liabilities

Long-term liabilities applicable to the County's governmental activities 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. Long-term bonded debt at September 30, 2011, is as follows:

**Primary Government**

| Original Issue | Description | Interest Rate % | Matures | Debt Outstanding |
|---|---|---|---|---|
| **General Obligation Bonds** | | | | |
| $ 30,245,000 | Unlimited Tax Road Bonds, Series 2006 | 4.00 - 5.00 | 2026 | $ 25,110,000 |
| 9,675,000 | Fort Bend Flood Control Water Supply Refunding Bonds, Series 2010 | 2.50 - 4.00 | 2021 | 9,605,000 |
| 26,000,000 | Unlimited Tax Road Bonds, Series 2007 | 4.00 - 4.25 | 2027 | 22,330,000 |
| 126,675,000 | Facilities Limited Tax Bonds, Series 2007 | 4.00 - 5.00 | 2031 | 126,245,000 |
| 48,940,000 | Unlimited Tax Road Bonds, Series 2009 | 3.00 - 5.00 | 2029 | 45,665,000 |
| 73,430,000 | Justice Center Limited Tax Bonds, Series 2009 | 3.00 - 5.25 | 2030 | 70,550,000 |
| 20,780,000 | Unlimited Tax Road Refunding Bonds, Series 2009 | 3.00 - 5.00 | 2021 | 18,760,000 |
| | **Total General Obligation Bonds** | | | $ 318,265,000 |

The County issues general obligation bonds primarily for the purpose of funding construction projects. The Facilities and Justice Center Limited Tax Bonds were issued to provide funds for the construction of major County facilities. The Unlimited Tax Road Bonds have been issued to fund the acquisition of right-of-way and the construction of roads and bridges that are within the County's major thoroughfare plan. The Fort Bend Flood Control Water Supply Bonds were issued to fund the improvement of the Drainage District infrastructure.

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

**Note 7 - Long-Term Debt (continued)**

**A. General Obligation Bonds and Long-term Liabilities (continued)**

A summary of long-term liability transactions of the County for the year ended September 30, 2011, follows:

| | Balance 10/01/10 | Additions | Retirements | Balance 09/30/11 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 331,410,000 | $ 9,675,000 | $ 22,820,000 | $ 318,265,000 | $ 13,300,000 |
| Premiums on bonds | 12,038,573 | 784,853 | 780,175 | 12,043,251 | |
| Totals | 343,448,573 | 10,459,853 | 23,600,175 | 330,308,251 | 13,300,000 |
| Accrued compensated absences | 5,392,775 | 5,864,991 | 5,697,332 | 5,560,434 | 1,390,109 |
| Other post-employment benefits (OPEB) obligation | 75,112,628 | 26,647,414 | | 101,760,042 | |
| Totals | 80,505,403 | 32,512,405 | 5,697,332 | 107,320,476 | 1,390,109 |
| **Total Long-Term Liabilities** | $ 423,953,976 | $ 42,972,258 | $ 29,297,507 | $ 437,628,727 | $ 14,690,109 |

In prior years, the General Fund's resources have been used to liquidate other long-term liabilities, including accrued compensated absences.

Annual debt service requirements to maturity for the general obligation bonds are summarized as follows:

| | Principal | Interest | Totals |
|---|---|---|---|
| 2012 | $ 13,300,000 | $ 14,698,760 | $ 27,998,760 |
| 2013 | 13,725,000 | 14,154,579 | 27,879,579 |
| 2014 | 14,295,000 | 13,541,073 | 27,836,073 |
| 2015 | 14,740,000 | 12,935,873 | 27,675,873 |
| 2016 | 15,185,000 | 12,317,610 | 27,502,610 |
| 2017-2021 | 82,525,000 | 50,561,027 | 133,086,027 |
| 2022-2026 | 87,810,000 | 29,979,841 | 117,789,841 |
| 2027-2031 | 76,685,000 | 8,219,120 | 84,904,120 |
| **Totals** | $ 318,265,000 | $ 156,407,883 | $ 474,672,883 |

**Note 7 - Long-Term Debt (continued)**

**A. General Obligation Bonds and Long-term Liabilities (continued)**

Discretely presented component unit (Fort Bend County Toll Road Authority) long-term bonded debt as of September 30, 2011, is listed below:

**Discretely Presented Component Unit**

| Original Issue | Description | Interest Rate % | Matures | Debt Outstanding |
|---|---|---|---|---|
| **General Obligation Bonds** | | | | |
| $ 63,695,000 | Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2003 | 4.00 - 5.00 | 2032 | $ 62,695,000 |
| 72,195,000 | Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2004 | 3.63 - 5.00 | 2032 | 71,795,000 |
| | **Total General Obligation Bonds** | | | $ 134,490,000 |

A summary of long-term liability transactions of the discretely presented component unit for the year ended September 30, 2011, follows:

| | Balance 10/01/10 | Additions | Retirements | Balance 09/30/11 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 135,890,000 | $ | $ 1,400,000 | $ 134,490,000 | $ 1,645,000 |
| Premiums on bonds | 3,145,014 | | 142,955 | 3,002,059 | |
| Totals | $ 139,035,014 | $ | $ 1,542,955 | $ 137,492,059 | $ 1,645,000 |

Annual debt service requirements to maturity the general obligation bonds are summarized as follows:

| | Principal | Interest | Totals |
|---|---|---|---|
| 2012 | $ 1,645,000 | $ 6,665,741 | $ 8,310,741 |
| 2013 | 1,900,000 | 6,596,050 | 8,496,050 |
| 2014 | 2,345,000 | 6,499,425 | 8,844,425 |
| 2015 | 2,820,000 | 6,370,300 | 9,190,300 |
| 2016 | 3,530,000 | 6,209,138 | 9,739,138 |
| 2017-2021 | 27,160,000 | 27,425,988 | 54,585,988 |
| 2022-2026 | 36,840,000 | 19,352,750 | 56,192,750 |
| 2027-2031 | 47,310,000 | 8,882,750 | 56,192,750 |
| 2032-2036 | 10,940,000 | 273,500 | 11,213,500 |
| **Totals** | $ 134,490,000 | $ 88,275,642 | $ 222,765,642 |

**Note 7 - Long-Term Debt (continued)**

**A. General Obligation Bonds and Long-term Liabilities (continued)**

On October 12, 2010, the Fort Bend Flood Control Water Supply Corporation ("FBFCWSC") issued $9,675,000 of Revenue Refunding Bonds to refund and defease the FBFCWSC's outstanding Revenue Bonds, Series 2001 of $10,070,000. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by $1,380,843 and resulted in an economic gain of $1,269,369.

**B. Conduit Debt**

The Fort Bend County Housing Finance Corporation is authorized to finance residential housing by issuing tax-exempt revenue bonds to acquire mortgage loans as security for the payment of the principal and interest of such revenue bonds. The tax-exempt bonds issued by the Corporation do not constitute a debt or pledge of faith of the Corporation, but are payable by the user pursuant to terms defined in the loan agreement underlying each issue. As of September 30, 2011, $11,019,851 of total bonds are outstanding.

The Fort Bend County Industrial Development Corporation is authorized to finance industrial development projects as defined by the Development Act of 1979 by issuing bonds. The bonds issued by the Corporation do not constitute a debt or pledge of faith of the Corporation, but are payable by the user pursuant to terms defined in the loan agreement underlying each issue. During 2011, the corporation issued Recovery Zone Facility Bonds (Accredo Packaging, Inc. Project), Series 2010 bonds in the amount of $11,500,000. As of September 30, 2011, $13,838,919 of total bonds are outstanding.

**Note 8 - Employee Retirement System**

**A. Plan Description**

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

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire with eight or more years of service at age 60 and above, 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.

**Note 8 - Employee Retirement System (continued)**

**A. Plan Description (continued)**

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

**B. Contributions**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 10.65% for calendar year 2011. 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 2011 was $108.1 million and the County’s contributions were based on a payroll of $106.7 million. Contributions made by employees totaled $7.5 million, and the County made contributions of $11.4 million during the fiscal year ended September 30, 2011.

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

| | **2011** | **2010** | **2009** |
|---|---|---|---|
| Annual Pension Cost (APC) | $ 11,418,711 | $ 11,235,138 | $ 10,187,718 |
| Percentage of APC Contributed | 100% | 100% | 100% |
| Net Pension Obligation at the End of Period | 0 | 0 | 0 |

For the year ended September 30, 2011, the pension cost for the TCDRS plan and the actual contributions made were $11,418,711. Because all contributions are made as required, no pension obligation existed at September 30, 2011.

| **Actuarial Information** | **12/31/2010** |
|---|---|
| Actuarial cost method | Entry age |
| Amortization method | level percentage of payroll, closed |
| Amortization period | 20 years |
| Asset valuation method | SAF: 10-year smoothed value |
| | ESF: Fund value |
| Assumptions: | |
| Investment return | 8.0% |
| Projected salary increases | 5.4% |
| Inflation | 3.5% |
| Costs-of-living adjustments | 0.0% |

**Note 8 - Employee Retirement System (continued)**

**C. Funded Status and Funding Progress**

A schedule of funded status as of the most recent actuarial valuation is as follows:

| **Schedule of Funding Information** | | |
|---|---|---|
| Actuarial valuation date | | 12/31/2010 |
| Actuarial value of assets | $ | 257,926,802 |
| Actuarial accrued liability (AAL) | $ | 307,767,507 |
| liability (UAAL or OAAL) | $ | 49,840,705 |
| Funded ratio | | 83.81% |
| Annual covered payroll (actuarial) | $ | 106,041,139 |
| UAAL or OAAL as % of covered payroll | | 47.00% |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for the benefits.

**Note 9 - Deferred Compensation Plan**

The County offers all of its full-time employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. Nationwide Retirement Solutions, Security Benefit Life, and Edward Jones have been appointed as plan administrators. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or emergency. Amounts of compensation deferred by employees under the plan provisions are disbursed to the plan administrators after each pay period. The plan administrators hold all funds invested in the plan and disburse funds to employees in accordance with plan provisions. The County does not maintain significant oversight of the plan administrators' activities.

**Note 10 - Other Post-Employment Benefits**

**A. Plan Description**

In addition to providing pension benefits through the Texas County and District Retirement System, the County sponsors and administers a single-employer defined benefit health care plan titled "Fort Bend County Employee Benefit Plan" ("Plan"). The Plan was established and approved by Fort Bend County Commissioners Court and Chapter 175 of the Local Government Code which provides eligible employees, retirees, and their eligible dependents with the following post-employment benefits:

• Eligible retirees have a portion of their medical and dental insurance premiums paid by the County for participation with the County's healthcare provider; and at the County's cost to cover current employees

• Eligible dependents of retirees have a portion of their medical and dental insurance premiums paid by the County for participation with the County's healthcare provider; and at the County's cost to cover current employees

The Plan does not issue a separate, publicly available report.

