

**FLAMINGO ISLES MUNICIPAL  
UTILITY DISTRICT**

**GALVESTON COUNTY, TEXAS**

**FINANCIAL REPORT**

**March 31, 2011**



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**Table of Contents**

	<b><u>Schedule</u></b>	<b><u>Page</u></b>
Independent Auditors' Report		1
Management's Discussion and Analysis		5
<b>BASIC FINANCIAL STATEMENTS</b>		
Statement of Net Assets and Governmental Funds Balance Sheet		12
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances		13
Notes to Basic Financial Statements		15
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Budgetary Comparison Schedule – General Fund		28
Notes to Required Supplementary Information		29
<b>TEXAS SUPPLEMENTARY INFORMATION</b>		
Services and Rates	TSI-1	33
General Fund Expenditures	TSI-2	35
Investments	TSI-3	36
Taxes Levied and Receivable	TSI-4	37
Long-Term Debt Service Requirements by Years	TSI-5	38
Change in Long-Term Bonded Debt	TSI-6	39
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	40
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	42
Board Members, Key Personnel and Consultants	TSI-8	44

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## Independent Auditors' Report

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

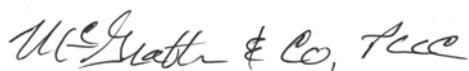
We have audited the accompanying financial statements of the governmental activities and each major fund of Flamingo Isles Municipal Utility District, as of and for the year ended March 31, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These basic 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, 2011, 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.



Houston, Texas  
August 11, 2011



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

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***Flamingo Isles Municipal Utility District  
Management's Discussion and Analysis  
March 31, 2011***

**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, 2011. 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 prepares its basic financial statements using a format that 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, 2011*

**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, 2011, were negative \$5,645,179. This amount is negative partially because the District has incurred debt to construct water, sewer and storm drainage facilities which it conveyed 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, 2011 and 2010, is as follows:

	2011	2010
Current and other assets	\$ 1,578,795	\$ 1,668,534
Capital assets	16,723,853	17,151,467
Total assets	<u>18,302,648</u>	<u>18,820,001</u>
Current liabilities	124,588	24,734
Long-term liabilities	23,823,239	24,003,250
Total liabilities	<u>23,947,827</u>	<u>24,027,984</u>
Net assets:		
Invested in capital assets, net of related debt	(3,511,880)	(3,409,067)
Restricted	864,794	905,069
Unrestricted	(2,998,093)	(2,703,985)
Total net assets	<u>\$ (5,645,179)</u>	<u>\$ (5,207,983)</u>



*Flamingo Isles Municipal Utility District  
Management's Discussion and Analysis  
March 31, 2011*

**General Fund Budgetary Highlights**

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year. The District anticipated a decrease in the fund balance of \$24,223, while the actual change was a decrease of \$54,316.

The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. Actual revenues were \$37,258 greater than budgeted, while actual expenditures were \$67,351 greater than budgeted. 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 March 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Capital assets being depreciated:		
Infrastructure	\$ 19,242,644	\$ 19,242,644
Less accumulated depreciation	(2,518,791)	(2,091,177)
Capital assets, net	<u>\$ 16,723,853</u>	<u>\$ 17,151,467</u>

**Long-Term Debt**

At March 31, 2011 and 2010, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2011</u>	<u>2010</u>
2007	<u>\$ 4,400,000</u>	<u>\$ 4,490,000</u>

At March 31, 2011, the District had \$52,070,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving water and sanitary sewer facilities; the reclamation and drainage of land; and providing for the navigation of canals within the District.

**Next Year's Budget and Property Tax Values**

**Budget**

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2011 Actual</u>	<u>2012 Budget</u>
Total revenues	\$ 124,258	\$ 131,000
Total expenditures	(178,574)	(293,378)
Net change in fund balance	(54,316)	(162,378)
Beginning fund balance	365,519	311,203
Ending fund balance	<u>\$ 311,203</u>	<u>\$ 148,825</u>

*Flamingo Isles Municipal Utility District  
Management's Discussion and Analysis  
March 31, 2011*

**Property Taxes**

The District's property tax base increased approximately \$1,230,000 for the 2011 tax year from \$71,868,347 to \$73,100,000, based on preliminary values.

