

**FLAMINGO ISLES MUNICIPAL  
UTILITY DISTRICT**

**GALVESTON COUNTY, TEXAS**

**FINANCIAL REPORT**

**March 31, 2008**



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## Independent Auditors' Report

Board of Directors  
Flamingo Isles Municipal Utility District  
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Flamingo Isles Municipal Utility District, as of and for the year ended March 31, 2008, which collectively comprise the basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Flamingo Isles Municipal Utility District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Flamingo Isles Municipal Utility District, as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Null-Lairson, P.C.*

Houston, Texas  
August 14, 2008

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MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,  
CPA ASSOCIATES INTERNATIONAL, INC. WITH ASSOCIATED OFFICES IN PRINCIPAL U.S. AND INTERNATIONAL CITIES

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## **Management's Discussion and Analysis**

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## **FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

### ***Management's Discussion and Analysis***

***March 31, 2008***

#### **Using this Annual Report**

Within this section of the financial report of Flamingo Isles Municipal Utility District (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2008. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

#### **Overview of the Financial Statements**

The District is a special purpose government, which is a governmental entity that engages in a single governmental program, such as provision of water and sewer services. The District prepares its financial statements using a format specifically designed for a special-purpose government. This format combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

#### **Government-Wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the accrual basis of accounting. The Statement of Net Assets includes all of the assets and liabilities of the District, with the difference reported as net assets. Over time, changes in net assets may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The Statement of Activities reports how the District's net assets have changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

# FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT

## *Management's Discussion and Analysis*

*March 31, 2008*

### **Fund Financial Statements**

The fund financial statements include the Governmental Funds Balance Sheet and the Governmental Funds Revenues, Expenditures and Changes in Fund Balances. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

### **Financial Analysis of the District as a Whole**

In the government-wide statements, the difference between assets and liabilities is called net assets. The District's net assets at March 31, 2008, were negative \$4,247,592. This amount is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of Hitchcock. Net assets are categorized based on their availability to provide financial resources for the District. Net assets that are "Invested in capital assets, net of related debt" represent the District's investments in capital assets, less any debt used to acquire those assets that is still outstanding. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. "Restricted" net assets represent amounts that are restricted for future debt service requirements. "Unrestricted" net assets represent amounts available to meet the District's future obligations.

A comparative summary of the District's overall financial position, as of March 31, 2008 and 2007, is as follows:

	2008	2007
Current and other assets	\$ 1,430,989	\$ 345,139
Capital assets	18,006,695	18,434,309
Total assets	<u>19,437,684</u>	<u>18,779,448</u>
Current liabilities	23,083	80,097
Long-term liabilities	23,662,193	22,301,990
Total liabilities	<u>23,685,276</u>	<u>22,382,087</u>
Net assets:		
Invested in capital assets, net of related debt	(2,318,408)	(848,390)
Restricted	692,693	
Unrestricted	(2,621,877)	(2,754,249)
Total net assets	<u>\$ (4,247,592)</u>	<u>\$ (3,602,639)</u>

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**Management's Discussion and Analysis**  
**March 31, 2008**

**Financial Analysis of the District as a Whole (continued)**

The total net assets of the District decreased by \$644,953. A comparative summary of the District's Statement of Activities for the past two years is as follows:

	<u>2008</u>	<u>2007</u>
Revenues		
Property taxes, penalties and interest	\$ 426,651	\$ 278,382
Other revenues	22,859	472
Total Revenues	<u>449,510</u>	<u>278,854</u>
Expenses		
Current service operations	116,610	43,329
Interest and fiscal agent fees	542,903	79,921
Debt issuance costs		50,950
Depreciation and amortization	434,801	427,614
Total Expenses	<u>1,094,314</u>	<u>601,814</u>
Change in net assets before other items	<u>(644,804)</u>	<u>(322,960)</u>
Other Items		
Transfers to other governments	<u>(149)</u>	<u>(388,719)</u>
Change in net assets	(644,953)	(711,679)
Net assets, beginning of year	<u>(3,602,639)</u>	<u>(2,890,960)</u>
Net assets, end of year	<u><u>\$ (4,247,592)</u></u>	<u><u>\$ (3,602,639)</u></u>

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

The District's combined fund balances, as of March 31, 2008, were \$1,092,680. The following is a summary of changes in fund balances for the prior two fiscal years:

	<u>2008</u>	<u>Increase</u>	<u>2007</u>	<u>Increase</u>	<u>2006</u>
General Fund	\$ 332,101	\$ 59,255	\$ 272,846	\$ 201,709	\$ 71,137
Debt Service Fund	673,504	673,504			
Capital Projects Fund	87,075	52,602	34,473	34,473	
	<u>\$ 1,092,680</u>	<u>\$ 785,361</u>	<u>\$ 307,319</u>	<u>\$ 236,182</u>	<u>\$ 71,137</u>

Fund balances in the General Fund increased primarily as a result of revenues exceeding ongoing expenditures. Fund balance in the Debt Service Fund increased primarily due to capitalized interest received with the District's issuance of its Series 2007 bonds. Fund balance in the Capital Projects Fund increased primarily due to proceeds received from the sale of bonds.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Management's Discussion and Analysis*

*March 31, 2008*

**General Fund Budgetary Highlights**

The Board of Directors did not amend the budget during the fiscal year. The District anticipated an increase in the fund balance of \$156,834, while the actual increase was \$59,255.

