

EAST ALDINE MANAGEMENT DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2012

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ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Aldine Management District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of East Aldine Management District (the "District"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

July 16, 2013

**EAST ALDINE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Management's discussion and analysis of East Aldine Management District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the District's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) fund financial statements and government-wide financial statements and (2) notes to the financial statements. The fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 8 and 9. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 11 and 12 reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, sales tax revenues and general expenditures. The Debt Service Fund accounts for financial resources restricted, committed or assigned for servicing bond debt. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**EAST ALDINE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position on page 10 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 13 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 29 in this report.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$13,071,338 as of December 31, 2012.

The following is a comparative analysis of government-wide changes in net position:

**EAST ALDINE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of the Changes in the Statement of Net Position		
	2012	2011	Change Positive (Negative)
Current and Other Assets	\$ 17,650,685	\$ 5,600,687	\$ 12,049,998
Capital Assets (Net of Accumulated Depreciation)	<u>13,861,333</u>	<u>10,295,858</u>	<u>3,565,475</u>
Total Assets	<u>\$ 31,512,018</u>	<u>\$ 15,896,545</u>	<u>\$ 15,615,473</u>
Long-Term Liabilities	\$ 17,064,671	\$ 14,245,000	\$ (2,819,671)
Other Liabilities	<u>1,376,009</u>	<u>992,805</u>	<u>(383,204)</u>
Total Liabilities	<u>\$ 18,440,680</u>	<u>\$ 15,237,805</u>	<u>\$ (3,202,875)</u>
Net Position:			
Net Investment in Capital Assets	\$ 7,196,123	\$ (3,605,387)	\$ 10,801,510
Restricted	2,216,485	2,071,238	145,247
Unrestricted	<u>3,658,730</u>	<u>2,192,889</u>	<u>1,465,841</u>
Total Net Position	<u>\$ 13,071,338</u>	<u>\$ 658,740</u>	<u>\$ 12,412,598</u>

*

The following table provides a summary of the District's operations for the years ended December 31, 2012 and December 31, 2011. During the current fiscal year, the District's net position increased by \$12,412,598.

	Summary of Changes in the Statement of Activities		
	2012	2011	Change Positive (Negative)
Revenues:			
Sales Tax Revenue	\$ 5,218,979	\$ 3,405,477	\$ 1,813,502
Other Revenues	9,928,088	25,328	9,902,760
Contribution from Harris County	<u>1,750,000</u>	<u> </u>	<u>1,750,000</u>
Total Revenues	<u>\$ 16,897,067</u>	<u>\$ 3,430,805</u>	<u>\$ 13,466,262</u>
Expenses for Services	<u>4,484,469</u>	<u>6,380,729</u>	<u>1,896,260</u>
Change in Net Position	\$ 12,412,598	\$ (2,949,924)	\$ 15,362,522
Net Position, Beginning of Year	<u>658,740</u>	<u>3,608,664</u>	<u>(2,949,924)</u>
Net Position, End of Year	<u>\$ 13,071,338</u>	<u>\$ 658,740</u>	<u>\$ 12,412,598</u>

*

* As Adjusted, See Note 16

**EAST ALDINE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2012, were \$15,280,579, an increase of \$9,994,008 from the prior year.

The General Fund fund balance decreased by \$534,159, primarily due to expenditures for capital improvements, a transfer to another governmental unit, and transfers to the Debt Service Fund.

The Debt Service Fund fund balance increased by \$116,772, primarily due to transfers from the General Fund which exceeded the debt service payments for the year.

The Capital Projects Fund fund balance increased by \$10,411,395, primarily due to a grant received from the Texas Water Development Board.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did amend the budget during the current fiscal year to increase Community Development Fund by \$60,000. Actual revenues were \$1,415,501 more than budgeted revenues, primarily due to increased sales tax revenues. Actual expenditures were \$2,803,153 more than budgeted expenditures, primarily due to capital expenditures. See the budget to actual comparison on page 31.

CAPITAL ASSETS

The District's capital assets as of December 31, 2012, amount to \$13,861,333 (net of accumulated depreciation). These capital assets include land, office equipment and fixtures, leasehold improvements, street signage, as well as construction in progress.