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## **Basic Financial Statements**

*Flamingo Isles Municipal Utility District  
Statement of Net Assets and Governmental Funds Balance Sheet  
March 31, 2011*

	<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	\$ 3,822	\$ 50,069	\$ 10,236	\$ 64,127	\$	\$ 64,127
Investments	314,980	747,697	78,593	1,141,270		1,141,270
Taxes receivable	34,493	87,064		121,557		121,557
Accrued interest receivable		255		255		255
Deferred bond issuance costs, net					251,586	251,586
Capital assets, net					16,723,853	16,723,853
<b>Total Assets</b>	<b>\$ 353,295</b>	<b>\$ 885,085</b>	<b>\$ 88,829</b>	<b>\$ 1,327,209</b>	<b>16,975,439</b>	<b>18,302,648</b>
<b>Liabilities</b>						
Accounts payable	\$ 9,297	\$	\$	\$ 9,297		9,297
Other payables		201		201		201
Deferred revenues	32,795	83,442		116,237	(116,237)	
Accrued interest payable					20,090	20,090
Due to developer					19,634,646	19,634,646
Long-term debt:						
Due within one year					95,000	95,000
Due after one year					4,188,593	4,188,593
<b>Total Liabilities</b>	<b>42,092</b>	<b>83,643</b>		<b>125,735</b>	<b>23,822,092</b>	<b>23,947,827</b>
<b>Fund Balances/Net Assets</b>						
<b>Fund Balances:</b>						
Reserved, reported in:						
Debt service fund		801,442		801,442	(801,442)	
Capital projects fund			88,829	88,829	(88,829)	
Unreserved	311,203			311,203	(311,203)	
<b>Total Fund Balances</b>	<b>311,203</b>	<b>801,442</b>	<b>88,829</b>	<b>1,201,474</b>	<b>(1,201,474)</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$ 353,295</b>	<b>\$ 885,085</b>	<b>\$ 88,829</b>	<b>\$ 1,327,209</b>		
<b>Net Assets:</b>						
Invested in capital assets, net of related debt					(3,511,880)	(3,511,880)
Restricted for debt service					864,794	864,794
Unrestricted					(2,998,093)	(2,998,093)
<b>Total Net Assets</b>					<b>\$ (5,645,179)</b>	<b>\$ (5,645,179)</b>

See notes to basic financial statements.



*Flamingo Isles Municipal Utility District  
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended March 31, 2011*

	<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	\$ 123,660	\$ 304,109	\$	\$ 427,769	\$ (5,542)	\$ 422,227
Penalties and interest		11,358		11,358	(1,017)	10,341
Investment earnings	598	4,428	147	5,173		5,173
<b>Total Revenues</b>	<b>124,258</b>	<b>319,895</b>	<b>147</b>	<b>444,300</b>	<b>(6,559)</b>	<b>437,741</b>
<b>Expenditures/Expenses:</b>						
<b>Operating and administrative</b>						
Professional fees	93,652			93,652		93,652
Contracted services	8,488	9,372		17,860		17,860
Repairs and maintenance	63,900			63,900		63,900
Administrative	5,880	1,038		6,918		6,918
Other	6,654	938		7,592		7,592
<b>Debt service:</b>						
Principal		90,000		90,000	(90,000)	
Interest and fiscal agent fees		241,630		241,630	4,989	246,619
<b>Depreciation and amortization</b>					<b>438,396</b>	<b>438,396</b>
<b>Total Expenditures/Expenses</b>	<b>178,574</b>	<b>342,978</b>		<b>521,552</b>	<b>353,385</b>	<b>874,937</b>
Net change in fund balances	(54,316)	(23,083)	147	(77,252)	77,252	
Change in net assets					(437,196)	(437,196)
<b>Fund Balance/Net Assets:</b>						
<b>Beginning of the year</b>	<b>365,519</b>	<b>824,525</b>	<b>88,682</b>	<b>1,278,726</b>	<b>(6,486,709)</b>	<b>(5,207,983)</b>
<b>End of the year</b>	<b>\$ 311,203</b>	<b>\$ 801,442</b>	<b>\$ 88,829</b>	<b>\$ 1,201,474</b>	<b>\$ (6,846,653)</b>	<b>\$ (5,645,179)</b>

See notes to basic financial statements.