Since the budget was approved prior to the beginning of the fiscal year and the budget was not amended during the year, actual results will vary from the budgeted amounts. The Budgetary Comparison Schedule on page 28 of this report provides variance information per financial statement line item.

**Capital Assets**

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>2008</u>	<u>2007</u>
Capital assets being depreciated:		
Infrastructure	\$ 19,242,644	\$ 19,242,644
Less accumulated depreciation	<u>(1,235,949)</u>	<u>(808,335)</u>
	<u>18,006,695</u>	<u>18,434,309</u>
 Capital assets, net of accumulated depreciation	 <u>\$ 18,006,695</u>	 <u>\$ 18,434,309</u>

During the current year, there were no individually significant additions to capital assets.

The District and the City of Hitchcock (the "City") have entered into an agreement which obligates the District to construct water, wastewater and storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. For the year ended March 31, 2008, capital assets in the amount of \$149 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 9.

As discussed in Note 6, the District has contractual commitments in the amount of \$3,455,230 for construction of water, sewer and drainage as well as dredging and bulkheading facilities. The District will owe its Developer for these projects upon completion of construction.

**Long-Term Debt**

At March 31, 2008, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2008</u>
2007	\$ 4,490,000

During the year, the District issued \$4,490,000 in unlimited tax bonds. At March 31, 2008, the District had \$52,070,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Management's Discussion and Analysis*

*March 31, 2008*

**Economic Factors and Next Year's Budget and Rates**

**Property Taxes**

The District's property tax base increased \$4,264,245 for the 2008 tax year from \$82,569,002 to \$86,833,247. This increase was primarily due to increased property values.

**Budget**

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2008 Actual</u>	<u>2009 Budget</u>
Total revenues	\$ 115,726	\$ 87,500
Total expenses	<u>(60,269)</u>	<u>(67,345)</u>
Revenues over expenses	55,457	20,155
Other financing sources	<u>3,798</u>	
Net change in fund balance	59,255	20,155
Beginning fund balance	<u>272,846</u>	<u>332,101</u>
Ending fund balance	<u><u>\$ 332,101</u></u>	<u><u>\$ 352,256</u></u>

The District is anticipating lower revenues primarily because of the reduction in the maintenance tax rate. Next year's budgeted expenditures are higher primarily for miscellaneous expenditures.

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## **Basic Financial Statements**

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**March 31, 2008**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>						
Cash	\$ 15,424	\$ 56,628	\$ 10,235	\$ 82,287	\$	\$ 82,287
Investments	319,539	617,007	76,840	1,013,386		1,013,386
Taxes receivable	12,105	39,279		51,384		51,384
Defferred bond issuance costs, net					283,932	283,932
Capital assets, net of depreciation					18,006,695	18,006,695
<b>Total Assets</b>	<b>\$347,068</b>	<b>\$712,914</b>	<b>\$ 87,075</b>	<b>\$1,147,057</b>	<b>18,290,627</b>	<b>19,437,684</b>
<b>Liabilities</b>						
Accounts payable	\$ 2,862	\$	\$	\$ 2,862		2,862
Other payables		131		131		131
Deferred revenues	12,105	39,279		51,384	(51,384)	
Accrued interest payable					20,090	20,090
Due to developer					19,303,567	19,303,567
Long-term debt:						
Due after one year					4,358,626	4,358,626
<b>Total Liabilities</b>	<b>14,967</b>	<b>39,410</b>		<b>54,377</b>	<b>23,630,899</b>	<b>23,685,276</b>
<b>Fund Balances/Net Assets</b>						
<b>Fund Balances:</b>						
Reserved, reported in:						
Debt service funds		673,504		673,504	(673,504)	
Capital projects funds			87,075	87,075	(87,075)	
Unreserved	332,101			332,101	(332,101)	
<b>Total Fund Balances</b>	<b>332,101</b>	<b>673,504</b>	<b>87,075</b>	<b>1,092,680</b>	<b>(1,092,680)</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$347,068</b>	<b>\$712,914</b>	<b>\$ 87,075</b>	<b>\$1,147,057</b>		
<b>Net Assets:</b>						
Invested in capital assets, net of related debt					(2,318,408)	(2,318,408)
Restricted for debt service					692,693	692,693
Unrestricted					(2,621,877)	(2,621,877)
<b>Total Net Assets</b>					<b>\$ (4,247,592)</b>	<b>\$ (4,247,592)</b>

See notes to basic financial statements.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended March 31, 2008*