<u>Capital Assets At Year-End Net of Accumulated Depreciation</u>	
Land	\$ 4,405,450
Construction in Progress	7,860,304
Office Equipment & Fixtures	46,692
Leasehold Improvements	229,709
Street Signage	<u>1,319,178</u>
Total Net Capital Assets	<u>\$ 13,861,333</u>

Additional information on the District's capital assets can be found in Note 7 of this report.

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total bond debt payable of \$14,822,000 and a note payable to a bank in the amount of \$3,195,772. The changes in the debt position of the District during the fiscal year ended December 31, 2012, are summarized as follows:

**EAST ALDINE MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

LONG-TERM DEBT ACTIVITY (Continued)

Bond Debt Payable – January 1, 2012	\$ 14,880,000
Plus: Bonds Issued During the Year	577,000
Less: Bond Principal Paid During the Year	<u>(635,000)</u>
Bond Debt Payable – December 31, 2012	<u>\$ 14,822,000</u>
Note Payable – January 1, 2012	\$ -0-
Plus: Note Issued During the Year	3,218,575
Less: Note Principal Paid During the Year	<u>(22,803)</u>
Note Payable – December 31, 2012	<u>\$ 3,195,772</u>

The District's Series 2005 and Series 2009 Bonds carry an underlying rating of "A" by Standard and Poor's. The Series 2005 Bonds have an insured rating of "B+" from Standard and Poor's by virtue of bond insurance issued by Radian Asset Assurance, Inc. The Series 2009 Bonds have an insured rating of "AA-" from Standard and Poor's by virtue of bond insurance issued by Assured Guaranty. The Series 2012 Bonds are non-rated. The above ratings reflect all changes during the fiscal year ended December 31, 2012.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to East Aldine Management District, P. O. Box 22167, Houston, Texas 77227-2167.

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**EAST ALDINE MANAGEMENT DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2012**

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 5	\$ 499,563	\$ 1,463
Investments, Note 5	1,895,022	2,058,571
Receivables:		
Sales Taxes, Note 6	429,226	
Accrued Interest	2,181	
From Other Funds, Note 14		311,559
From Other Governmental Units, Note 10		
Prepaid Costs	86,652	
Unamortized Bond Discount		
Land, Note 7		
Construction in Progress, Note 7		
Capital Assets (Net of Accumulated Depreciation), Note 7		
TOTAL ASSETS	\$ 2,912,644	\$ 2,371,593
LIABILITIES		
Accounts Payable	\$ 160,581	\$
Accrued Interest Payable		
Due to Other Funds, Note 14	1,093,333	
Unamortized Bond Premium		
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	\$ 1,253,914	\$ -0-
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 86,652	\$
Restricted for Authorized Construction:		
Bond Proceeds		
Grant Proceeds		
Net Investment Revenues		
Restricted for Debt Service		2,371,593
Unassigned	1,572,078	
TOTAL FUND BALANCES	\$ 1,658,730	\$ 2,371,593
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,912,644	\$ 2,371,593
NET POSITION		
Net Investment in Capital Assets		
Restricted For:		
Capital Projects		
Debt Service		
Unrestricted		
TOTAL NET POSITION		

The accompanying notes to the financial statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 5,328	\$ 506,354	\$	\$ 506,354
10,465,645	14,419,238		14,419,238
	429,226		429,226
	2,181		2,181
781,774	1,093,333	(1,093,333)	
		2,000,000	2,000,000
	86,652		86,652
		207,034	207,034
		4,405,450	4,405,450
		7,860,304	7,860,304
		1,595,579	1,595,579
<u>\$ 11,252,747</u>	<u>\$ 16,536,984</u>	<u>\$ 14,975,034</u>	<u>\$ 31,512,018</u>
\$ 2,491	\$ 163,072	\$	\$ 163,072
	1,093,333	227,300	227,300
		(1,093,333)	
		32,536	32,536
		953,101	953,101
		17,064,671	17,064,671
<u>\$ 2,491</u>	<u>\$ 1,256,405</u>	<u>\$ 17,184,275</u>	<u>\$ 18,440,680</u>
\$	\$ 86,652	\$ (86,652)	\$
1,268,970	1,268,970	(1,268,970)	
9,909,094	9,909,094	(9,909,094)	
72,192	72,192	(72,192)	
	2,371,593	(2,371,593)	
	1,572,078	(1,572,078)	
<u>\$ 11,250,256</u>	<u>\$ 15,280,579</u>	<u>\$ (15,280,579)</u>	<u>\$ -0-</u>
<u>\$ 11,252,747</u>	<u>\$ 16,536,984</u>		
		\$ 7,196,123	\$ 7,196,123
		72,192	72,192
		2,144,293	2,144,293
		3,658,730	3,658,730
		<u>\$ 13,071,338</u>	<u>\$ 13,071,338</u>