**Note 10 - Other Post-Employment Benefits (continued)**

**B. Funding Policy and Contribution Rates**

The contribution requirements of the County and plan members are established and may be amended by Commissioners Court. These contributions are neither guaranteed nor mandatory. The County has retained the right to unilaterally modify its payments toward retiree healthcare benefits. The Plan provides for the payment of a portion of the health and dental insurance premiums for eligible retired employees and their dependents. Plan members receiving benefits contribute a percentage of the monthly insurance premium. Currently, the Plan pays a portion of the retiree's premiums, as well as his or her dependent coverage. The retiree contributes the premium cost each month, less the Plan subsidy.

The County is statutorily required to permit retiree participation in the health insurance program on a pooled non-differentiated basis. The County, therefore, charges both groups an equal, blended rate premium. Although both groups are charged the same rate, GAAP requires the actuarial figures to be calculated using age adjusted premiums approximating claim costs for retirees separately from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the County has elected to contribute to the Plan at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the Plan.

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. At September 30, 2011, there were 365 retirees receiving benefits and approximately 2,275 active members not yet eligible to receive such benefits. Commencing in fiscal 2008, the County implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." The County has performed an actuarial valuation of its post-retirement benefit liability. The financial statement disclosures for 2011 are as follows:

**Note 10 - Other Post-Employment Benefits (continued)**

**C. Annual OPEB Costs and Net OPEB Obligation**

For fiscal year 2011, the County's annual OPEB cost for the Plan was $31,751,414. The County'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, 2011, were as follows:

| | Fiscal Year Ending 9/30/11 |
|---|---|
| **Determination of Annual Required Contribution** | |
| Normal Cost at Fiscal Year End | $ 17,130,282 |
| Amortization of Unfunded Actuarial Accrued Liability | 15,793,330 |
| Annual Required Contribution (ARC) | 32,923,612 |
| **Determination of Net OPEB Obligation** | |
| Annual Required Contribution | 32,923,612 |
| Interest on prior-year Net OPEB Obligation | 3,004,505 |
| Adjustment to ARC | (4,176,703) |
| Annual OPEB Cost | 31,751,414 |
| Less Assumed Contributions Made | (5,104,000) |
| Estimated Increase in Net OPEB Obligation | 26,647,414 |
| Net OPEB Obligation - Beginning of Year | 75,112,628 |
| Net OPEB Obligation - End of Year | $ 101,760,042 |
| Percentage of OPEB Cost Contributed | 16.1% |

**D. Trend Information**

The following table shows the annual OPEB cost and net OPEB obligation for the prior three 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 |
|---|---|---|---|---|
| 2009 | 4% | $ 26,608,211 | 7.3% | $ 48,819,922 |
| 2010 | 4% | $ 30,699,706 | 14.4% | $ 75,112,628 |
| 2011 | 4% | $ 31,751,414 | 16.1% | $ 101,760,042 |

**Note 10 - Other Post-Employment Benefits (continued)**

**E. Funded Status and Funding Progress**

A schedule of funded status as of the most recent actuarial valuation is as follows:

| | | |
|---|---|---|
| Actuarial valuation date | | October 1, 2009 |
| Actuarial value of plan assets (a) | | $0 |
| Actuarial accrued liability (AAL) (b) | $ | 240,282,297 |
| Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a) | $ | 240,282,297 |
| Funded Ratio (a/b) | | 0.0% |
| Annual Covered Payroll (c) | $ | 104,983,019 |
| UAAL or OAAL as % of covered payroll ((b-a)/c) | | 228.9% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

**F. Actuarial Methods and Assumptions**

The actuarial cost method used for determining the benefit obligations is a Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees and is calculated based on certain assumptions and census data. The Actuarial Accrued Liability (AAL) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement. The Normal Cost is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. Since retirees are not accruing any more service, their normal cost is zero. In determining the Annual Required Contribution, The Unfunded AAL is amortized as a level dollar over 30 years. The actuarial assumptions included a 4% per annum discount rate for valuing liabilities. Employees eligible for retiree medical benefits assumed to elect continued medical coverage in retirement for themselves and their spouses is 100% and 40% respectively. The valuation assumes a 4.9% to 8.5% healthcare cost trend increase beginning in fiscal year 2010 based on the premiums of the respective plan types, reduced by decrements to rates of 4.9% to 6.1% after 7 years.

### Note 11 – Net Pension Obligation and Other Post-Employment Benefits Funding in Prior Years

The governmental funds that have been used to fund the net pension obligation and other post-employment benefit obligations in prior years have been General Fund and Drainage. Drainage has only funded these obligations for retirees that worked for that department through the date of their retirement. All other obligations for retirees have been funded within General Fund.

### Note 12 – Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of September 30, 2011, 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 County’s highest level of decision-making authority, the County’s Board. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally.

*Assigned Fund Balance* – comprises amounts intended to be used by the County for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the County’s Board or (b) a body (for example: a budget or finance committee) or official to which the County’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 County’s policy is to budget to maintain a minimum fund balance of 15% of the County’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 balances for all the major and non-major governmental funds as of September 30, 2011, were distributed as shown on the following page:

### Note 12 – Fund Balances (continued)

| | General | Debt Service | Other Governmental Funds | Total |
|---|---|---|---|---|
| **Nonspendable:** | | | | |
| Prepaid expenses | $ 136,007 | $ | $ 69,379 | $ 205,386 |
| Subtotal | 136,007 | | 69,379 | 205,386 |
| **Restricted for:** | | | | |
| General administration | | | 2,650,738 | 2,650,738 |
| Financial administration | | | 25,108 | 25,108 |
| Administration of justice | | | 3,222,487 | 3,222,487 |
| Construction and maintenance | | | 24,035,147 | 24,035,147 |
| Health and welfare | | | 141,149 | 141,149 |
| Public safety | | | 4,288,171 | 4,288,171 |
| Library | | | 138,865 | 138,865 |
| Debt service | | 5,181,758 | | 5,181,758 |
| Subtotal | | 5,181,758 | 34,501,665 | 39,683,423 |
| **Committed to:** | | | | |
| Capital projects | 33,106,759 | | | 33,106,759 |
| Subtotal | 33,106,759 | | | 33,106,759 |
| **Unassigned** | 10,816,215 | | (4,419,144) | 6,397,071 |
| **Total Fund Balances** | $ 44,058,981 | $ 5,181,758 | $ 30,151,900 | $ 79,392,639 |

### Note 13 - Contingencies and Commitments

### A. Construction Contract Commitments

The County had several capital improvement commitments at September 30, 2011. A contract between two parties does not result immediately in the recognition of a liability. Instead, a liability is incurred when performance has occurred under the contract. Until such time as performance takes place, these contracts represent a commitment rather than a liability. These commitments and their related construction-in-progress are summarized in Note 6.

### B. Litigation and Other Contingencies

The County is contingently liable with respect to lawsuits and other claims 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 County as of September 30, 2011.

### Note 14 - Risk Management

The County is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County's risk management program encompasses various means of protecting the County against loss through self-insurance and obtaining property, casualty, and liability coverage through commercial insurance carriers. 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 14 - Risk Management (continued)**

Liabilities have been recorded for workers' compensation, auto liability, general liability, and employee benefits. These liabilities are recorded when it is probable that a loss has occurred and the amount can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses regardless of whether allocated to specific claims. Non-incremental claim adjustment expenses have not been included as part of the liability for claims and judgments. However, estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Changes in the balances of claims liabilities during the past two years are as follows:

| | Year ended 9/30/2011 | Year ended 9/30/2010 |
|---|---|---|
| Unpaid claims, beginning of year | $ 7,150,314 | $ 5,706,627 |
| Incurred claims (including IBNRs) | 26,968,699 | 26,418,069 |
| Claim payments | (26,378,579) | (24,974,382) |
| Unpaid claims, end of year | $ 7,740,434 | $ 7,150,314 |

**Note 15 – Deficit Net Assets**

As of September 30, 2011, Other Self-Funded Insurance Fund has deficit net assets of $2,507,201. This was caused by increased workers' compensation claims during fiscal year 2010. Management plans to increase the allocation for Other Self-Funded Insurance by 33% annually over the next three years to eliminate this deficit net assets balance.

As of September 30, 2011, the Fort Bend Grand Parkway Toll Road Authority has deficit net assets of $3,745,020. This was caused by loans from the Fort Bend County Toll Road Authority and the County General Fund to begin construction of the Fort Bend Grand Parkway Toll Road. The issuance of bonds in fiscal year 2012 will allow for these loans to be repaid and eliminate this deficit net assets balance.

**Note 16 – Deficit Fund Balance**

As of September 30, 2011, Mobility 2009 Projects fund has a deficit fund balance of $4,418,611. This was caused by a loan from General Fund to continue the road construction projects after the bond proceeds were exhausted. The issuance of the next mobility bonds will allow for this loan to be repaid and the elimination of the fund balance deficit.

**Note 17 – Restatement of Beginning Net Assets**

During the 2011 fiscal year, the County made adjustments to its capital asset records. As a result of these adjustments, the County has restated its beginning capital asset amounts for construction in progress, vehicles, office furniture and equipment, road equipment, and buildings-facilities-and improvements by ($511,313), ($696,472), $33,855, $915,335, and $314,959 respectively. Accumulated depreciation for vehicles, office furniture and equipment, road equipment, and buildings facilities and improvements by $864,752, ($17,539), $892,029, and $2,144 respectively. Therefore, governmental activities beginning net assets total was increased by $9,403.

### Note 18 - Subsequent Event

Fort Bend County has plans for three bond sales in fiscal year 2012. The next issue of mobility bonds approved by voters in May 2007 is planned for April 2012 in the amount of $65 million in unlimited tax road bonds. The Fort Bend County Toll Road Authority plans to issue $20 million in revenue bonds during the summer of 2012 for the State Highway 6 underpass as an extension of the Fort Bend Parkway Toll Road. The Fort Bend Grand Parkway Toll Road Authority plans to issue $175 million in revenue bonds for the construction of tolled overpasses along State Highway 99 from US 59 to the Westpark Tollway.

### Note 19 – Fort Bend County Toll Road Authority Capital Asset Adjustment

A portion of the depreciable capital asset for the Fort Bend County Toll Road Authority (Authority) will be reclassified as non-depreciable in fiscal year 2012 on the Statement of Net Assets. This reclassification relates to the acquisition of right of way for the Toll Road System during fiscal years 2003 and 2004. This adjustment will require a correction of depreciation expense that was previously taken on these non-depreciable capital acquisitions in fiscal years 2005 through 2011 on the Statement of Changes in Net Assets. The analysis and identification of these non-depreciable capital acquisitions for the Toll Road System are being performed by the Authority and will be completed and presented to the County Auditor in fiscal year 2012 for correction.

## APPENDIX B

# EXCERPTS FROM THE AUTHORITY'S FINANCIAL REPORT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2011

Sandersen Knox & Co, L.L.P.
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors
Fort Bend County Toll Road Authority
Fort Bend County, Texas

We have audited the accompanying financial statements of the Fort Bend County Toll Road Authority (the "Authority") as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of Fort Bend County, Texas, as of September 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory and other supplementary information sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and other supplementary information sections have 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 them.