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*Flamingo Isles Municipal Utility District  
Notes to Basic Financial Statements  
March 31, 2011*

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

The accounting policies of 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 is responsible for providing water and sewer facilities within the District, reclaiming land and providing for drainage of land within the District and providing for navigation of its coastal and inland waters through the construction and maintenance of bulkheading and the dredging for canals and channels. The water and sewer facilities constructed by the District are conveyed to the City of Hitchcock for maintenance and operation. 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.

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

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 source of revenue is 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 the construction of the District's water, sewer, drainage, bulkhead and dredging facilities.

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.

**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 and interest earned on investments. 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.

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

**Capital Assets**

Capital assets, which primarily 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.

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 using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	45 years

**Fund Equity / Restricted Resources**

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, 2011, an allowance for uncollectible accounts was not considered necessary.

**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, 2011*

**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		\$ 1,201,474
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>(2,518,791)</u>	
Change due to capital assets		16,723,853
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>(39,534)</u>	
Change due to bond issue costs		251,586
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	105,111	
Penalty and interest receivable	<u>11,126</u>	
Change due to property taxes		116,237
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, net	(4,283,593)	
Interest payable on bonds	<u>(20,090)</u>	
Change due to long-term debt		(4,303,683)
Amounts due to the District's developer for prefunded construction are recorded as a liability in the <i>Statement of Net Assets</i> .		
		(19,634,646)
Total net assets - governmental activities		<u><u>\$ (5,645,179)</u></u>

*Flamingo Isles Municipal Utility District*  
*Notes to Basic Financial Statements*  
*March 31, 2011*

**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	\$ (77,252)
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.	(6,559)
In the <i>Statement of Activities</i> , capital assets are depreciated or amortized over their estimated useful lives.	(427,614)
Governmental funds report issuance costs and discounts when the related debt is first issued, whereas these amounts are deferred and amortized in the <i>Statement of Activities</i> .	
Principal payments	\$ 90,000
Amortization expense	(10,782)
Interest expense accrual	(4,989)
	<u>74,229</u>
Change in net assets of governmental activities	<u><u>\$ (437,196)</u></u>

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) 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.

*Flamingo Isles Municipal Utility District*  
*Notes to Basic Financial Statements*  
*March 31, 2011*

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

**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, 2011, 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	\$ 314,980	27.60%	AAAm	80 days
Debt Service	Certificates of deposit	490,000	42.93%	N/A	
	TexPool	257,697	22.58%	AAAm	80 days
		<u>747,697</u>	<u>65.51%</u>		
Capital Projects	TexPool	78,593	6.89%	AAAm	80 days
Total		<u>\$ 1,141,270</u>	<u>100.00%</u>		

**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.



*Flamingo Isles Municipal Utility District  
Notes to Basic Financial Statements  
March 31, 2011*

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

**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, 2011, 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	(2,091,177)	(427,614)	(2,518,791)
Capital assets, net	<u>\$ 17,151,467</u>	<u>\$ (427,614)</u>	<u>\$ 16,723,853</u>

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

**Note 5 – Due to Developer**

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer and storm drainage facilities, dredging and the construction of bulkheads. Under the agreements, the developer will advance funds for the construction of these facilities. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ. The District does not record the capital asset and related liability on the government wide statements until construction of the facilities is complete.

The amount due to developer at March 31, 2011 remained unchanged from the prior year at \$19,634,646.

**Note 6 - Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 4,400,000
Unamortized discounts	(116,407)
Bonds payable, net	<u>\$ 4,283,593</u>
Due within one year	<u>\$ 95,000</u>

*Flamingo Isles Municipal Utility District*  
*Notes to Basic Financial Statements*  
*March 31, 2011*

**Note 6 - Long-Term Debt (continued)**

The District's bonds payable at March 31, 2011, 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	\$ 4,400,000	\$ 4,490,000	5.2% to 5.5%	March 1, 2011 to March 1, 2035	September 1 & March 1	March 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, 2011, the District had authorized but unissued bonds in the amount of \$52,070,000 for acquiring, constructing and improving water and sanitary sewer facilities; the reclamation and drainage of land; and providing for the navigation of canals within the District.