The accompanying notes to the financial statements are an integral part of this report.

**EAST ALDINE MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Total Fund Balances – Governmental Funds		\$ 15,280,579
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Unamortized bond discounts in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		207,034
Land used in governmental activities is not a financial resource and, therefore, is not reported as an asset in the governmental funds.		4,405,450
Construction in progress in governmental activities is not a financial resource and, therefore, is not reported as an asset in the governmental funds.		7,860,304
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,595,579
Governmental funds do not report amounts due from other governmental agencies which are not received within 60 days after fiscal year end. Amounts received or receivable after 60 days after fiscal year end are reported as assets in the Statement of Net Position.		2,000,000
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the governmental funds.		(227,300)
Unamortized bond premiums in governmental activities are not financial resources and therefore are not reported as liabilities in the governmental funds.		(32,536)
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:		
Note Payable to Bank Within One Year	(277,101)	
Note Payable to Bank After One Year	(2,918,671)	
Bonds Payable Within One Year	(676,000)	
Bonds Payable After One Year	(14,146,000)	<u>(18,017,772)</u>
Total Net Position – Governmental Activities		<u>\$ 13,071,338</u>

The accompanying notes to the financial statements are an integral part of this report.

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**EAST ALDINE MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Debt Service Fund
REVENUES		
Sales Tax Revenue, Note 6	\$ 5,218,979	\$
Grant Revenues, Note 8	5,000	
Investment Revenues	11,522	2,432
Contribution from Harris County		
TOTAL REVENUES	\$ 5,235,501	\$ 2,432
EXPENDITURES		
Service Operations:		
Professional Fees	\$ 74,773	\$
Contracted Services	43,080	1,000
Public Health and Neighborhood Services	54,267	
Public Safety and Security	838,140	
Economic Development and Public Relations	425,396	
Environmental and Urban Design	538,567	
Community Development	210,912	
Water and Sewer	115,840	
Transportation and Mobility	110,640	
Depreciation, Note 7		
Other	141,399	
Bond Issuance Costs		
Capital Outlay	4,859,039	
Debt Service:		
Note Principal	22,803	
Note Interest	8,717	
Bond Principal		635,000
Bond Interest		599,313
TOTAL EXPENDITURES	\$ 7,443,573	\$ 1,235,313
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,208,072)	\$ (1,232,881)
OTHER FINANCING SOURCES (USES)		
Transfer In(Out), Note 4	\$ (1,349,653)	\$ 1,349,653
Transfer to Other Governmental Unit	(195,009)	
Note Proceeds	3,218,575	
Long-Term Debt Issued, Note 8		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 1,673,913	\$ 1,349,653
NET CHANGE IN FUND BALANCES	\$ (534,159)	\$ 116,772
CHANGE IN NET POSITION		
FUND BALANCES – JANUARY 1, 2012, As Adjusted, Note 16	2,192,889	2,254,821
FUND BALANCES – DECEMBER 31, 2012	\$ 1,658,730	\$ 2,371,593