Sugar Land, Texas
March 9, 2012

## FORT BEND COUNTY TOLL ROAD AUTHORITY
### *MANAGEMENT'S DISCUSSION AND ANALYSIS*

As management of the Fort Bend County Toll Road Authority ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

**Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $49,113,946 at the close of the most recent fiscal year.

As of September 30, 2011, the Authority's net assets included $11,039,132 for investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The remaining $38,074,814 represents unrestricted net assets. The Authority uses capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**FORT BEND COUNTY TOLL ROAD AUTHORITY**
**CONDENSED STATEMENT OF NET ASSETS**
***September 30, 2011 and 2010***

| | 2011 | 2010 |
|---|---|---|
| Current and other assets | $ 38,632,933 | $ 36,503,960 |
| Capital assets, net | 148,531,191 | 149,158,994 |
| **Total Assets** | 187,164,124 | 185,662,954 |
| Long-term liabilities | 137,492,059 | 139,035,014 |
| Other liabilities | 558,119 | 1,160,543 |
| **Total Liabilities** | 138,050,178 | 140,195,557 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 11,039,132 | 10,123,980 |
| Unrestricted | 38,074,814 | 35,343,417 |
| **Total Net Assets** | $ 49,113,946 | $ 45,467,397 |

The Authority's assets exceeded its liabilities by $49,113,946 , resulting in an increase of approximately $3.6 million from the prior year. This increase is a result of revenues exceeding expenses due primarily to increased utilization of the Toll Road System. However, operating expenses also increased as shown on the next page. The growth in net assets is being maintained in the revenue fund for future maintenance and construction.

## FORT BEND COUNTY TOLL ROAD AUTHORITY
## STATEMENT OF CHANGES IN NET ASSETS
***For the years ended September 30, 2011 and 2010***

| | 2011 | 2010 |
|---|---|---|
| **Revenues** | | |
| Operating revenues: | | |
| Toll revenue | $ 17,694,231 | $ 17,185,507 |
| Capital grants and contributions | | 480,002 |
| Operating reimbursement from FBGPTRA | 518,338 | |
| Non-operating revenues: | | |
| Earnings on investments | 354,629 | 165,305 |
| Amortization of bond premium | 142,955 | 142,955 |
| Miscellaneous income | 54,501 | 8,175 |
| **Total Revenues** | 18,764,654 | 17,981,944 |
| **Expenses** | | |
| Operating expenses: | | |
| Salaries and personnel costs | 30,849 | 20,020 |
| Fees | 3,975,986 | 3,752,419 |
| Utilities | 124,226 | 129,679 |
| Depreciation | 4,225,092 | 4,201,662 |
| Non-operating expenses: | | |
| Interest on long-term debt | 6,720,764 | 6,753,431 |
| Debt service fees | 6,000 | 6,000 |
| Amortization of debt issuance costs | 35,188 | 35,188 |
| **Total Expenses** | 15,118,105 | 14,898,399 |
| Change in Net Assets | 3,646,549 | 3,083,545 |
| **Net Assets, Beginning** | 45,467,397 | 42,383,852 |
| **Net Assets, Ending** | $ 49,113,946 | $ 45,467,397 |

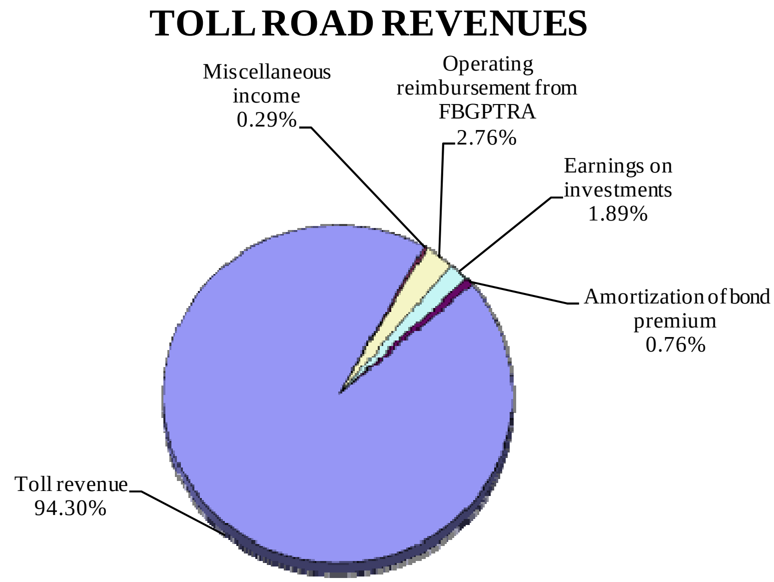
At the end of the current fiscal year, the Authority was able to report a positive balance in net assets. The same situation held true for the prior fiscal year.

Toll Road operations increased the Authority's net assets by $3,646,549 This increase is up from last year's increase of $3,083,545 primarily due to an increase in revenues from the previous year. The key elements of the change in increase of approximately $563 thousand in net assets are as follows:

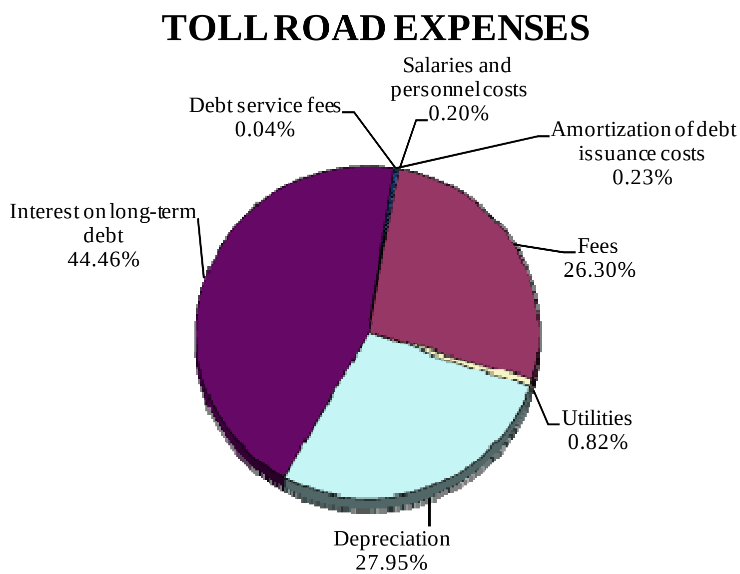
- Increase in toll revenue of approximately $509 thousand primarily due to increased utilization. Increase in operating reimbursements of approximately $518 thousand from the Fort Bend Grand Parkway Toll Road Authority ("FBGPTRA") for reimbursement of expenses incurred by the Authority for the FBGPTRA. Decrease in capital contributions of approximately $480 thousand because there was no activity in 2011. Increase in interest revenue of approximately $189 thousand due to increased cash balance. Increase in miscellaneous income of approximately $46 thousand due to reimbursements from vendors.

- Increase in expenses of approximately $219 thousand primarily due to an increase in consulting fees and maintenance fees to Harris County Toll Road Authority.

Toll Road revenues for fiscal year 2011 are graphically displayed as follows:




Toll Road expenses for fiscal year 2011 are graphically displayed as follows:



## Capital Assets and Debt Administration

**Capital Assets -** At the end of fiscal year 2011, the Authority had $148,531,191 invested in toll road land, construction-in-progress, and infrastructure, net of accumulated depreciation, as reflected in the following schedule. This represents a decrease of approximately $627 thousand from the previous fiscal year.

**FORT BEND COUNTY TOLL ROAD AUTHORITY'S CAPITAL ASSETS**

| | 2011 | 2010 |
|---|---|---|
| **Non-Depreciable Capital Assets** | | |
| Land | $ 1,688,766 | $ 2,694 |
| Construction-in-progress | 1,093,884 | |
| **Other Capital Assets, Net** | | |
| Infrastructure | 145,748,541 | 149,156,300 |
| **Totals** | $ 148,531,191 | $ 149,158,994 |

Additions to toll road infrastructure totaled approximately $817 thousand for engineering and consulting on the expansion of the Toll Road System. Land acquisitions increased by $1,686,072 due to purchase of right of way along the Westpark Tollway and Parkway Toll Road extensions. Construction in progress has a balance of $1,093,884 at the end of the fiscal year primarily consisting of the following on-going projects: Highway 6 access analysis of $377,409; McCrary Bridge feasibility analysis of $11,404; preliminary design for Parkway section B of $520,262; and preliminary design for Westpark section B of $177,390. Depreciation expense totaled $4,225,092. As for future expansions, the Authority has begun the process of extending the current Parkway Toll Road, including an underpass under Highway 6. The Authority is proceeding with the extension of the Westpark Tollway.

**Long-Term Debt** - At the end of the current fiscal year, the Authority had total bonds outstanding of $134.5 million.

**LONG TERM DEBT**

| | 2011 | 2010 |
|---|---|---|
| General Obligation Bonds | $ 134,490,000 | $ 135,890,000 |
| **Total** | $ 134,490,000 | $ 135,890,000 |

The County received an insured rating of Aaa from Moody's and Standard and Poors on the Toll Road bond issuances. The uninsured ratings were as follows:

Moody Investor Service Aa2
Standard and Poor's AA+

## Economic Factors

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

The population of the County is estimated at 606,786 in 2011 and is expected to grow by 4.44% annually through 2015. Total employment is estimated at 235,961 in 2011 and is expected to grow by 3.37% annually over the same period.

The number of households has increased to 195,264 in 2011 and is expected to grow to 230,330 by 2015. Mean household income for 2011 is $129,337 and is estimated to rise to $146,579 by 2015. Income per capita is currently at $41,986 and is expected to grow to $48,116 by 2015. Retail sales increased by 7.8% to $6.19 billion in 2011 and are expected to grow to $7.37 billion by 2015.

Mobility improvements continue to be a demand from the residents of Fort Bend County. The Authority is proceeding with several toll road projects that will enhance and compliment the County's road system.

## Requests for Information

This financial report is designed to provide a general overview of Authority's finances for all of those with an interest in the Authority's finances. Questions concerning this report or requests for additional financial information should be directed to Ed Sturdivant, County Auditor, 301 Jackson, Suite 533, Richmond, TX 77469, telephone (281) 341-3760.