The change in the District's long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 4,490,000
Bonds retired	(90,000)
Bonds payable, end of year	<u>\$ 4,400,000</u>

*Flamingo Isles Municipal Utility District*  
*Notes to Basic Financial Statements*  
*March 31, 2011*

**Note 6 - Long-Term Debt (continued)**

As of March 31, 2011, annual debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 95,000	\$ 236,355	\$ 331,355
2013	100,000	231,368	331,368
2014	105,000	226,118	331,118
2015	110,000	220,605	330,605
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>\$ 4,400,000</u>	<u>\$ 3,508,235</u>	<u>\$ 7,908,235</u>

**Note 7 – Property Taxes**

On December 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 Central Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

*Flamingo Isles Municipal Utility District*  
*Notes to Basic Financial Statements*  
*March 31, 2011*

**Note 7 – Property Taxes (continued)**

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2011 fiscal year was financed through the 2010 tax levy. The District levied property taxes of \$0.5875 per \$100 of assessed value, of which \$0.1875 was allocated to maintenance and operations and \$0.40 was allocated to debt service. The resulting tax levy was \$422,226 on the adjusted taxable value of \$71,868,347.

Net property taxes receivable, at March 31, 2011, consisted of the following:

Current year taxes receivable	\$ 103,861
Prior years taxes receivable	6,570
	<u>110,431</u>
Penalty and interest receivable	11,126
Net property taxes receivable	<u>\$ 121,557</u>

**Note 8 – 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 the District. 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 advanced 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 bulkhead as it is completed and to maintain the bulkhead that is completed by the developer. The District levies a property 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, 2011*

**Note 9 – 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 from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**Note 10 – Concentration of Risk**

Approximately 20% of the taxable property within the District is owned by a single taxpayer. Since property taxes are the only source of revenue for both the General Fund and the Debt Service Fund, nonpayment of property taxes by this taxpayer could have a significant effect on the District's ability to meet its obligations. As of August 11, 2011, this taxpayer is delinquent in paying its 2010 property taxes. These amounts have been turned over to the District's delinquent tax attorney for collection.

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**Required Supplementary Information**

*Flamingo Isles Municipal Utility District  
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
 For the Year Ended March 31, 2011*

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Property taxes	\$ 86,000	\$ 123,660	\$ 37,660
Investment earnings	1,000	598	(402)
<b>Total Revenues</b>	<u>87,000</u>	<u>124,258</u>	<u>37,258</u>
<b>Expenditures:</b>			
<b>Operating and administrative:</b>			
Professional fees	60,000	93,652	(33,652)
Contracted services	10,000	8,488	1,512
Repairs and maintenance	29,878	63,900	(34,022)
Administrative	7,845	5,880	1,965
Other	3,500	6,654	(3,154)
<b>Total Expenditures</b>	<u>111,223</u>	<u>178,574</u>	<u>(67,351)</u>
Net change in fund balance	(24,223)	(54,316)	(30,093)
<b>Fund Balance:</b>			
<b>Beginning of the year</b>	365,519	365,519	
<b>End of the year</b>	<u>\$ 341,296</u>	<u>\$ 311,203</u>	<u>\$ (30,093)</u>



*Flamingo Isles Municipal Utility District  
Notes to Required Supplementary Information  
March 31, 2011*

**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 during the year.

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## **Texas Supplementary Information**

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**Flamingo Isles Municipal Utility District**  
**TSI-1. Services and Rates**  
**March 31, 2011**

**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"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |   |                                     |

Other (Specify) Navigation, dredging, bulkheading - water and sewer services provided by the City of Hitchcock

**2. Retail Service Providers**

(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</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
					_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \_\_\_\_\_ Wastewater \_\_\_\_\_

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</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 auditor's report.



*Flamingo Isles Municipal Utility District  
 TSI-2 General Fund Expenditures  
 For the Year Ended March 31, 2011*

<b>Professional fees</b>		
Legal		\$ 45,723
Audit		9,100
Engineering		38,829
		<u>93,652</u>
<b>Contracted services</b>		
Bookkeeping		7,588
Financial advisor		900
		<u>8,488</u>
<b>Repairs and maintenance</b>		<u>63,900</u>
<b>Administrative</b>		
Directors fees		2,100
Insurance		2,422
Other		1,358
		<u>5,880</u>
<b>Other</b>		<u>6,654</u>
<b>Total expenditures</b>		<u><u>\$ 178,574</u></u>

**Reporting of Utility Services in Accordance with HB 3693:**

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

*Flamingo Isles Municipal Utility District*  
**TSI-3. Investments**  
**March 31, 2011**