The accompanying notes to the financial statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statements of Activities
\$	\$ 5,218,979	\$	\$ 5,218,979
9,909,094	9,914,094		9,914,094
40	13,994		13,994
		<u>1,750,000</u>	<u>1,750,000</u>
<u>\$ 9,909,134</u>	<u>\$ 15,147,067</u>	<u>\$ 1,750,000</u>	<u>\$ 16,897,067</u>
\$	\$ 74,773	\$ 968,633	\$ 1,043,406
	44,080		44,080
	54,267		54,267
	838,140		838,140
	425,396		425,396
	538,567		538,567
	210,912		210,912
	115,840		115,840
	110,640		110,640
		126,802	126,802
85	141,484		141,484
22,782	22,782		22,782
51,872	4,910,911	(4,715,902)	195,009
	22,803	(22,803)	
	8,717	6,636	15,353
	635,000	(635,000)	
	<u>599,313</u>	<u>2,478</u>	<u>601,791</u>
<u>\$ 74,739</u>	<u>\$ 8,753,625</u>	<u>\$ (4,269,156)</u>	<u>\$ 4,484,469</u>
<u>\$ 9,834,395</u>	<u>\$ 6,393,442</u>	<u>\$ 6,019,156</u>	<u>\$ 12,412,598</u>
\$	\$	\$	\$
	(195,009)	195,009	
	3,218,575	(3,218,575)	
<u>577,000</u>	<u>577,000</u>	<u>(577,000)</u>	
<u>\$ 577,000</u>	<u>\$ 3,600,566</u>	<u>\$ (3,600,566)</u>	<u>\$ -0-</u>
\$ 10,411,395	\$ 9,994,008	\$ (9,994,008)	\$
		12,412,598	12,412,598
<u>838,861</u>	<u>5,286,571</u>	<u>(4,627,831)</u>	<u>658,740</u>
<u>\$ 11,250,256</u>	<u>\$ 15,280,579</u>	<u>\$ (2,209,241)</u>	<u>\$ 13,071,338</u>

The accompanying notes to the financial statements are an integral part of this report.

**EAST ALDINE MANAGEMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$	9,994,008
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(577,000)
Governmental funds report loan proceeds as other financing sources. Issued notes increase long-term liabilities in the Statement of Net Position.		(3,218,575)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position bond principal payments are reported as decreases in long-term liabilities.		635,000
Governmental funds report note principal payments as expenditures. However, in the Statement of Net Position, note principal payments are reported as decreases in long-term debt.		22,803
Governmental funds report capital expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases.		4,910,911
Governmental funds report interest expenditures on bonds as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on bonds through fiscal year end.		(2,478)
Governmental funds report interest expenditures on notes payable as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on through fiscal year end.		(6,636)
Governmental funds do not report amounts due from other governmental units which are not received within 60 days after fiscal year end. Amounts received or receivable after 60 days are recorded as revenue in the Statement of Activities.		1,750,000
Governmental funds report engineering costs associated with capital projects as capital outlay in the Statement of Revenues, Expenditures and Changes in Fund Balances when paid. However, those costs are recorded as construction in progress in the Statement of Net Position until the projects are completed. If it is determined that those projects will ultimately not be capitalized, those costs are then recorded as professional fees in the Statement of Activities.		(968,633)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		<u>(126,802)</u>
Change in Net Position - Governmental Activities	\$	<u>12,412,598</u>

The accompanying notes to the financial statements are an integral part of this report.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1. CREATION OF DISTRICT

The Aldine Community Improvement District (the "District") was created by the Texas Legislature under provisions of House Bill No. 741, of the 77th Legislature, effective June 17, 2001, codified as Chapter 3817, Texas Special District Local Laws Code (formerly Subchapter K, of Chapter 376, Texas Local Government Code) and as amended in 2005 by House Bill No. 3550, of the 79th Legislature and in 2011 by House Bill 900 of the 82nd Legislature. On September 16, 2003, the District changed its name to the Aldine Improvement District. On April 17, 2007, the District changed its name to East Aldine Management District. The District was created as a special district under Article III, Sections 52 and 52-A and Article XVI, Section 59 of the Texas Constitution. Pursuant to the provisions of the Act creating the District, the District is empowered to promote, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, arts entertainment, economic development, safety, and the public welfare in the District. The Board of Directors held its first meeting on June 25, 2001, and sold its first bonds on July 21, 2005.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The GASB has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets, Restricted, and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of “Restricted” or “Net Investment in Capital Assets.”