## BASIC FINANCIAL STATEMENTS

## FORT BEND COUNTY TOLL ROAD AUTHORITY

***STATEMENT OF NET ASSETS***

***September 30, 2011***

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 31,734,552 |
| Due from Fort Bend Grand Parkway Toll Road Authority | 2,000,000 |
| Due from primary government | 1,286,978 |
| Accrued interest receivable | 25,125 |
| Miscellaneous receivables | 2,847,331 |
| Deferred bond issuance costs | 738,947 |
| Capital assets, not subject to depreciation | 2,782,650 |
| Capital assets, net of accumulated depreciation | 145,748,541 |
| **Total Assets** | 187,164,124 |
| | |
| **Liabilities and Net Assets** | |
| | |
| **Liabilities** | |
| Accrued interest payable | 558,119 |
| Long-term liabilities due within one year | 1,645,000 |
| Long-term liabilities due in more than one year | 135,847,059 |
| **Total Liabilities** | 138,050,178 |
| | |
| **Net Assets** | |
| Invested in capital assets, net of related debt | 11,039,132 |
| Unrestricted | 38,074,814 |
| **Total Net Assets** | $ 49,113,946 |

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

# FORT BEND COUNTY TOLL ROAD AUTHORITY

***STATEMENT OF ACTIVITIES***

***For the Year Ended September 30, 2011***

| | |
|---|---|
| **Operating Revenues** | |
| Toll revenue | $ 17,694,231 |
| Operating reimbursement from Fort Bend Grand Parkway Toll Road Authority | 518,338 |
| **Total Operating Revenues** | 18,212,569 |
| **Operating Expenses** | |
| Salaries and personnel costs | 30,849 |
| Fees | 3,975,986 |
| Utilities | 124,226 |
| Depreciation | 4,225,092 |
| **Total Operating Expenses** | 8,356,153 |
| **Operating Income** | 9,856,416 |
| **Non-Operating Revenues** | |
| Earnings on investments | 354,629 |
| Amortization of bond premiums | 142,955 |
| Miscellaneous income | 54,501 |
| **Total Non-Operating Revenues** | 552,085 |
| **Non-Operating Expenses** | |
| Interest on long-term debt | 6,720,764 |
| Debt service fees | 6,000 |
| Amortization of debt issuance costs | 35,188 |
| **Total Non-Operating Expenses** | 6,761,952 |
| Change in Net Assets | 3,646,549 |
| **Total Net Assets, Beginning of Year** | 45,467,397 |
| **Total Net Assets, End of Year** | $ 49,113,946 |

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

## FORT BEND COUNTY TOLL ROAD AUTHORITY

***STATEMENT OF CASH FLOWS***

***For the Year Ended September 30, 2011***

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Receipts from tolls | $ 17,487,363 |
| Payment of toll operation expenses | (5,994,647) |
| Receipts from operating contributions | 518,338 |
| Receipts from miscellaneous income | 54,501 |
| **Net Cash Provided by Operating Activities** | 12,065,555 |
| | |
| **Cash Flows from Investing Activities** | |
| Interest earned on investments | 329,503 |
| Loan to Fort Bend Grand Parkway Toll Road Authority | (2,000,000) |
| **Net Cash (Used) by Investing Activities** | (1,670,497) |
| | |
| **Cash Flows from Capital and Related Financing Activities** | |
| Purchase of capital assets | (3,597,288) |
| Principal paid on capital debt | (1,400,000) |
| Interest and fees paid on capital debt | (6,731,431) |
| **Net Cash (Used) by Capital and Related Financing Activities** | (11,728,719) |
| | |
| Net (Decrease) in Cash and Cash Equivalents | (1,333,661) |
| | |
| **Cash and Cash Equivalents, Beginning of Year** | 33,068,213 |
| | |
| **Cash and Cash Equivalents, End of Year** | $ 31,734,552 |
| | |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | |
| Operating Income | $ 9,856,416 |
| Adjustments to operations: | |
| Depreciation | 4,225,092 |
| Other non-operating revenues | 54,501 |
| Change in assets and liabilities: | |
| (Increase) in due from primary government | (1,286,978) |
| (Increase) in other receivables | (185,719) |
| (Decrease) in due to primary government | (597,757) |
| **Total adjustments** | 2,209,139 |
| | |
| **Net Cash Provided by Operating Activities** | $ 12,065,555 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The Fort Bend County Toll Road Authority ("Authority") is organized under the Texas Transportation Corporation Act and the Texas Non-Profit Corporation Act. The Authority was created to assist in the planning, designing, financing and building of County roads and highways. In particular, the Authority is to assist in the building and operation of the Fort Bend Toll Road system. This Toll Road System includes the Fort Bend Parkway Toll Road that extends from Sam Houston Parkway in Harris County at State Highway 90A to State Highway 6 in Fort Bend County near Sienna Plantation. It also includes the Westpark Tollway that extends from the Sam Houston Parkway at the Harris County Westpark Tollway to State Highway 99.

Based on criteria prescribed by generally accepted accounting principles, the Authority is considered a discretely presented component unit of Fort Bend County, Texas ("the County"). The primary criteria for the inclusion of the Authority in the County's reporting entity is that of financial accountability. The Commissioners' Court, the elected governing body of the County, appoints the Authority's governing body. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will. As such, the County is financially accountable for the Authority and the Authority is considered a discretely presented component unit of the County.

### B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying basic 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 in the statement of net assets.

### C. Cash and Cash Equivalents

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

### D. Receivables

Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

### E. Capital Assets

Capital assets consist of infrastructure that is used in the Authority's operations. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operations when incurred. Expenses 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 the resulting gain or loss is included in the results of operations.

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

**E. Capital Assets (continued)**

The Authority applies a half-year convention for depreciation on all assets. Therefore, one-half year of depreciation is charged to operations the first and last year that an asset is in service. Depreciation is computed using the straight-line method over an estimated useful life of 20 to 40 years.

**F. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**G. Restricted/Unrestricted Net Assets**

It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**H. Date of Management's Review**

In preparing the financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through March 9, 2012, the date that the financial statements were available to be issued.

**NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS**

**A. Authorization for Deposits and Investments**

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

In accordance with applicable statutes, the County has a depository contract with an area bank (depository) providing for interest to be earned on deposited funds and for banking charges the Authority incurs for banking services received. The Authority 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. County policy requires the collateralization level to be at least 110% of market value of principal and accrued interest.

Commissioners' Court has adopted a written investment policy regarding the investment of the Authority's funds as defined by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the Authority are in compliance with this policy.

**NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)**

**B. Concentration of Credit Risk**

It is the County's policy to diversify its portfolio to eliminate the risk of loss resulting from a concentration of assets in a specific maturity (save and except zero duration funds), a specific issuer or a specific class of investments. The County manages adherence to this policy for the Authority. To achieve this diversification, the County will limit investments in specific types of securities to the following percentages of the total portfolio:

| Investment Type | Maximum Investment % |
|---|---|
| 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% |

At September 30, 2011, 99.1% of the Authority's cash and cash equivalents were contained in demand deposit accounts.

**C. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The County monitors interest rate risk for the Authority utilizing weighted average maturity analysis. In accordance with its investment policy, the County reduces the Authority's 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 Authority's cash and investment balances and the weighted average maturity of these investments were as follows:

| | Fair Value | Weighted Average Maturity | Percentage of Total Portfolio |
|---|---|---|---|
| Demand Deposits | $ 31,443,472 | 1 | 99.1% |
| Investment Pools: | | | |
| Texas CLASS | 289,065 | 30 | 0.9% |
| Texas TERM | 1,005 | 50 | 0.0% |
| LOGIC | 1,010 | 42 | 0.0% |
| Total Cash and Cash Equivalents | $ 31,734,552 | | |
| Portfolio weighted average maturity (days) | | 1 | |

Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, Texas Government Code, and the Public Funds Investment Act, chapter 2256, Texas Government Code. Texas CLASS was established in 1996. Pursuant to the Trust Agreement, Texas CLASS is supervised by a

**NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)**

**C. Interest Rate Risk (continued)**

Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator.

Cutwater Investor Services Corp. serves as Program Administrator. Cutwater Investor Services Corp. is a subsidiary of Cutwater Asset Management. Texas CLASS is considered a '2a-7 like pool' under Governmental Accounting Standards Statement No. 31; it will operate the pool consistent with the SEC's Rule 2a7. It maintains a Net Asset Value of approximately $1 per share.

The TexasTERM Local Government Investment Pool (TexasTERM) is organized in conformity with the Texas Public Funds Investment Act of the Texas Government Code. It provides for a fixed-rate, fixed-term investment for a period of 60 days to one year and includes TexasDAILY, a portfolio of the Local Government Pool, providing daily access to funds. An Advisory Board composed of participants in TexasTERM and other parties who do not participate in the Pool, has responsibility for the overall management of the Pool, including formulation and implementation of its Investment and Operating Policies. PFM Asset Management LLC ("PFM"), a leading national financial and investment advisory firm, is the investment advisor to the pool. TexasTERM's TexasDAILY portfolio is considered a '2a-7 like pool' under Governmental Accounting Standards Statement No. 31; it will operate the pool consistent with the SEC's Rule 2a7. It maintains a Net Asset Value of approximately $1 per share.

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, Texas Government Code, and the Public Funds Investment Act, chapter 2256, Texas Government Code. The Pool was created in April, 1994 through a contract among its participating governmental units, and is governed by a board of directors, to provide for the joint investment of participant's public funds and funds under their control. LOGIC is considered a '2a-7 like pool' under Governmental Accounting Standards Statement No. 31; it will operate the pool consistent with the SEC's Rule 2a7. It maintains a Net Asset Value of approximately $1 per share.

**D. Credit Risk**

The County’s investment policy, which includes the Authority, does not require investments to hold certain credit ratings issued by nationally recognized statistical rating organizations. As of September 30, 2011, all of the Authority’s investments were rated “AAAm” by Standard and Poor’s.

**NOTE 3 – RECEIVABLES**

Receivables at September 30, 2011 consist of toll revenue due from the Harris County Toll Road Authority, net of applicable fees.

## NOTE 4 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2011 is as follows:

| | Balance 10/01/10 | Increases | Decreases | Balance 09/30/11 |
|---|---|---|---|---|
| **Business-type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 2,694 | $ 1,686,072 | $ | $ 1,688,766 |
| Construction-in-progress | | 1,908,522 | (814,638) | 1,093,884 |
| **Total capital assets not depreciated** | 2,694 | 3,594,595 | (814,638) | 2,782,650 |
| Other capital assets: | | | | |
| Infrastructure | 167,192,767 | 817,332 | | 168,010,099 |
| **Total other capital assets** | 167,192,767 | 817,332 | | 168,010,099 |
| Accumulated depreciation for: | | | | |
| Infrastructure | (18,036,467) | (4,225,092) | | (22,261,558) |
| Total accumulated depreciation | (18,036,467) | (4,225,092) | | (22,261,558) |
| Other capital assets, net | 149,156,300 | (3,407,759) | | 145,748,541 |
| **Total capital assets** | $ 149,158,994 | $ 186,835 | $ (814,638) | $ 148,531,191 |

Depreciation expense for the Authority for the year ended September 30, 2011 totaled $4,225,092.

Construction in progress is comprised of the following on-going projects at the end of fiscal year 2011:

- Highway 6 access analysis totaling approximately $377 thousand.
- McCrary Bridge feasibility analysis totaling approximately $11 thousand.
- Preliminary design for Parkway section B totaling approximately $520 thousand.
- Preliminary design for Westpark section B totaling approximately $177 thousand.

There are also contract commitments of approximately $54 thousand as of the end of fiscal year 2011.