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues:</b>						
Property taxes	\$108,014	\$295,619	\$	\$ 403,633	\$ 9,117	\$ 412,750
Penalties and interest		9,279		9,279	4,622	13,901
Accrued interest at date of bond sale		16,742		16,742	(16,742)	
Investment earnings	7,712	13,128	2,019	22,859		22,859
<b>Total Revenues</b>	<u>115,726</u>	<u>334,768</u>	<u>2,019</u>	<u>452,513</u>	<u>(3,003)</u>	<u>449,510</u>
<b>Expenditures/Expenses:</b>						
<b>Current service operations</b>						
Professional fees	43,040	1,504	46,517	91,061		91,061
Contracted services	8,340	6,194		14,534		14,534
Administrative	8,788	488		9,276		9,276
Other	101	1,578	60	1,739		1,739
<b>Capital outlay</b>			733,372	733,372	(733,372)	
<b>Debt service:</b>						
Interest and fiscal fees		160,720	455,430	616,150	(73,247)	542,903
Debt issuance costs			291,120	291,120	(291,120)	
Depreciation and amortization					434,801	434,801
<b>Total Expenditures/Expenses</b>	<u>60,269</u>	<u>170,484</u>	<u>1,526,499</u>	<u>1,757,252</u>	<u>(662,938)</u>	<u>1,094,314</u>
Excess (deficiency) of revenues over expenditures	55,457	164,284	(1,524,480)	(1,304,739)		
<b>Other Financing Sources/Uses:</b>						
Proceeds from sale of bond		482,160	4,007,840	4,490,000	(4,490,000)	
Bond discount			(134,700)	(134,700)	134,700	
Retirement of bond anticipation note			(2,160,000)	(2,160,000)	2,160,000	
Repayment of developer advances			(105,200)	(105,200)	105,200	
Transfers to other governments					(149)	(149)
Internal transfers	3,798	27,060	(30,858)			
Net change in fund balances	59,255	673,504	52,602	785,361	(785,361)	
Change in net assets					(644,953)	(644,953)
<b>Fund Balance/Net Assets:</b>						
<b>Beginning of the year</b>	272,846		34,473	307,319	(3,909,958)	(3,602,639)
<b>End of the year</b>	<u>\$332,101</u>	<u>\$673,504</u>	<u>\$ 87,075</u>	<u>\$1,092,680</u>	<u>\$(5,340,272)</u>	<u>\$(4,247,592)</u>

See notes to basic financial statements.

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## **FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

### *Notes to Basic Financial Statements*

*March 31, 2008*

#### **Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Flamingo Isles Municipal Utility District (the “District”) conform with accounting principles generally accepted in the United States of America. The following is a summary of the most significant policies:

##### **Creation**

The District was organized, created and established pursuant to a statute enacted by the Texas Legislature, effective June 17, 1965, and operates in accordance with its enabling legislation and the Texas Water Code, Chapters 49 and 51. The District became dormant for a number of years. On January 21, 2003, the Texas Commission on Environmental Quality (the “TCEQ”) appointed five directors to the District and the District was reactivated. The Board of Directors held its first meeting on February 13, 2003 and the first bonds were sold on June 26, 2007.

The District’s primary activities include construction and financing of bulkhead and dredging and the maintenance of bulkhead facilities. The District has also financed the construction of water and sewer facilities for land within the District. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

##### **Reporting Entity**

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

##### **Government-Wide and Fund Financial Statements**

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. The District has three governmental funds types, which are all reported as major funds.

## **FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

### *Notes to Basic Financial Statements*

*March 31, 2008*

#### **Note 1 – Summary of Significant Accounting Policies (continued)**

##### **Government-Wide and Fund Financial Statements (continued)**

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not properly includable in other funds. The principal sources of revenue are property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for dredging and the construction of bulkheads, water, sewer and drainage facilities within the District.

##### **Measurement Focus and Basis of Accounting**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred revenues because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

##### **Capital Assets**

Capital assets, which consist of bulkheads, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

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

**Capital Assets (continued)**

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are depreciated over their remaining useful lives using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	20-45 years
Other	10-20 years

**Fund Equity/ Restricted Assets**

In the fund financial statements, reserved or designated equity balances represent those portions of fund balance not appropriable for expenditures or legally segregated for a specific future use. Undesignated fund balances represent available balances for the District's future use.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At March 31, 2008, an allowance for uncollectible accounts was not considered necessary.

**Interfund Activity**

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

**Note 2 – Adjustment From Governmental to Government-wide Basis**

**Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets**

Total fund balance, governmental funds \$ 1,092,680

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 19,242,644	
Less accumulated depreciation	<u>(1,235,949)</u>	
Change due to capital assets		18,006,695

Bond issuance costs are recorded as expenditures in the funds, but are deferred and amortized in the government wide statements.

Historical cost	291,120	
Less accumulated amortization	<u>(7,188)</u>	
Change due to bond issue costs		283,932

Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

Property taxes receivable		51,384
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds, the difference consists of:

Bonds payable	(4,358,626)	
Interest payable on bonds	<u>(20,090)</u>	
Change due to long-term debt		(4,378,716)

Amounts due to the District's developer for prefunded construction are recorded as a liability in the Statement of Net Assets.