When both restricted and unrestricted resources are available for use, generally it is the District’s policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, sales tax revenues and general expenditures.

Debt Service Fund - To account for the financial resources restricted, committed or assigned for servicing bond debt.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include office equipment and fixtures, as well as leasehold improvements, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Office Equipment and Fixtures	3
Leasehold Improvements	Life of Lease

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position on the Statement of Net Position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for fiscal years beginning after December 15, 2011, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net assets that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net assets applicable to a future reporting period. GASB Statement No. 63 has been implemented in these financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for fiscal years beginning after December 15, 2012, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 has been early implemented in these financial statements.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3. BONDS PAYABLE

	<u>Series 2005</u>	<u>Series 2009</u>	<u>Series 2012</u>
Amount Outstanding – December 31, 2012	\$2,335,000	\$11,910,000	\$577,000
Interest Rates	4.50% - 5.00%	3.00% - 4.75%	0.27% - 3.49%
Maturity Dates – Serially Beginning/Ending	February 15, 2013/2025	February 15, 2013/2029	February 15, 2013/2032
Interest Payment Dates	February 15/ August 15	February 15/ August 15	February 15/ August 15
Callable Dates	February 15, 2014*	February 15, 2018*	February 15, 2023*

* Or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Series 2005 term bonds due February 15, 2016, February 15, 2018, February 15, 2020, February 15, 2022 and February 15, 2025 are subject to mandatory redemption by lot or other customary method at a price of par plus accrued interest on February 15 in the years and amounts as reflected in the debt service schedules. Series 2009 term bonds due February 15, 2029 are subject to mandatory redemption by lot or other customary method at a price of par plus accrued interest on February 15 in the years and amounts as reflected in the debt service schedules. Series 2012 term bonds maturing on and after February 15, 2024 may be redeemed prior to their scheduled maturities.

During the current fiscal year, the District issued Sales Tax Revenue Bonds, Series 2012 in the amount of \$577,000 with coupon rates ranging from 0.27% to 3.49%. The bonds were purchased by the Texas Water Development Board. The proceeds of the bonds, along with a \$9,909,094 grant from the Texas Water Development Board, are to be used to construct a water distribution and wastewater collection system within the boundaries of the District.

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2012:

Bond Debt Payable – January 1, 2012	\$ 14,880,000
Plus: Bonds Issued During the Year	577,000
Less: Bond Principal Paid – Series 2005	(135,000)
Less: Bond Principal Paid – Series 2009	<u>(500,000)</u>
Bond Debt Payable – December 31, 2012	<u>\$ 14,822,000</u>
Bond Debt Payable –	
Due Within One Year	\$ 676,000
Due After One Year	<u>14,146,000</u>
Bond Debt Payable – December 31, 2012	<u>\$ 14,822,000</u>

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3. BONDS PAYABLE (Continued)

As of December 31, 2012, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 676,000	\$ 589,145	\$ 1,265,145
2014	697,000	569,436	1,266,436
2015	723,000	546,037	1,269,037
2016	744,000	521,822	1,265,822
2017	769,000	496,057	1,265,057
2018-2022	4,313,000	2,012,107	6,325,107
2023-2027	4,839,000	1,017,369	5,856,369
2028-2032	<u>2,061,000</u>	<u>106,123</u>	<u>2,167,123</u>
	<u>\$ 14,822,000</u>	<u>\$ 5,858,096</u>	<u>\$ 20,680,096</u>

The bonds are payable from the proceeds of the 1% sales and use tax collected within the District.