## NOTE 5 – LONG-TERM DEBT

The Authority issued subordinate lien revenue bonds for the purpose of financing the construction of the Toll Road System. These subordinate lien revenue bonds are paid through the Authority's Debt Service Fund from toll fees collected by the Authority. The following is a summary of the outstanding subordinate lien revenue bonds as of September 30, 2011:

| Original Issue | Description | Interest Rate % | Matures | Debt Outstanding |
|---|---|---|---|---|
| **General Obligation Bonds** | | | | |
| $ 63,695,000 | Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2003 | 4.00 - 5.00 | 2032 | $ 62,695,000 |
| 72,195,000 | Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2004 | 3.63 - 5.00 | 2032 | 71,795,000 |
| | **Total General Obligation Bonds** | | | $ 134,490,000 |

A summary of the long-term liability transactions of the Authority for the year ended September 30, 2011 is as follows:

| | Balance Oct. 1, 2010 | Additions | Retirements | Balance Sept. 30, 2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 135,890,000 | $ | $ 1,400,000 | $ 134,490,000 | $ 1,645,000 |
| Premiums on bonds | 3,145,014 | | 142,955 | 3,002,059 | |
| Totals | $ 139,035,014 | $ | $ 1,542,955 | $ 137,492,059 | $ 1,645,000 |

Annual debt service requirements to maturity are summarized as follows:

| | Principal | Interest | Totals |
|---|---|---|---|
| 2012 | $ 1,645,000 | $ 6,665,741 | $ 8,310,741 |
| 2013 | 1,900,000 | 6,596,050 | 8,496,050 |
| 2014 | 2,345,000 | 6,499,425 | 8,844,425 |
| 2015 | 2,820,000 | 6,370,300 | 9,190,300 |
| 2016 | 3,530,000 | 6,209,138 | 9,739,138 |
| 2017-2021 | 27,160,000 | 27,425,988 | 54,585,988 |
| 2022-2026 | 36,840,000 | 19,352,750 | 56,192,750 |
| 2027-2031 | 47,310,000 | 8,882,750 | 56,192,750 |
| 2032-2036 | 10,940,000 | 273,500 | 11,213,500 |
| **Totals** | $ 134,490,000 | $ 88,275,642 | $ 222,765,642 |

## NOTE 6 - CONTINGENCIES AND COMMITMENTS

### Litigation and Other Contingencies

The Authority is contingently liable with respect to lawsuits and other claims 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 Authority as of September 30, 2011.

## NOTE 7 – CONTRACT WITH HARRIS COUNTY TOLL ROAD AUTHORITY

The Authority has contracted with the Harris County Toll Road Authority ("HCTRA") to operate and maintain the Fort Bend County toll road system. HCTRA charges the Authority for these services based on a fee schedule detailed in the contract, and deducts these fees from the toll revenue remitted to the Authority.

## NOTE 8 – RESTATEMENT OF NET ASSETS

During the 2011 fiscal year, the Authority made adjustments to its capital asset records. As a result of these adjustments, the Authority has restated its beginning capital asset balances for land and infrastructure by $2,694, for a right-of-way purchase in the prior fiscal year that was erroneously treated as an increase in the toll road system. This restatement did not change the total beginning net assets.

## NOTE 9 – SUBSEQUENT EVENTS

The Authority plans to issue approximately $30 million in first lien revenue bonds in fiscal year 2012 to finance the construction of Parkway section B.

## NOTE 10 –CAPITAL ASSET ADJUSTMENT

A portion of the depreciable capital asset for the Authority will be reclassified as non-depreciable in fiscal year 2012 on the Statement of Net Assets. This reclassification relates to the acquisition of right of way for the Toll Road System during fiscal years 2003 and 2004. This adjustment will require a correction of depreciation expense that was previously taken on these non-depreciable capital acquisitions in fiscal years 2005 through 2011 on the Statement of Changes in Net Assets. The analysis and identification of these non-depreciable capital acquisitions for the Toll Road System are being performed by the Authority and will be completed and presented to the County Auditor in fiscal year 2012 for correction.

## APPENDIX C

## GLOSSARY OF TERMS

*The following sets forth certain definitions used in this Official Statement. Reference is made to the Indenture, copies of which may be obtained from the County, for a full and complete statement of their provisions. A summary of the Master Indenture is included in APPENDIX D. See also the section captioned "SECURITY AND SOURCE OF PAYMENT."*

"Account" or "Accounts" shall mean any one or more, as the case may be, of the accounts from time to time hereafter created in any of the Funds required to be maintained pursuant to the Indenture.

"Accountant" shall mean any certified public accountant or firm of certified public accountants or accounting corporation of recognized experience and qualifications selected by the County, and may be an accountant or firm of accountants that regularly audits the books of the County, if satisfactory to the Trustee.

"Accountant's Certificate" shall mean a certificate or opinion signed by the Accountant.

"Act" shall mean collectively Chapter 284, Texas Transportation Code, and Chapters 1201, 1207, 1371, and 1431, Texas Government Code, as they may be amended from time to time.

"Aggregate Debt Service" shall mean for any Fiscal Year or other period as of the date of calculation the sum of the amounts of Debt Service for such Fiscal Year or other period with respect to all Series of Bonds, Parity Notes, and other Parity Obligations then outstanding.

"Amortized Value" shall mean the value of an Investment Security calculated by adding the amount of the premium paid upon acquisition to the par value of the Investment Security or deducting the amount of the discount received upon acquisition from the par value of the Investment Security, as the case may be, after such premium or discount has been amortized according to Generally Accepted Accounting Principles for the number of days since the acquisition of the Investment Security.

"Annual Budget" shall mean the annual budget of the County for the Project, as amended or supplemented, adopted, or in effect for a particular Fiscal Year or fraction thereof.

"Authenticating Agent" shall mean any agent of the Trustee designated to authenticate the Bonds of any Series as provided in any Supplemental Indenture and its successor or successors, which may include the Trustee.

"Authorized Newspapers" shall mean any two newspapers, reports, or other publications customarily published at least once in each calendar week, printed in the English language, one of which shall be a financial journal or publication of general circulation among tax exempt securities dealers in the United States of America (such as The Bond Buyer) and the other of general circulation among tax exempt securities dealers in the State of Texas (such as Texas Municipal Reports).

"Authorized Officer of the County" shall mean the County Judge, the County Auditor, or any officer or employee of the County authorized to perform specific acts or duties by law or by resolution or order duly adopted by the Commissioners Court.

"Bond" or "Bonds" shall mean any bond or bonds, as the case may be, authenticated and delivered under and pursuant to the Indenture.

"Bondowner" or "Owner of Bonds" shall mean the registered owner of any Bond or Bonds.

"Business Day" shall mean a day which is not a banking holiday in New York City or Houston, Texas, except as may otherwise be provided by Supplemental Indenture.

"Commissioners Court" shall mean the Commissioners Court of Fort Bend County, Texas, which is the governing body of the County.

"Construction Fund" shall mean the County Toll Road Senior Lien Revenue Bond Construction Fund required to be maintained by the County pursuant to the Indenture and any separate accounts required to be maintained in the Construction Fund pursuant to the terms of any Supplemental Indenture.

"Consulting Engineers" shall mean the County Engineer or the engineering firm or firms at the time employed by the County pursuant to the provisions of the Indenture to carry out the duties imposed by the Indenture on the Consulting Engineers.

"Cost" or "Cost of the Project" or "Project Development Cost" shall mean all costs of acquisition, construction, improvement, operation, and maintenance of the Project or any project or projects with which the Project is proposed to be pooled which meets the definition of cost of the project under the Act. Such cost shall include all reasonable costs of marketing and providing public information to inform the public of the service and facilities provided by the Project.

"Costs of Issuance" shall mean the items of expense payable or reimbursable directly or indirectly by the County and related to the authorization, sale and issuance of Bonds or Parity Notes or the authorization or incurrence of other Parity Obligations, which items of expense shall include, without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee and Paying Agents; initial fees and charges of providers of Parity Credit Agreements and Parity Hedge Agreements or other parties pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; consulting fees and charges; auditing fees and expense; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds or Parity Obligations; and other administrative or other costs of issuing, carrying, and repaying such Bonds or Parity Obligations and investing the proceeds thereof.

"Counsel's Opinion" shall mean an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds (who may also be counsel to the County) selected by the County and satisfactory to the Trustee.

"County" shall mean Fort Bend County, Texas, a body politic and corporate and a political subdivision of the State of Texas.

"Debt Service" shall mean, with respect to any particular Fiscal Year or other period and any Series of Bonds, Parity Notes or other Parity Obligations, an amount equal to the sum of (a) all interest accruing on such Bonds and Parity Notes during such period, except to the extent that such interest is to be paid from amounts (including any investment earnings thereon) deposited in the Debt Service Fund, Construction Fund, or elsewhere for the purpose of providing capitalized interest, and except to the extent that such accruing interest on such Bonds or Parity Notes is payable only at maturity or redemption (as with capital appreciation bonds) in which case the entire amount of such interest shall be deemed to accrue in the same manner as Principal Installments, plus (b) that portion of the Principal Installment or Installments of such Bonds or Parity Notes which would accrue during such period if such Principal Installment or Installments were deemed to accrue monthly from a date one year prior to its due date or from the date of issuance of the respective Series, whichever is later, plus or minus (c) net amounts payable or receivable under any Parity Hedge Agreements, which accrue during such period. For purposes of calculating Debt Service, the following rules shall apply:

(A) Interest and Principal Installments for any Series of Bonds or Parity Notes shall be calculated on the assumption that no Bonds or Party Notes of any Series Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

(B) Interest and Principal Installments for any series of Parity Notes shall be calculated on the assumption that all Parity Notes shall be continuously refinanced with other Parity Notes or Bonds so as to permit approximately equal annual amortization of Debt Service on such Series of Parity Notes over a period of 30 years following depletion of any amounts provided for capitalized interest on such Parity Note.

(C) Except as provided in (D) below, future Debt Service for any Series of Bonds or Parity Notes which bears interest at variable rates or which will at some future date bear interest at a rate or rates to be determined or which will be subject to conversion to an interest rate or interest rate mode such that rates cannot then be ascertained shall be calculated using a rate which shall be estimated and certified by the financial advisor to the County as the rate that would have been borne by such Bonds or Parity Notes if they were at the date of certification issued (or remarketed as the case may be) as 30-year Bonds bearing a fixed rate of interest.

(D) Amounts payable and/or receivable by the County under Parity Hedge Agreements may be combined with payments of Debt Service on any Series of Bonds or Parity Notes to which the Parity Hedge Agreement relates. In such event, the financial advisor to the County shall prepare a combined calculation of Debt Service with respect to the amounts payable and/or receivable under the Parity Hedge Agreement and the amounts of interest payable under the Bonds or Parity Notes to which it relates, and in such calculation may offset amounts receivable by the County under the Parity Hedge Agreement against interest payable on related Bonds or Parity Notes. Any remaining (*i.e.* not offset) payment obligations of be County under the Parity Hedge Agreement shall be treated as payments of interest for purposes of computing Debt Service and shall be calculated at the rate provided in such Parity Hedge Agreement the same as if it were an interest rate on Bonds or Parity Notes, and if such rate is variable or otherwise not ascertainable at the time of cancellation, shall be estimated by such financial advisor to the County in the same manner as herein provided for the estimation of Debt Service on Bonds or Parity Notes bearing interest at variable rates or rates not ascertainable at the time of calculation. If not combined with payments of Debt Service on Bonds or Parity Notes as set forth above amounts payable and/or receivable by the County under Parity Hedge Agreements shall include only the net amount payable and/or receivable for purposes of computing Debt Service.