(19,303,567)

Total net assets - governmental activities

\$ (4,247,592)

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

**Note 2 – Adjustment From Governmental to Government-wide Basis (continued)**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ 785,361

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. The difference is for property taxes and related penalties and interest. 13,739

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of assets retained by the District are allocated over their estimated lives as depreciation expense. Other assets are conveyed to the City of Hitchcock.

Transfers to other governments	\$ (149)	
Depreciation expense	<u>(427,613)</u>	(427,762)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Also governmental funds report issuance costs, premiums and discounts when the related debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Issuance of long term debt	(4,490,000)	
Bond discount	134,700	
Retirement of bond anticipation note	2,160,000	
Issuance costs of long term debt	291,120	
Amortization expense	(7,188)	
Interest expense accrual	<u>56,505</u>	(1,854,863)

Capital outlays for developer reimbursements are reported as expenditures in the funds; however in the government wide statements, these amounts reduce the liability for due to developer. 733,372

Repayment of developer advances are reported as an other use item in the funds; however in the government wide statements, these amounts reduce the liability for the due to developer. 105,200

Change in net assets of governmental activities \$ (644,953)

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

March 31, 2008

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

**Investments**

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of March 31, 2008, the District's investments consist of the following:

<u>Fund</u>	<u>Investment</u>	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
General	TexPool	\$ 319,539	31.53%	AAA	less than 40 days
Debt Service	TexPool	617,007	60.89%	AAA	less then 40 days
Capital Projects	TexPool	76,840	7.58%	AAA	less than 40 days
Total		<u>\$ 1,013,386</u>	<u>100.00%</u>		

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

**Note 3 – Deposits and Investments (continued)**

**TexPool**

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares.

**Investment Credit and Interest Rate Risk**

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

**Note 4 – Capital Assets**

A summary of changes in capital assets, for the year ended March 31, 2008, follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Ending Balances</u>
Capital assets being depreciated:			
Infrastructure	\$ 19,242,644	\$	\$ 19,242,644
Less accumulated depreciation	<u>(808,335)</u>	<u>(427,614)</u>	<u>(1,235,949)</u>
	<u>18,434,309</u>	<u>(427,614)</u>	<u>18,006,695</u>
 Capital assets, net	 <u>\$ 18,434,309</u>	 <u>\$ (427,614)</u>	 <u>\$ 18,006,695</u>

Depreciation expense for the current year was \$427,614.

**Note 5 – Bond Anticipation Note**

The District uses a bond anticipation note (BAN) to provide short term financing for reimbursements to its developer. Despite its short term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long term debt or another BAN. It is, however, recorded as a liability at the government wide level. The District will repay its BAN from the proceeds of long term debt.

On July 26, 2007, the District paid its Series 2006 BAN in the amount of \$2,160,000 through the issuance of its Series 2007 unlimited tax bonds.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

**Note 5 – Bond Anticipation Note (continued)**

The effect of this transaction on the District’s short term obligations is as follows:

BANS payable, beginning of year	\$ 2,160,000
BANS refinanced	(2,160,000)
BANS payable, end of year	<u>\$</u>

**Note 6 – Due to Developer**

The District has entered into prefunding agreements with the District’s developer for the financing of the construction of water, sewer and drainage facilities. Under the agreements, the District will proceed with construction of facilities to serve the District, with funds advanced by the developer. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. The District does not record the capital asset and related liability on the Statement of Net Assets until construction of the facilities is complete.

Changes in amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$ 20,141,990
Developer reimbursements	(838,572)
New developer funded construction	149
Due to developer, end of year	<u>\$ 19,303,567</u>

In addition, the District will owe the developer approximately \$3,455,230, which is included in the following schedule of contractual commitments. As previously noted, these projects will be reported in the financial statements upon completion of construction.

	<u>Contract Amount</u>	<u>Amounts Paid</u>	<u>Remaining Commitment</u>
Harborwalk, Section 6 - Water, Sewer and Drainage	\$ 321,195	\$ 289,114	\$ 32,081
Harborwalk, Section 6 - Dredging and Bulkheading	2,848,029	367,247	2,480,782
Offsite Water Tower/Line	286,006	28,036	257,970
	<u>\$ 3,455,230</u>	<u>\$ 684,396</u>	<u>\$ 2,770,833</u>

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

March 31, 2008

**Note 7 - Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 4,490,000
Unamortized discounts	(131,374)
	<u>\$ 4,358,626</u>
Due within one year	<u>\$</u>

The District's bonds payable at March 31, 2008, consists of unlimited tax bonds as follows:

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Maturity Date, Serially, Beginning/Ending</u>	<u>Interest Payment Dates</u>	<u>Call Dates</u>
2007	\$ 4,490,000	\$ 4,490,000	5.200% - 5.500%	3/1/15 to 3/1/35	9/1 & 3/1	3/1/2015

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At March 31, 2008, the District had authorized but unissued bonds in the amount of \$52,070,000 for tax bonds.