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

- A. The Series 2009 bond resolution calls for the establishment of a Reserve Fund requirement to secure payment of all bonds outstanding, including the Series 2005 bonds. The Reserve Fund requirement is \$1,236,100, which is the lesser of (i) the maximum annual debt service requirement or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction to yield. As of December 31, 2012, the District has established an account in which the Reserve Fund requirement of \$1,236,100 has been deposited.
- B. The Series 2005 and 2009 bond resolutions state, that on or before the last business day of each month any of the bonds remain outstanding, the District is required to transfer to the Debt Service Fund, in approximately equal monthly installments, an amount that will be sufficient to accumulate the amount required to pay the next interest and principal payments on the outstanding bonds. The resolutions state that monies from pledged revenue shall be applied first to the Debt Service Fund for payment of debt service on all outstanding bonds. If on any debt service payment date the amount in the Debt Service Fund is insufficient to make the required payment, the District shall apply amounts from the Reserve Fund to the extent necessary to make such payment. During the current fiscal year, the District transferred \$1,349,653 from the General Fund to the Debt Service Fund for the purpose of making the requirement debt service payments.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS
(Continued)

C. The bond resolutions state that the District will provide continuing disclosure of certain financial information and operating data to each nationally recognized municipal securities information repository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,874,478 and the bank balance was \$1,883,222. Of the bank balance, \$1,239,755 was covered by federal depository insurance, and the remaining amount except for \$2,414, was covered by collateral pledged in the name of the District and held in a third party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2012, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 499,563	\$1,368,124	\$ 1,867,687
DEBT SERVICE FUND	1,463		1,463
CAPITAL PROJECTS FUND	<u>5,328</u>		<u>5,328</u>
TOTAL DEPOSITS	<u>\$ 506,354</u>	<u>\$1,368,124</u>	<u>\$1,874,478</u>

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5. DEPOSITS AND INVESTMENTS

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (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, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other 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 secured by delivery, (9) certain 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 invests in TexSTAR, an external investment pool that is not SEC-registered. First Southwest Asset Management, Inc. and JPMorgan Chase manage the daily operations of TexSTAR. The fair value of the District's position in the pool is the same as the value of pool shares.

**EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of December 31, 2012, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND -</u>					
TexSTAR	\$ 526,898	\$ 526,898	\$	\$	\$
Certificates of Deposit	1,368,124	990,705	377,419		
<u>DEBT SERVICE FUND-</u>					
TexSTAR	2,058,571	2,058,571			
<u>CAPITAL PROJECTS</u>					
<u>FUND -</u>					
Money Market Mutual Fund	10,463,312	10,463,312			
TexSTAR	<u>2,333</u>	<u>2,333</u>			
Total Investments	<u>\$14,419,238</u>	<u>\$14,041,819</u>	<u>\$ 377,419</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2012, the District's investment in TexSTAR was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexSTAR to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 6. SALES AND USE TAX

In accordance with Chapter 3817, Texas Special Districts Local Laws Code, as amended, the District may levy a sales and use tax if authorized by a majority of the qualified voters of the District. The sales and use tax is to be used for the purpose to promote, develop, encourage, and maintain employment commerce, transportation, housing, tourism, recreation, arts, entertainment, economic development, safety, and the public welfare in the District.

On August 11, 2001, the voters of the District approved the collection of a one (1%) percent sales and use tax. On November 13, 2001, the District entered into a contract with the Comptroller of Public Accounts of the State of Texas to administer and collect the sales and use tax on the District's behalf. On November 8, 2011, an election was held in a specially designated sales tax zone to authorize an additional 1% sales and use tax in the zone for projects benefiting the zone. During the current fiscal year, the District recorded sales tax revenues in the amount of \$5,218,979 and a receivable of \$429,226 at year end.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012:

	<u>January 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>December 31, 2012</u>
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 94,168	\$ 4,311,282	\$	\$ 4,405,450
Construction in Progress	<u>9,289,980</u>	<u>568,425</u>	<u>1,998,101</u>	<u>7,860,304</u>
Total Capital Assets Not Being Depreciated	<u>\$ 9,384,148</u>	<u>\$ 4,879,707</u>	<u>\$ 1,998,101</u>	<u>\$ 12,265,754</u>
Capital Assets Subject to Depreciation				
Office Equipment and Fixtures	\$ 22,164	\$ 42,359	\$	\$ 64,523
Leasehold Improvements	515,683			515,683
Street Signage	<u>612,260</u>	<u>768,312</u>		<u>1,380,572</u>
Total Capital Assets Subject to Depreciation	<u>\$ 1,150,107</u>	<u>\$ 810,671</u>	<u>\$ -0-</u>	<u>\$ 1,960,778</u>
Less Accumulated Depreciation				
Office Equipment and Fixtures	\$ 12,754	\$ 5,077	\$	\$ 17,831
Leasehold Improvements	225,643	60,331		285,974
Street Signage	<u>61,394</u>	<u>61,394</u>		<u>61,394</u>
Total Accumulated Depreciation	<u>\$ 238,397</u>	<u>\$ 126,802</u>	<u>\$ -0-</u>	<u>\$ 365,199</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 911,710</u>	<u>\$ 683,869</u>	<u>\$ -0-</u>	<u>\$ 1,595,579</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,295,858</u>	<u>\$ 5,563,576</u>	<u>\$ 1,998,101</u>	<u>\$ 13,861,333</u>