"Debt Service Fund" shall mean the County Toll Road Senior Lien Revenue Bond Debt Service Fund established in the Indenture.

"Debt Service Reserve Fund" shall mean the County Toll Road Senior Lien Debt Service Reserve Fund required to be maintained pursuant to the Indenture.

"Debt Service Reserve Fund Participants" shall mean: (i) with respect to Bonds, any series of Bonds designated by the County as "Debt Service Reserve Fund Participants" and secured by a lien on the Debt Service Reserve Fund Participant Account of the Debt Service Reserve Fund, and (ii) with respect to Parity Notes, any Parity Note designated by the County as "Debt Service Reserve Fund Participants" and secured by a lien on the Debt Service Reserve Fund Participant Account of the Debt Service Reserve Fund.

"Debt Service Reserve Fund Participant Account" shall mean the account of such name created within the Debt Service Reserve Fund for the benefit of the holders of Bonds and Parity Obligations that are designated as Debt Service Reserve Fund Participants.

"Debt Service Reserve Fund Non-Participant Account" shall mean one or more accounts of such name created within the Debt Service Reserve Fund created for the benefit of the holders of Bonds that are not designated as Debt Service Reserve Fund Participants.

"Debt Service Reserve Fund Requirement" shall mean the amount established and stipulated in each Supplemental Indenture, which shall not exceed the lesser of (i) the maximum annual debt service on such issue of Bonds or Parity Obligations, (ii) one hundred twenty-five (125%) of the average annual debt service on such issue of Bonds or Parity Obligations or (iii) ten percent of the initial principal amount of such issue of bonds or Parity Obligations (or sale proceeds in the event that the amount of original issue discount exceeds two percent multiplied by the stated redemption price at maturity of such issue of Bonds or Parity Obligations). For Debt Service Reserve Fund Participants, the Debt Service Reserve Fund Requirement shall be equal to amount established in the preceding sentence. For a Series of Bonds or Parity Notes that are not Debt Service Reserve Fund Participants, the amount shall be established in the particular Supplemental Indenture and may be less than the amount defined in the first sentence of this definition.

"Debt Service Reserve Fund Liquidity Facility" shall mean any agreement, however denominated, provided by a qualifying financial institution (as described in the following sentence) which contractually commits to purchase for not less than a stated price any class or amount of Investment Securities held in the Debt Service Reserve Fund at any time such Investment Securities must be liquidated in order to make cash transfers to the Debt Service Fund. A Debt Service Reserve Fund Liquidity Facility may only be entered into with a financial institution which (a) at the time of entering into such agreement either (i) has long term credit ratings in one of the two highest generic rating categories from at least two nationally recognized rating services or (ii) has long term credit ratings in one of the three highest generic rating categories from at least two nationally recognized rating services and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its obligations under the agreement and the market value of the Investment Securities to which the agreement relates (based on periodic market valuations at least twice per year), and (b) agrees that for any period during the term of the agreement its long term credit rating fails to remain in one of the two highest generic rating categories from at least two nationally recognized rating agencies, it will collateralize its obligations under the agreement in the manner described in clause (a)(ii) above.

"Debt Service Reserve Fund Surety Policy" shall mean any reserve fund surety policy or bond, letter of credit or other instrument, however denominated, provided by a qualifying financial institution as described in the following sentence, pursuant to which the Trustee or Paying Agent may draw on such Debt Service Reserve Fund Surety Policy to enable the Debt Service Reserve Fund to make a required transfer to the Debt Service Fund. Debt Service Reserve Fund Surety Policies may only be acquired from a financial institution with a long term credit rating in one of the two highest generic rating categories from at least two nationally recognized rating services and having a credit rating or claims paying ability such that the purchase of such surety policy will not cause any rating agency then rating any Bonds or Parity Notes to withdraw or lower its rating.

"Depository" shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking institution or association selected by the County as a depository of moneys and securities held under the provisions of the Indenture and the Act, and may include the Trustee.

"Event of Default" shall mean an Event of Default as such term is defined in the Indenture as set out in APPENDIX D under the caption "Defaults and Remedies".

"Fair Market Value" shall mean, as of any particular time: (a) as to Investment Securities the bid and asked prices of which are published on a regular basis in a financial journal or publication of general circulation in the United States of America, the bid price for such Investment Securities so published on or most recently prior to the date of valuation by the Trustee, or (b) as to Investment Securities the bid and asked prices of which are not published on a regular basis in a financial journal or publication of general circulation in the United States of America, the average bid price on such Investment Securities at the date of valuation by the Trustee, as reported to the Trustee by any two nationally recognized dealers in such Investment Securities.

"Fiduciary" or "Fiduciaries" shall mean the Trustee, the Paying Agents or any or all of them, as may be appropriate.

"Fiscal Year" shall mean a fiscal year as established by the County which is currently the 12-month period ending the last day of September, but which may be changed from time to time.

"Fund" or "Funds" shall mean anyone or more, as the case may be, of the separate special funds created and established or required to be maintained pursuant to the Indenture.

"Generally Accepted Accounting Principles" shall mean such accepted accounting practice as, in the opinion of the Accountant, conforms at the time to a body of generally accepted accounting principles.

"Indenture" shall mean this Trust Indenture as the same may be amended or supplemented from time to time by Supplemental Indentures in accordance with the terms hereof.

"Interest Payment Date" shall mean the date on which interest on the Bonds or any Parity Notes is due and payable.

"Investment Security" or "Investment Securities" shall mean and include any securities authorized for investment of County Funds by the laws of the State of Texas, currently the "Texas Public Funds Investment Act," Chapter 2256, Texas Government Code, as the same may be amended from time to time.

"Junior Lien Obligations" shall mean any bonds, notes, or other obligations secured in whole or in part by a pledge of and lien on Revenues after making all required transfers to the Debt Service Fund and Debt Service Reserve Fund, but prior to the payment of Project Expenses. Junior Lien Obligations are intended to constitute "senior indebtedness" within the meaning of the 2003 Indenture.

"Letter of Instructions" shall mean a written directive and authorization to the Trustee executed by an Authorized Officer of the County.

"Maintenance Tax Fund" shall mean the Fort Bend County, Texas Toll Road Maintenance Tax Fund required to be maintained by the County pursuant to the Indenture.

"Net Revenues" shall mean, for any Fiscal Year or other period of time, the Revenues less the Operating Expenses.

"2003 Indenture" shall mean the Toll Road Unlimited Tax and Subordinate Lien Revenue Bond Trust Indenture between the County and Wells Fargo Bank, N.A., as Trustee, dated April 1, 2003, and all supplemental indentures thereto pursuant to which the Fort Bend County, Texas, Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds are issued.

"Operating Board" shall mean the Fort Bend County Toll Road Authority or any other entity appointed by the County to act as an Operating Board under the provisions of the Indenture.

"Operating Expenses" shall mean only so much of the Project Expenses as shall constitute the County's expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction of the Project and ordinary acquisition of equipment and any other current expenses or obligations required to be paid by the County under the provisions of the Indenture or by law, all to the extent properly and directly attributable to the operation of the Project, but not any costs or expenses for new construction or any allowance for depreciation.

"Operating Reserve" shall mean, as of any particular time of calculation, an amount of money to be retained in the Revenue Fund pursuant to the Indenture which is equal to two months of Project Expenses as set out in the Annual Budget.

"Outstanding" shall mean as of any date, Bonds or Parity Notes theretofore or thereupon being authenticated and delivered under the Indenture except:

(i) Bonds or Parity Notes cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(ii) Bonds or Parity Notes in lieu of or in substitution for which other Bonds or Parity Notes shall have been authenticated and delivered pursuant to the Indenture;

(iii) Bonds or Parity Notes deemed to have been paid or defeased as provided in the Indenture (or in any Supplemental Indenture) or as provided by law; and

(iv) As otherwise provided in any Supplemental Indenture.

"Owner" shall mean the registered owner of any Bond or the owner of any Parity Obligation, as the case may be.

"Parity Credit Agreement" shall mean any agreement between the County and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, surety policy, surety bond, or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the County's obligations pursuant to any Bonds, Parity Notes, or Parity Hedge Agreements, and in consideration for which the County may agree to pay certain fees and to reimburse and repay any amounts advanced under such Parity Credit Agreement, together with interest and other stipulated costs and charges.

"Parity Hedge Agreement" shall mean any agreement between the County and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Bonds or Parity Notes. A Parity Hedge Agreement may only be entered into with a financial institution, which (a) for a transaction having a term of less than ten years, has long term credit ratings in one of the three highest generic rating categories by at least two nationally recognized rating services or (b) for a transaction having a term of ten years or longer, has at the time of entering into such transaction long term credit ratings in one of the two highest generic rating categories by at least two nationally recognized rating services; provided, however, that such rating requirement may be satisfied by an affiliated entity of such financial institution or a third Party with the requisite ram with whom the financial institution and/or the County have a contractual arrangement pursuant to which such affiliated entity or third party provides credit support for the Parity Hedge Agreement.

"Parity Notes" shall mean any note or notes, as the case may be, issued pursuant to a commercial paper program and authenticated and delivered under and pursuant to the Indenture, and secured by the Trust Estate.

"Parity Obligations" shall mean any of the following obligations of the County issued or incurred pursuant to the Indenture:

(a) Parity Notes;

(b) Any and all repayment, reimbursement or other obligations arising pursuant to any Parity Credit Agreement; and

(c) Any and all payment obligations arising pursuant to any Parity Hedge Agreements which may be netted against amounts, if any, due the County pursuant to such Parity Hedge Agreements.

"Paying Agent" shall mean any bank or trust company or national or state banking association designated to make payment of the principal and Redemption Price of and interest on the Bonds or Parity Notes of any Series, and its successor or successors, which may include the Trustee, hereafter appointed in the manner provided in the Indenture and meeting the requirements of the Indenture.

"Permitted Encumbrances" shall mean:

(a) easements and rights of way on, over, across, or through any part of the Project which do not adversely affect the operations of the Project;

(b) inchoate claims and charges incidental to construction, maintenance, and operation of the Project;

(c) contractual and property rights granted to or reserved by a party under any contract or instrument which the County is not prohibited from entering into under the Indenture;

(d) minor defects and irregularities in the title to any property which is part of the Project, which do not impair the County's right to use such property for purposes of the Project; and

(e) rights reserved to or vested in the State of Texas or any municipal corporation or political subdivision or agency within the State of Texas with regard to the property and facilities constituting the Project or with regard to the regulation of the use thereof.