During the year ended March 31, 2008, the District's long-term debt changed as follows:

Bonds payable, beginning of year	\$
Bonds issued	4,490,000
Bonds payable, end of year	<u>\$ 4,490,000</u>

The District issued \$4,490,000 in new bonds at a net effective interest rate of 5.5795748% to pay for infrastructure in Harborwalk Subdivision; the cost of two District lift station facilities; certain engineering costs; capitalized interest on the Bonds and to reimburse the Developer for certain interest costs; costs in connection with activation of the District; redemption of a bond anticipation note and cost related to the issuance of the Bonds.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT***Notes to Basic Financial Statements**March 31, 2008***Note 7 – Long-Term Debt (continued)**

As of March 31, 2008, annual debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$	\$ 241,080	\$ 241,080
2010		241,080	241,080
2011		241,080	241,080
2012		241,080	241,080
2013		241,080	241,080
2014		241,080	241,080
2015	500,000	241,080	741,080
2016	120,000	214,830	334,830
2017	125,000	208,590	333,590
2018	130,000	202,090	332,090
2019	140,000	195,330	335,330
2020	150,000	188,050	338,050
2021	155,000	180,250	335,250
2022	165,000	172,190	337,190
2023	175,000	163,610	338,610
2024	185,000	154,510	339,510
2025	195,000	144,890	339,890
2026	205,000	134,750	339,750
2027	215,000	123,475	338,475
2028	230,000	111,650	341,650
2029	240,000	99,000	339,000
2030	255,000	85,800	340,800
2031	265,000	71,775	336,775
2032	260,000	57,200	317,200
2033	260,000	42,900	302,900
2034	260,000	28,600	288,600
2035	260,000	14,300	274,300
	<u>\$ 4,490,000</u>	<u>\$ 4,281,350</u>	<u>\$ 8,771,350</u>

**Note 8 – Property Taxes**

On November 2, 2004, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$2.00 per \$100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Galveston County Appraisal District. Taxes are levied after receipt of the certified tax roll, are due upon receipt and are delinquent the following February 1, at which time a tax lien attaches to the related property. Penalty and interest attach thereafter.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

**Note 8 – Property Taxes (continued)**

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2008 fiscal year was financed through the 2007 tax levy. The District levied property taxes of \$0.50 per \$100 of assessed value, of which \$0.10 was allocated to maintenance and operations and \$0.40 was allocated to debt service. The resulting tax levy was \$412,845 on the adjusted taxable value of \$82,569,002.

Net property taxes receivable, at March 31, 2008, consisted of the following:

Current year taxes receivable	\$ 43,321
Prior years taxes receivable	3,441
	<u>46,762</u>
Penalty and interest receivable	4,622
Net property taxes receivable	<u>\$ 51,384</u>

**Note 9 –Transfers to Other Governments**

In accordance with an agreement between the District and the City of Hitchcock (the “City”), the District transfers all of its water, sewer and drainage facilities to the City (see Note 10). Accordingly, the District does not record capital assets in the *Statement of Net Assets*, but instead reports completed projects as transfers to other governments on the *Statement of Activities*. For the year ended March 31, 2008, the total amount of projects completed and transferred to the City was \$149.

**Note 10 – Agreement with the City of Hitchcock**

On February 1, 2005, the District entered into an agreement with the City of Hitchcock (the “City”) for the term of ninety-nine years. Pursuant to the agreement, the District’s developer will finance the construction of water and sewer system facilities to serve an area known as Harborwalk. Portions of the costs of constructing these facilities will be reimbursed to the developer by Reinvestment Zone One, City of Hitchcock, Texas (the “Zone”) and by the District. The District has agreed to reimburse the Developer from the proceeds of bonds to be issued for certain eligible project costs associated with the construction of the facilities. The Zone will reimburse the Developer from tax proceeds arising from taxation within the Zone. The facilities will be conveyed to the City at no cost to the City. Upon the City’s acceptance of each segment of the expansion of the facilities, the water and sewer facilities will be owned and operated by the City as part of the City’s water and sewer system. The City will charge its customary water and sewer rates to users within the District who will be customers of the City.

The Developer is advancing funds on behalf of the Zone and the District to dredge channels and build bulkheads on the channels. The District has agreed to accept each segment of bulkheading as it is completed and to maintain the bulkheading that is completed by the Developer. The District plans to levy a tax to pay debt service on its bonds and to pay maintenance and operating expenses, including bulkhead maintenance.