<b>Funds</b>	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>					
TexPool	7897200001	Variable	N/A	\$ 314,980	\$
<b>Debt Service Fund</b>					
Certificate of deposit	540000031	0.45%	11/20/11	245,000	69
Certificate of deposit	4011813	0.75%	08/20/11	90,000	72
Certificate of deposit	4011821	0.75%	08/20/11	90,000	72
Certificate of deposit	4004990	0.60%	08/20/11	65,000	42
TexPool	7897200003	Variable	N/A	257,697	
				<u>747,697</u>	<u>255</u>
<b>Capital Projects Fund</b>					
TexPool	7897200002	Variable	N/A	78,593	
<b>Total - All Funds</b>				<u>\$ 1,141,270</u>	<u>\$ 255</u>

See accompanying auditors' report.



**Flamingo Isles Municipal Utility District**  
**TSI-4. Taxes Levied and Receivable**  
**March 31, 2011**

	<b>Maintenance</b>			
	<b>Taxes</b>	<b>Debt Service</b>	<b>Total</b>	
Taxes Receivable, Beginning of Year	\$ 24,252	\$ 96,849	\$ 121,101	
2010 Original Tax Levy	133,187	284,132	417,319	
Adjustments	1,566	3,341	4,907	
Adjusted Tax Levy	134,753	287,473	422,226	
Total to be accounted for	159,005	384,322	543,327	
Tax collections:				
Current year	101,606	216,760	318,366	
Prior years	22,906	91,624	114,530	
Total Collections	124,512	308,384	432,896	
Taxes Receivable, End of Year	\$ 34,493	\$ 75,938	\$ 110,431	
Taxes Receivable, By Years				
2010	\$ 33,147	\$ 70,714	\$ 103,861	
2009	838	3,350	4,188	
2008	297	1,189	1,486	
2007 and prior	211	685	896	
Taxes Receivable, End of Year	\$ 34,493	\$ 75,938	\$ 110,431	
	2010	2009	2008	2007
Property Valuations:				
Land	\$ 42,351,240	\$ 59,802,530	\$ 59,708,010	\$ 59,734,770
Improvements	29,640,900	28,850,750	27,259,910	22,992,360
Personal Property	50,656	42,880	81,476	32,310
Exemptions	(174,449)	(174,200)	(216,149)	(190,438)
Total Property Valuations	\$ 71,868,347	\$ 88,521,960	\$ 86,833,247	\$ 82,569,002
Tax Rates per \$100 Valuation:				
Debt service tax rates	\$ 0.4000	\$ 0.40	\$ 0.40	\$ 0.40
Maintenance tax rates	0.1875	0.10	0.10	0.10
	\$ 0.5875	\$ 0.50	\$ 0.50	\$ 0.50
Adjusted Tax Levy:	\$ 422,226	\$ 442,610	\$ 434,166	\$ 412,845
Percentage of Taxes Collected to Taxes Levied **	75.4%	99.1%	99.7%	99.8%

\* 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, 2011*

Due During Fiscal Years Ending	Principal Due March 1,	Interest Due September 1, March 1,	Total
2012	\$ 95,000	\$ 236,355	\$ 331,355
2013	100,000	231,368	331,368
2014	105,000	226,118	331,118
2015	110,000	220,605	330,605
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>\$ 4,400,000</u>	<u>\$ 3,508,235</u>	<u>\$ 7,908,235</u>

See accompanying auditors' report.

**Flamingo Isles Municipal Utility District**  
**TSI-6. Change in Long-Term Bonded Debt**  
**March 31, 2011**

	<u><b>Bond Issue</b></u> <u><b>Series 2007</b></u>
Interest rate	5.200% - 5.500%
Dates interest payable	9/1 & 3/1
Maturity dates	3/1/11 to 3/1/35
Beginning bonds outstanding	\$ 4,490,000
Principal retirement during the year	(90,000)
Ending bonds outstanding	<u>\$ 4,400,000</u>
Interest paid during fiscal year	<u>\$ 241,080</u>

Paying agent's name and city

Series 2007

Wells Fargo Bank, N.A. Houston, Texas

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

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and temporary investments balances as of March 31, 2011: \$ 797,766