"Person" shall mean any individual, public or private corporation, county, district, authority, municipality, political subdivision or other county or entity of the State or the United States of America, and any incorporated city, town or village, whether operating under general or special law or under its home-rule charter, and any partnership, association, firm, trust, estate, or any other entity whatsoever.

"Principal Installment" shall mean as of any particular date of computation:

(a) with respect to Bonds of a particular Series, an amount of money equal to the aggregate of (i) the principal amount of Outstanding Bonds of said Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Bonds of such Series which would at or before said future date be retired as a result of Sinking Fund Installments applied in accordance with the Indenture or a Supplemental Indenture plus (ii) the amount of any Sinking Fund Installment payable on said future date for the retirement of any Outstanding Bonds of said Series; and

(b) with respect to Parity Notes, except to the extent actually paid from the Trust Estate (and not from the proceeds of other Parity Notes or Bonds issued for refunding or refinancing purposes), each Series shall be deemed to have Principal Installments in each of the 30 consecutive Fiscal Years beginning in the Fiscal Year following the depletion of any amounts provided as capitalized interest for such Series of Parity Notes, which Principal Installments shall be in such amounts as shall be calculated by the County's financial advisor to achieve an approximately equal annual amortization of Debt Service on such Series of Parity Notes over such 30 year period.

"Project" shall mean all of the County's right, title and interest (whether such interest is fee, easement, leasehold, contractual or otherwise) in and to (i) the Fort Bend Parkway and the Westpark Tollway and (ii) such other project or projects, or interest therein, with which the Project may be pooled pursuant to the Act or other applicable law (each of which shall be a "Pooled Project"). Fort Bend Parkway and the Westpark Tollway shall include without limitation all of the following which are necessary or useful in connection therewith: causeways, bridges, tunnels, turnpikes, highways, or any combination of such facilities, and all overpasses, underpasses, interchanges, entrance plazas, toll houses, service stations, approaches, fixtures, accessories, equipment, and administration, storage and all other buildings, together with all property rights, easements and interests acquired in connection therewith, and any other improvements, extensions, and betterments as may now be permitted by the Act.

"Project Expenses" shall mean the County's costs and expenses of maintenance, repair, operation, and administration of the Project and shall include without limiting the generality of the foregoing: (i) salaries, supplies, utilities, labor, rent; (ii) fees and expenses for data processing, policing, insurance, legal, accounting, engineering, the Trustee, Depositories or Paying Agents, letters of credit and credit facilities, consulting and banking services (which may include premiums, costs, and expenses relating to interest rate caps, limits, or guarantees); (iii) Costs of Issuance not paid as a Cost of the Project; and (iv) payments to pension, retirement, health, and hospitalization funds.

"Project Segment" shall mean any addition to, or expansion or improvement of the Project identified as a Project Segment in any Supplemental Indenture.

"Record Date" as used with respect to any Interest Payment Date shall mean the date designated in any Supplemental Indenture with respect to any Series of Bonds as the record date for the payment of interest on such Series or if no Record Date is so designated the 15th day of the month preceding such Interest Payment Date with respect to such Series.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond, the Indenture, or any Supplemental Indenture.

"Refunding Bonds" or "Refunding Parity Notes" shall mean all Bonds or Parity Notes, whether issued in one or more Series, issued for the purpose of refunding a like or different principal amount of Bonds, Parity Notes, or other Toll Road Bonds, and thereafter authenticated and delivered pursuant to the Indenture or any Supplemental Indenture.

"Register" shall mean the register maintained by the Registrar for each Series of Bonds or Parity Notes which shows ownership of Bonds or Parity Notes in accordance with the Indenture.

"Registrar" shall mean any agent of the Trustee designated to keep a register or registers of the Owners of the Bonds or Parity Notes of any Series as provided in any Supplemental Indenture, and its successor or successors, which may include the Trustee.

"Renewal and Replacement Fund" shall mean the County Toll Road Renewal and Replacement Fund established in the Indenture.

"Repurchase Agreement" shall mean an agreement entered into with a Person pursuant to which the County purchases and such Person agrees to repurchase specified Investment Securities provided that the repurchase price shall not be less than the purchase price.

"Revenue Fund" shall mean the County Toll Road Revenue Fund required to be maintained pursuant to the Indenture.

"Revenues" shall mean all amounts derived from the ownership or operation of the Project which constitute revenues in accordance with Generally Accepted Accounting Principles including any amounts derived from the ownership or operation of any project or projects with which the Project may be pooled, plus any interest income earned on all Funds and Accounts established hereunder and under the 2003 Indenture which is required to be transferred to or maintained in the Revenue Fund, the Debt Service Fund, or the Reserve Fund, but specifically excluding interest income attributable to capitalized interest on the Bonds and Parity Notes.

"Series" shall mean Bonds or Parity Notes identified as a separate series and any Bonds or Parity Notes thereafter authenticated and delivered in lieu of or in substitution for such Bonds or Parity Notes pursuant to the Indenture or any Supplemental Indenture.

"Sinking Fund Installment" shall mean, as of any particular date of calculation and with respect to any Series of Bonds or Parity Notes, the amount of money to be applied as the Redemption Price of Bonds or Parity Notes in any Fiscal Year prior to maturity pursuant to the Supplemental Indenture for such Series, as such Installment shall have been previously reduced by the principal amount of any Bonds or Parity Notes of such Series of the maturity with respect to which such Sinking Fund Installment is payable which are purchased or redeemed by the Trustee in accordance with the provisions of the Indenture or of any Supplemental Indenture, other than a Sinking Fund Installment redemption or purchase.

"State" shall mean the State of Texas.

"Supplemental Indenture" shall mean any Indenture supplemental to or amendatory of the Indenture, adopted by the County in accordance with the Indenture.

"Surplus Fund" shall mean the County Toll Road Surplus Fund required to be maintained pursuant to the Indenture.

"Toll Road Bonds" shall mean the Bonds, and any other bonds from time to time hereafter issued for the purpose of providing funds to pay the Cost of the Project, whether pursuant to the Indenture or otherwise.

"Traffic Engineers" shall mean the traffic engineer employed by the County and "Independent Traffic Engineer" shall mean an engineering firm or corporation retained by the County, pursuant to the provisions of the Indenture to carry out the duties imposed by the Indenture on the Traffic Engineer or the Independent Traffic Engineer, respectively.

"Trust Estate" shall mean the Trust Estate as defined in the Indenture.

"Trustee" shall mean a commercial bank or trust company duly organized and existing under the laws of the State of Texas or the United States of America which is authorized under such laws to exercise corporate trust powers, and is subject to examination by federal authority and shall be appointed pursuant to the Indenture, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Indenture.

## APPENDIX D

## SUMMARY OF THE INDENTURE

*The Indenture, which includes the Master Indenture and the First Supplement thereto, contains various covenants and security provisions, certain of which are summarized below or elsewhere in this Official Statement. Reference should be made to the Indenture, a copy of which may be obtained from the County, for a full and complete statement of its provisions. See also the section captioned "SECURITY AND SOURCE OF PAYMENT."*

### Permitted Investments

The Indenture requires that all amounts held in any Fund or Account under the Indenture by either the Trustee or the County must either be (i) continuously and fully secured for the benefit of the County and the Owners of the Bonds by either direct obligations of or obligations guaranteed by the United States of America or secured in the manner required by the laws of the State of Texas for public funds or (ii) invested in Investment Securities so long as they mature not later than such times as will be necessary to provide money when needed for payments to be made from such Funds and Accounts. "Investment Securities" means investments authorized from time to time pursuant to the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code or other applicable laws of the State of Texas, which mature not later than such times as shall be necessary to provide moneys for payments from such Funds or Accounts.

Interest earned or profits realized from investing any amounts in the Construction Fund, and amounts representing capitalized interest in the Debt Service Fund, may be retained in such Funds. Interest earned from investing amounts in any other Fund or Account will be transferred into the Revenue Fund.

### Toll Classification

The County is required to classify tolls in a manner that will apply to all traffic in a uniform manner within any reasonable class. No free service will be permitted on the Project, except for authorized official and emergency vehicles and vehicles whose passage is determined to be in the public's interest and the interest of the Project.

### Annual Budget

After any part of the Project is completed and operational, the County has covenanted in the Indenture to file with the Trustee an annual budget for each Fiscal Year that includes the estimated Project Expenses for such Fiscal Year, in addition to the amount required to establish and maintain an operating reserve sufficient to pay two months' Project Expenses. The County may, at any time, adopt an amended annual budget or budgets for the remainder of the then Current Fiscal Year. Until a new annual budget is adopted, the prior Fiscal Year's annual budget shall be deemed to be the annual budget for that Fiscal Year.

### Consulting Engineers Reports on Projects

In the Indenture, the County covenants and agrees that after the Project or any part of it is completed and operational, the County will cause the Consulting Engineers to make an inspection of the Project or part or parts thereof which have been completed from time to time and to submit to the County a report setting forth (i) their findings whether the Project has been maintained in good repair, working order and condition, (ii) their advice and recommendations as to the proper maintenance, repair and operation of the Project during the ensuing Fiscal Year and an estimate of the amount of money necessary for such purposes, including their recommendations as to the total amounts and classifications of items and amounts that should be provided for Project Expenses in the annual budget for the next ensuing Fiscal Year and (iii) their advice and recommendations as to the insurance to be carried under the provisions of the Indenture. The Indenture provides that copies of such reports are to be filed with the Trustee.

**Construction Contracts**

In the Indenture, the County covenants and agrees that before entering into any construction contract it will secure the recommendation of the Consulting Engineers and that it will require each person, firm or corporation with whom it may contract for labor or materials in connection with the construction of the Project or any part thereof to furnish a performance bond and a payment bond in the full amount of any contract to the extent required by law, and to carry such workmen's compensation or employer's liability insurance as may be required by law. The County further covenants and agrees that the proceeds of any such performance bond and payment bond will forthwith, upon receipt of such proceeds, be deposited in the Construction Fund established pursuant to the Indenture and applied toward the completion of the contract in connection with which such performance bond and payment bond shall have been furnished.

**Rules and Regulations; Maintenance of Project**

In the Indenture, the County covenants that it will establish and enforce reasonable rules and regulations governing the use of the Project and the operation thereof will be reasonable, that no more persons will be employed by it than are necessary, that it will maintain and operate the Project in an efficient and economical manner, that, from the Revenues of the Project or other moneys legally available therefor, it will at all times maintain the same in good repair and in sound operating condition and will make all necessary repairs, renewals and replacements, and that it will comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the Project.

**Consulting Engineers; Traffic Engineers**

In the Indenture, the County covenants that, as long as there are any Bonds, Parity Notes or other Parity Obligations, it will employ Consulting Engineers or Traffic Engineers as necessary to comply with the Indenture.

**Insurance**

In the Indenture, the County covenants that during the construction of the Project or any part thereof it will carry or cause to be carried such builders' risk insurance, if any, as shall be recommended by the Consulting Engineers.