To the extent that the City has the legal authority to do so, the City consents to the organization and operation of the District as it is currently constituted and agrees that it will not take any action to dissolve the District during the term of the agreement.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Basic Financial Statements*

*March 31, 2008*

**Note 11 – Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**Required Supplementary Information**

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
*Required Supplementary Information*  
**Budgetary Comparison Schedule - General Fund**  
*For the Year Ended March 31, 2008*

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Property taxes	\$ 260,000	\$ 108,014	\$ (151,986)
Investment earnings	7,500	7,712	212
<b>Total Revenues</b>	<u>267,500</u>	<u>115,726</u>	<u>(151,774)</u>
<b>Expenditures:</b>			
<b>Current service operations:</b>			
Professional fees	71,900	43,040	28,860
Contracted services	10,000	8,340	1,660
Administrative	11,766	8,788	2,978
Other	17,000	101	16,899
<b>Total Expenditures</b>	<u>110,666</u>	<u>60,269</u>	<u>50,397</u>
Excess of revenues over expenditures	156,834	55,457	101,377
<b>Other Financing Sources/Uses:</b>			
Internal transfers	<u>                    </u>	<u>3,798</u>	<u>(3,798)</u>
Net change in fund balance	156,834	59,255	(97,579)
<b>Fund Balance:</b>			
<b>Beginning of the year</b>	<u>272,846</u>	<u>272,846</u>	<u>                    </u>
<b>End of the year</b>	<u>\$ 429,680</u>	<u>\$ 332,101</u>	<u>\$ (97,579)</u>

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

*Notes to Required Supplementary Information*

*March 31, 2008*

**Budgets and Budgetary Accounting**

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget.

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**Texas Supplementary Information**

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**

**TSI-1. Services and Rates**

March 31, 2008

**1. Services provided by the District during the Fiscal Year:**

- |  |   |                                     |
|--|---|-------------------------------------|
| <input type="checkbox"/> Retail Water  | <input type="checkbox"/> Wholesale Water      | <input type="checkbox"/> Drainage   |
| <input type="checkbox"/> Retail Wastewater   | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security   |
| <input type="checkbox"/> Solid Waste/Garbage   | <input type="checkbox"/> Flood Control        | <input type="checkbox"/> Roads      |
| <input type="checkbox"/> Participants in joint venture, regional system, and/or wastewater service (other than emergency interconnect)                         |   |                                     |
| <input checked="" type="checkbox"/> Other (specify): <u>Navigation, dredging, bulkheading - water and sewer services are provided by the City of Hitchcock</u> |   |                                     |

**2. Retail Service Providers**

N/A

(You may omit this information if your district does not provide retail services)

**a. Retail Rates for a 5/8" meter (or equivalent):**

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum Use</u>	<u>Usage Levels</u>
Water:	\$ 15.50	3,000	N	\$ 4.00	3,001 to no limit
Wastewater:	\$ 15.50	1000	N	\$ 1.80	1001 to no limit

Surcharge: \_\_\_\_\_ to \_\_\_\_\_  
 District employs winter averaging for wastewater usage? Yes  No   
 Total charges per 10,000 gallons usage: Water: \$ 43.50 Wastewater: \$ 31.70

**b. Water and Wastewater Retail Connections:**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditors' report.



**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
*TSI-2 General Fund Expenditures*  
*For the Year Ended March 31, 2008*

**Professional fees**

Legal	\$ 27,541
Audit	7,900
Engineering	7,599
	<u>43,040</u>

**Contracted services**

Bookkeeping	7,990
Financial Advisor	350
	<u>8,340</u>

**Administrative expenditures**

Directors fees	4,800
Insurance	2,201
Other administrative	1,787
	<u>8,788</u>

**Other expenditures**

	<u>101</u>
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**Total expenditures**

	<u>\$ 60,269</u>
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See accompanying auditors' report.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-3. Investments**  
**March 31, 2008**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
<b><u>General Operating Fund</u></b>				
TexPool	7897200001	Variable	N/A	\$ 319,539
<b><u>Debt Service Fund</u></b>				
TexPool	7897200003	Variable	N/A	617,007
<b><u>Capital Projects Fund</u></b>				
TexPool	7897200002	Variable	N/A	<u>76,840</u>
<b>Total - All Funds</b>				<b><u><u>\$1,013,386</u></u></b>

See accompanying auditors' report.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-4. Taxes Levied and Receivable**  
**March 31, 2008**

	<b>General</b>	<b>Debt Service</b>	<b>Total</b>	
Taxes Receivable, Beginning of Year	\$ 37,644	\$	\$ 37,644	
Adjustments	(94)		(94)	
Adjusted Receivable	37,550		37,550	
2007 Original Tax Levy	82,669	330,677	413,346	
Adjustments	(100)	(401)	(501)	
Adjusted Tax Levy	82,569	330,276	412,845	
Total to be accounted for	120,119	330,276	450,395	
Tax collections:				
Current year	73,905	295,619	369,524	
Prior years	34,109		34,109	
Total Collections	108,014	295,619	403,633	
Taxes Receivable, End of Year	\$ 12,105	\$ 34,657	\$ 46,762	
Taxes Receivable, By Years				
Current year	\$ 8,664	\$ 34,657	\$ 43,321	
Prior years	3,441		3,441	
Taxes Receivable, End of Year	\$ 12,105	\$ 34,657	\$ 46,762	
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Property Valuations:				
Land	\$ 59,734,770	\$ 43,056,160	\$ 15,969,760	\$ 3,955,000
Improvements	22,992,360	12,646,600	1,461,230	48,750
Personal Property	32,310			
Exemptions	(190,438)	(216,080)	(80,050)	(79,000)
Total Property Valuations	\$ 82,569,002	\$ 55,486,680	\$ 17,350,940	\$ 3,924,750
Tax Rates per \$100 Valuation:				
Debt service tax rates	\$ 0.40	\$ 0.50	\$ 0.50	\$ 0.50
Maintenance tax rates	0.10	0.50	0.50	0.50
	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50
Adjusted Tax Levy:	\$ 412,845	\$ 277,434	\$ 86,755	\$ 19,624
Percentage of Taxes Collected to Taxes Levied **	89.5%	98.8%	100.0%	100.0%