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 329,510

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>				
	2011	2010	2009	2008	2007
<b>Revenues:</b>					
Property taxes	\$ 123,660	\$ 102,050	\$ 87,695	\$ 108,014	\$ 243,637
Penalties and interest					949
Intergovernmental revenue		72,317			
Miscellaneous					10
Investment earnings	598	838	5,832	7,712	362
<b>Total Revenues</b>	<b>124,258</b>	<b>175,205</b>	<b>93,527</b>	<b>115,726</b>	<b>244,958</b>
<b>Expenditures:</b>					
<b>Operating and administrative</b>					
Professional fees	93,652	44,176	57,528	43,040	23,750
Contracted services	8,488	7,651	6,819	8,340	10,361
Repairs and maintenance	63,900	37,693	43,672		
Administrative	5,880	11,889	16,078	8,788	8,498
Other	6,654	4,855	4,953	101	640
<b>Total Expenditures</b>	<b>178,574</b>	<b>106,264</b>	<b>129,050</b>	<b>60,269</b>	<b>43,249</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>\$ (54,316)</b>	<b>\$ 68,941</b>	<b>\$ (35,523)</b>	<b>\$ 55,457</b>	<b>\$ 201,709</b>

\* Amounts negligible

See accompanying auditors' report.

**Percent of Fund Total Revenues**

2011	2010	2009	2008	2007
100%	59%	94%	93%	100%
	41%			*
*	*	6%	7%	*
100%	100%	100%	100%	100%
75%	25%	62%	37%	10%
7%	4%	7%	7%	4%
51%	22%	47%		
5%	7%	17%	8%	3%
5%	3%	5%	*	*
143%	61%	138%	52%	17%
-43%	39%	-38%	48%	84%

*Flamingo Isles Municipal Utility District*  
*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund*  
*For the Last Four Fiscal Years*

	<b>Amounts</b>			
	2011	2010	2009	2008
<b>Revenues:</b>				
Property taxes	\$ 304,109	\$ 277,873	\$ 345,266	\$ 295,619
Penalties and interest	11,358	9,985	8,577	9,279
Accrued interest on bonds at date of sale				16,742
Investment earnings	4,428	5,425	10,850	13,128
<b>Total Revenues</b>	<u>319,895</u>	<u>293,283</u>	<u>364,693</u>	<u>334,768</u>
<b>Expenditures:</b>				
Tax collection services	11,348	12,512	11,183	9,764
Debt service:				
Principal	90,000			
Interest and fiscal agent fees	241,630	241,630	241,630	160,720
<b>Total Expenditures</b>	<u>342,978</u>	<u>254,142</u>	<u>252,813</u>	<u>170,484</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (23,083)</u>	<u>\$ 39,141</u>	<u>\$ 111,880</u>	<u>\$ 164,284</u>

See accompanying auditors' report.

**Percent of Fund Total Revenues**

2011	2010	2009	2008
95%	95%	95%	88%
4%	3%	2%	3%
			5%
1%	2%	3%	4%
100%	100%	100%	100%
4%	4%	3%	3%
28%			
76%	82%	66%	48%
108%	86%	69%	51%
-8%	14%	31%	49%

**Flamingo Isles Municipal Utility District**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**March 31, 2011**

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): December 9, 2010  
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>				
Arnold J. Cross	09/10 - 05/14	\$	\$	President
Ronald Holley	09/10 - 05/12			Vice President
Richard Couch	09/10 - 05/14			Secretary
Michael Andries	09/10 - 05/14			Treasurer
Donald Tarpey	09/10 - 05/12			Assistant Secretary
Larry M. Corona	05/08 - 09/10	300		Former Director
Sidney J. Worthy	05/06 - 09/10	450		Former Director
John Towner	05/06 - 09/10	450		Former Director
Edward F. Hartman III	05/08 - 09/10	450		Former Director
Rick Atchison	05/06 - 09/10	450		Former Director
<b>Consultants:</b>				
Fulbright & Jaworski, LLP	03/03	\$ 45,723		Attorney
Municipal Business Services, Inc.	03/03	7,588		Bookkeeper
Assessments of the Southwest, Inc.	02/03	5,643		Tax Collector
Galveston Central Appraisal District	Legislation	3,729		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	04/05	4,288		Delinquent Tax Attorney
Shelmark Engineering, LLC.	08/08	38,829		Engineer
McGrath & Co., PLLC	Annual	9,100		Auditor
The GMS Group, Inc.	03/03	900		Financial Advisor

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