**Sale or Encumbrance of Project**

In the Indenture, the County covenants that, as long as there are any Bonds and Parity Notes, or other Parity Obligations Outstanding, and except as in the Indenture otherwise permitted, it will not sell or otherwise dispose of the Project or any part thereof unless it determines that such sale or other disposal is in the best interest of the Project and not materially adverse to the rights of the Owners of the Bonds, Parity Notes or other Parity Obligations. Such covenant, however, shall not limit the ability of the County to issue Bonds and Parity Notes and incur Parity Obligations, to dispose of surplus property, to enter into contracts with respect to the lease or operation of all or any part of the Project.

**Defaults and Remedies**

Any of the following events will constitute an "Event of Default" under the Indenture:

(i) failure to make the due and punctual payment of the principal or Redemption Price of any Bond when due and payable, whether at maturity or by call for redemption, or otherwise;

(ii) failure to make the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor (except when such installment is due on the maturity date of such Bonds) when due and payable, and such failure continues for 30 days;

(iii) failure by the County in the performance or observance of any other of the covenants, agreements, or conditions on its part contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the County by the Trustee or to the County and to the Trustee by the Owners of not less than 25% in principal amount of the Bonds Outstanding;

(iv) if the County: (a) files a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization, arrangement, readjustment, or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, State or federal, now or hereafter existing;

(b) takes any action indicating its consent to, approval of, or acquiescence in, any such petition or proceeding; (c) applies for, or consents or acquiesces in the appointment of, a receiver or a trustee of the County or for all or a substantial part of its property; (d) makes an assignment for the benefit of creditors, or (e) is unable, or admits in writing its inability, to pay its debts as they mature; or

(v) if proceedings have commenced against the County, without its authorization, consent or application, in bankruptcy or seeking reorganization, arrangement, readjustment, or composition of its debts or for any other relief under the federal bankruptcy laws or under any other insolvency act or law, State or federal, now or hereafter existing, or seeking the involuntary appointment of a receiver or trustee of the County or for all or a substantial part of its property, and the same continues for 90 days undismissed or undischarged or results in the adjudication of bankruptcy or insolvency.

If an Event of Default occurs and is continuing, then the Trustee may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding, must: (i) by mandamus or other suit, action, or proceeding at law or in equity require the County to perform its covenants, representations, and duties under the Indenture; (ii) bring suit upon the Bonds; (iii) by action or suit in equity require the County to account as if it were the trustee of an express trust for the Owners of the Bonds; (iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; (v) take over the possession, administration, and management of all Funds and Accounts required to be maintained by the County pursuant to the Indenture; or (vi) take such other steps to protect and enforce its rights and the rights of the Owners of the Bonds, whether by action, suit, or proceeding in aid of the execution of any power granted in the Indenture or for the enforcement of any other appropriate legal or equitable remedy.

If an Event of Default occurs and is continuing, then the Trustee may, and upon the request of the Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding, and upon being indemnified to its satisfaction, will, proceed by suit or suits, at law or in equity. or by any other appropriate legal or equitable remedy, to enforce payment of the principal of, premium, if any, and interest on the Bonds under a judgment or decree of a court or courts of competent jurisdiction or by the enforcement of any other appropriate legal or equitable remedy, as the Trustee deems most effectual to protect and enforce any of its rights or the rights of the Owners.

Although an Owner presumably could obtain a judgment against the County if a default were to occur in the payment of principal of, premium, if any, or interest on any such Bond, such judgment could not be satisfied by foreclosure on the Project or by execution against any property of the County. The Owner’s only practical remedy, if a default were to occur, would be a mandamus or mandatory injunction proceeding seeking to compel the County to fix, charge, and collect tolls in accordance with the toll covenant and to apply Revenues as required in the Indenture in order to pay principal of, premium, if any, and interest on the Bonds as they come due. The Owner could be required to enforce such remedy on a periodic basis because no provision exists for acceleration of maturity of the Bonds.

The enforcement of, or claim for payment of principal of or interest on the Bonds, including the remedy of mandamus, and the validity of the pledge of and lien on Revenues, would be subject to the applicable provisions of the federal bankruptcy laws and to any other laws limiting or otherwise affecting the rights or remedies of creditors of counties of the State or of political subdivisions generally.

Subject to certain conditions set forth in the Indenture, the Trustee may waive certain Events of Default and their consequences under the Indenture.

**Special Rights of Credit Providers**

The Indenture provides that any Supplemental Indenture may provide that issuers of municipal bond insurance, letters of credit or other instruments which guaranty the payment of principal of and interest on any Bonds or Parity Notes may exercise the rights of the Owners thereof to direct the exercise of any remedies in the event of default or to consent to any future amendments to the Indenture except with respect to any change in the terms of redemption, maturity of principal amount of such Bonds or Parity Notes or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon.

## Defeasance

Any Bonds will, prior to the maturity or redemption date therefor, be deemed to have been paid and to be no longer Outstanding under the provisions of the Indenture if (i) in case of any Bond to be redeemed on any date prior to maturity, the County has given to the Trustee or a Paying Agent irrevocable instructions to give notice of redemption on such Bonds, (ii) there has been deposited with the Trustee or a Paying Agent either money in an amount sufficient, or certain Investment Securities the principal and interest on which, without further investment, will be sufficient, together with money, if any, deposited therewith, to pay when due the principal, redemption price, if applicable, and interest due and becoming due on such Bond on and prior to redemption or maturity date, as the case may be, and (iii) in the event Bonds are not to be redeemed within the next succeeding 60 days, the County will have given the Trustee or a Paying Agent irrevocable instructions to publish at least twice, at an interval of not less than seven days, a notice to the Owners of the Bonds to be redeemed in a financial journal or publication of general circulation among tax-exempt securities dealers in the United States of America and a financial journal of publication of general circulation among tax-exempt securities dealers in the State of Texas, and to mail notices to such Owners that such deposit has been made and that the Bonds are deemed to have been paid and stating the maturity or redemption date upon which such money will be made available for the payment of the principal or redemption price, if applicable, and interest on such Bonds.

## Amendments

The County may adopt a Supplemental Indenture without consent of the Owners for any of the following purposes: (i) to authorize the issuance of Bonds; (ii) to provide additional limitations and restrictions on the issuance of other evidences of indebtedness; (iii) to add other covenants and agreements to be observed by the County not inconsistent with the Indenture; (iv) to add other limitations and restrictions to be observed by the County of the Trust Estate which are not inconsistent with the Indenture; (v) to confirm any pledge under the Indenture of the Trust Estate; (vi) to modify any of the provisions of the Indenture provided that such modification will be effective only after all Outstanding Bonds at the date of adoption will cease to be Outstanding; (vii) to modify, amend, or supplement the Indenture to permit the qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or under any state Blue Sky Law; (viii) to surrender any right, power, or privilege reserved to or conferred upon the County by the Indenture, provided that such surrender is not inconsistent with the covenants and agreements of the County contained in the Indenture; (ix) to pool the Project with one or more other projects as permitted by the Act; (x) to increase the Debt Service Reserve Fund Requirement or to provide for Debt Service Fund Surety Policies; (xi) to establish or increase the required balance to be accumulated or maintained in the Renewal and Replacement Fund; (xii) to alter the Indenture to comply with the requirements of a nationally recognized rating agency in order to maintain a rating on the Bonds in a high-quality, short-term or commercial paper rating category or long-term debt rating category of such rating agency; (xiii) to increase the interest rate or rates on the Bonds of any series; and (xiv) to designate Paying Agents, Authenticating Agents, Registrars, and other agents for Bonds of any series.

The Indenture also may be amended without the consent of the Owners with the written consent of the Trustee: (i) to cure any ambiguity, supply any omission, or cure any defect or inconsistent provision in the Indenture; (ii) to insert such provisions clarifying matters as are necessary or desirable and are not inconsistent with the Indenture; (iii) to provide for additional duties of the Trustee in connection with the Trust Estate or the Project; or (iv) to modify any of the provisions of the Indenture, provided that such action shall not adversely affect the interest of the Owners of Outstanding Bonds of any series.

Any other amendment of the Indenture may be made with the written consent given by the Owners as provided in the Indenture (i) of the Owners of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all series of Bonds Outstanding are affected by the amendment, of the Owners of at least two- thirds in principal amount of the Bonds of each series so affected and Outstanding at the time such consent is given, and (iii) in case the amendment changes the terms of any Sinking Fund Installment, of the Owners of at least two-thirds in principal amount of the particular series of the Bonds and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such amendment will, by its terms, not take effect as long as any Bonds of any specified like series and maturity remain Outstanding, the consent of the Owners of such Bonds will not be required.

For any Bonds for which the payment of principal and interest is guaranteed pursuant to a policy of municipal bond insurance, the County of such policy shall be authorized to consent to such amendment in lieu of the Owners of the Bonds so insured, except with respect to any change in the terms of redemption, maturity or principal amount of such Bonds or any installment of interest thereon or any reduction in the principal amount or redemption price thereof or the rate of interest thereon.

No amendment of the Indenture may (i) permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount of the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, (ii) reduce the percentages or otherwise affect the classes of Bonds of which the consent of the Owners is required to effect any such amendment, (iii) change or modify any of the rights or obligations of any fiduciary without its written assent thereto, (iv) alter the obligations of the County to levy maintenance taxes or collect tolls as required by the Indenture, or (v) change or modify the rights or obligations of the Trustee without its written assent thereto.

## APPENDIX E

**OPINION OF BOND COUNSEL**

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May 23, 2012

WE HAVE ACTED AS BOND COUNSEL for Fort Bend County, Texas (the "County"), in connection with an issue of bonds (the "Bonds") described as follows:

> FORT BEND COUNTY, TEXAS SENIOR LIEN TOLL ROAD REVENUE BONDS, SERIES 2012, dated May 15, 2012, in the total authorized amount of $30,775,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the Senior Lien Toll Road Revenue Bond Trust Indenture, as supplemented and an Order adopted by the Commissioners Court of the County authorizing their issuance (the "Indenture" and "Order," respectively).

WE HAVE ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon certificates executed by officers, agents and representatives of the County. We have assumed no responsibility with respect to the financial condition of the County or the reporting or disclosure thereof in connection with the sale of the Bonds. Our role in connection with the County's Official Statement prepared for use in connection with the sale of the Bonds (the "Official Statement") has been limited as described therein.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified materials pertaining to the Bonds which contains certified copies of certain proceedings of the County, customary certificates of officers, agents and representatives of the County, and other certified showings relating to the authorization and issuance of the Bonds. We also have examined executed Bond No. IB-1 of this issue.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective, the Indenture creates the valid pledge of and lien on the Trust Estate that the Indenture purports to create, subject only to the provisions of the Indenture permitting the application of the Trust Estate for the purpose and on the terms and condition set forth in the Indenture and that therefore the Bonds are valid and legally binding special obligations of the County.

The rights of the owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

(2) Interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the County, the County's Financial Advisor and the Underwriter (as defined in the Order) with respect to matters solely within the knowledge of the County, the County's Financial Advisor and the Underwriter, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the County fails to comply with the foregoing covenants of the Order, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the County as the taxpayer. We observe that the County has covenanted in the Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.