\* Maximum Maintenance Tax Rate Approved by Voters: \$2.00 on November 2, 2004

\*\* Calculated as taxes collected for a tax year divided by taxes levied for that tax year

See accompanying auditors' report.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-5. Long-Term Debt Service Requirements**  
**Series 2007--by Years**  
**March 31, 2008**

Due During Fiscal Years Ending	Principal Due March 1,	Interest Due September 1, March 1,	Total
2009	\$	\$ 241,080	\$ 241,080
2010		241,080	241,080
2011		241,080	241,080
2012		241,080	241,080
2013		241,080	241,080
2014		241,080	241,080
2015	500,000	241,080	741,080
2016	120,000	214,830	334,830
2017	125,000	208,590	333,590
2018	130,000	202,090	332,090
2019	140,000	195,330	335,330
2020	150,000	188,050	338,050
2021	155,000	180,250	335,250
2022	165,000	172,190	337,190
2023	175,000	163,610	338,610
2024	185,000	154,510	339,510
2025	195,000	144,890	339,890
2026	205,000	134,750	339,750
2027	215,000	123,475	338,475
2028	230,000	111,650	341,650
2029	240,000	99,000	339,000
2030	255,000	85,800	340,800
2031	265,000	71,775	336,775
2032	260,000	57,200	317,200
2033	260,000	42,900	302,900
2034	260,000	28,600	288,600
2035	260,000	14,300	274,300
	<u>\$ 4,490,000</u>	<u>\$ 4,281,350</u>	<u>\$ 8,771,350</u>

See accompanying auditors' report.

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**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-6. Change in Long-Term Bonded Debt**  
**March 31, 2008**

	<u><b>Bond Issue</b></u> <u><b>Series</b></u> <u><b>2007</b></u>
Interest rate	5.200% - 5.500%
Dates interest payable	9/1 & 3/1
Maturity dates	3/1/15 to 3/1/35
Beginning bonds outstanding	\$
Bonds issued during the year	4,490,000
Principal retirement during the year	<u>                    </u>
Ending bonds outstanding	<u>\$ 4,490,000</u>
Interest paid during fiscal year	<u>\$ 160,720</u>

Paying agent's name and city

Series 2007 Wells Fargo Bank, N.A. Houston, Texas

Bond Authority:	<u>Tax Bonds*</u>
Amount Authorized by Voters	\$ 56,560,000
Amount Issued	<u>(4,490,000)</u>
Remaining To Be Issued	<u>\$ 52,070,000</u>

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and temporary investments balances as of March 31, 2008:	<u>\$ 673,635</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 324,865</u>

See accompanying auditors' report.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund**  
**For the Last Five Fiscal Years**

	<b>Amounts</b>				
	2008	2007	2006	2005*	2004*
<b>Revenues:</b>					
Property taxes	\$ 108,014	\$ 243,637	\$ 83,574	\$ 18,958	\$
Penalties and interest		949	457	65	
Miscellaneous		10	388		
Investment earnings	7,712	362	64		
<b>Total Revenues</b>	<b>115,726</b>	<b>244,958</b>	<b>84,483</b>	<b>19,023</b>	
<b>Expenditures:</b>					
<b>Current service operations</b>					
Professional fees	43,040	23,750	21,727	45,623	29,939
Contracted services	8,340	10,361	7,819	7,231	4,618
Administrative	8,788	8,498	13,171	5,403	7,373
Other	101	640	1,249	4,127	450
<b>Total Expenditures</b>	<b>60,269</b>	<b>43,249</b>	<b>43,966</b>	<b>62,384</b>	<b>42,380</b>
Excess Revenues Over (Under)	<u>\$ 55,457</u>	<u>\$ 201,709</u>	<u>\$ 40,517</u>	<u>\$ (43,361)</u>	<u>\$ (42,380)</u>

\* Unaudited

See accompanying auditors' report.

**Percent of Fund Total Revenues**

2008	2007	2006	2005*	2004*
93.3%	99.5%	98.9%	99.7%	
	0.3%	0.5%	0.3%	
	0.1%	0.5%		
6.7%	0.1%	0.1%		
100.0%	100.0%	100.0%	100.0%	
37.2%	9.7%	25.7%	239.8%	
7.2%	4.2%	9.3%	38.0%	
7.6%	3.5%	15.6%	28.4%	
0.1%	0.3%	1.5%	21.7%	
52.1%	17.7%	52.1%	327.9%	
47.9%	82.3%	47.9%	-227.9%	

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund**  
**For the Last Fiscal Year**

	<u>Amounts</u>	<u>Percent of Fund Total Revenues</u>
	<u>2008</u>	<u>2008</u>
<b>Revenues:</b>		
Property taxes	\$ 295,619	88.3%
Penalty and interest	9,279	2.8%
Accrued interest at date of bond sale	16,742	5.0%
Investment earnings	13,128	3.9%
<b>Total Revenues</b>	<u>334,768</u>	<u>100.0%</u>
<b>Expenditures:</b>		
<b>Current service operations</b>		
Tax collection services	8,186	2.4%
Other expenditures	1,578	0.5%
<b>Debt service</b>		
Interest	<u>160,720</u>	<u>48.0%</u>
<b>Total Expenditures</b>	<u>170,484</u>	<u>50.9%</u>
Excess Revenues Over Expenditures	<u>\$ 164,284</u>	<u>49.1%</u>

See accompanying auditors' report.

**FLAMINGO ISLES MUNICIPAL UTILITY DISTRICT**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**March 31, 2008**

Complete District Mailing Address: 1301 McKinney Street, Suite 5100, Houston, Texas 77010-3093  
District Business Telephone Number: (713) 651-3601  
Submission Date of the most recent District Registration Form  
(TWC Sections 36.054 and 49.054): March 4, 2003  
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members:</b>				
Larry M. Corona	02/06 - 05/08	\$ 900	\$	President
Sidney J. Worthy	05/06 - 05/10	1,050		Vice President
John Towner	05/06 - 05/10	1,050		Secretary
Edward F. Hartman III	02/06 - 05/08	900		Treasurer
Rick Atchison	05/06 - 05/10	900		Assistant Secretary
<b>Consultants:</b>				
Fulbright & Jaworski, LLP	03/03	\$ 147,661		Attorney
Municipal Business Services, Inc.	03/03	8,990		Bookkeeper
Assessments of the Southwest, Inc.	02/03	5,038		Tax Collector
Galveston County Appraisal District	Legislation	1,156		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	04/05	1,504		Delinquent Tax Attorney
LJA Engineering & Surveying, Inc.	03/03	7,599		Engineer
Null-Lairson, P.C.	Annual	15,400		Auditor
The GMS Group, Inc.	03/03	91,835		Financial Advisor

\* *Fees of Office* are the amounts actually paid to a director during the district's fiscal year.  
See accompanying auditors' report.



Board of Directors  
Flamingo Isles Municipal Utility District  
Galveston County, Texas

In planning and performing our audit of the financial statements of Flamingo Isles Municipal Utility District (the "District"), as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Statement of Auditing Standards No. 112 (SAS No.112), effective for audits of financial statements for periods ending on or after December 15, 2006, with earlier implementation permitted, set about to identify and define deficiencies in internal control that might be significant deficiencies or material weaknesses. SAS No. 112 requires that significant deficiencies or material weaknesses be communicated to management in writing.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the District's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal controls. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the District's financial statements will not be prevented or detected by the District's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses.

### **Material Weaknesses**

The District's management consists of an elected Board of Directors (the "Directors"). Some Districts, from time-to-time, also have employees that function as a component of management. In most cases the day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors, and from time to time employees, of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, The Consultants are not members of management. Ultimately, the Directors, and from time to time, employees, of the District are responsible for the design and implementation of the system of internal control.

As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. According, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principals. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. In addition the District's Management relies on the District's auditor to prepare the capital asset and depreciation schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function is considered to be a material weakness in the system of internal control. SAS No. 112 does not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of SAS No. 112 to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the control deficiencies above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditors' involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a significant deficiency in the system of internal control.

### **Significant Deficiencies**

No matters reportable.

### **Control Deficiencies**

No matters reportable.

### **Management's Response**

The District's Board of Directors is appointed or elected from the general population and do not necessarily have governmental accounting expertise. The Board engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. Based on the auditor's unqualified opinion and after reading the financial statements, the Board believes the financial statements are materially correct. The Board does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

### **Conclusion**

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Null-Lairson, PC  
August 14, 2008



August 14, 2008

Board of Directors  
Flamingo Isles Municipal Utility District  
Galveston County, Texas

We have audited the financial statements of the governmental activities and each major fund of Flamingo Isles Municipal Utility District (the "District") for the year ended March 31, 2008, and have issued our report thereon dated August 14, 2008. Professional standards require that we provide you with the following information related to our audit. For the purposes of this letter, the term "management" refers to the Board and/or District consultants.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 20, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles in the United States of America. Our audit of the financial statements does not relieve you of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that the future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation expense, which is based on estimates of the useful lives of the District's capital assets using guidelines established by the Texas Commission on Environmental Quality. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with the management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The District's bookkeeper will be provided with the adjustments necessary to correct all such misstatements in the District's accounting records. There were no uncorrected misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### Disagreements with the Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors of Flamingo Isles Municipal Utility District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Null Lairson, PC