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8. TEXAS WATER DEVELOPMENT BOARD GRANTS

During a previous fiscal year, the District received a grant from the Texas Water Development Board (“the Board”) in an amount not to exceed \$450,000 for the purpose of planning an in-depth cost analysis of alternatives for the construction of a transmission line to supply drinking water to its customers. The District requested reimbursement from the Board for qualified expenditures it made pursuant to the grant agreement. In prior years, the District had incurred \$426,238 for costs it expected to be reimbursed for under the grant agreement, \$369,113 of which was received during previous fiscal years. The remaining \$57,125 was received by the District during the current fiscal year.

The District filed an application with the Board for financial assistance in the amount of \$10,486,094 from the Economically Distressed Areas Program Account for the construction of a project to provide water and wastewater services to a subdivision located in the District. The Board approved the application and provided the assistance by purchasing the District’s Sales Tax Revenue Bonds, Series 2012 in the amount of \$577,000 and issuing a grant to the District in the amount \$9,909,094. The funds provided by the sale of the bonds and the receipt of the grant may only be used for the above mentioned project. Any surplus funds not used to complete the project must be returned to the Board. At the completion of the project, it will be conveyed to the City of Houston and will be operated and maintained by the City. The grant and bond monies still on hand as of December 31, 2012, are required to be escrowed until release of the escrow is approved by the Board.

NOTE 9. SUBLEASE AGREEMENT

On May 23, 2003, the District entered into a sublease agreement with Aldine Communities Together, Inc. (“ACT”). On January 1, 2002, ACT had previously entered into a lease agreement for a 4,601 square foot storefront space being used as a Police Store Front. The original lease agreement was for a five year period from February 1, 2002 to January 31, 2007. In April 2003, the lease was extended 10 years and will run through January 31, 2017. The lease amount is \$24 per year. The lease also included a provision for a \$31.50 monthly charge for water service. All provisions of the original lease are applicable to the District. The District entered into the sublease in order to assist ACT in carrying out its organizational purpose and to provide funding and professional services to accomplish the renovation and expansion of the Police Store Front facilities.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 10. INTERLOCAL AGREEMENTS

During the prior year, the District entered into an agreement with Harris County, in which the District agreed to contribute up to \$250,000 toward the construction of a water distribution system to benefit residents of the District. The estimated cost of the project is \$730,056, and the County has grant funds available in the amount of \$524,114 to contribute toward the cost of the project. Should the cost of the project be less than the total of the amount the County has available plus the \$250,000 contributed by the District during the current fiscal year, the County will remit payment to the District in the amount of the difference, not to exceed \$250,000. Upon completion, the project is intended to be transferred to the City of Houston. It is expected that the County will remit \$250,000 to the District. Such amount has been included as a receivable in the Statement of Net Position.

During the prior year, the District entered into another agreement with Harris County, in which the District agreed to contribute up to \$300,000 toward the construction of a sanitary sewer system in the Mary Eleanor and Mary Francis subdivisions to benefit residents of the District.

The estimated cost of the project is \$1,227,225, and the County has grant funds available in the amount of \$1,000,000 to contribute toward the cost of the project. During the current year, the District agreed to contribute an additional \$515,637 toward the cost of the project. Should the cost of the project be less than the total of the amount the County has available plus the \$815,637 contributed by the District, the County will remit payment to the District in the amount of the difference, not to exceed \$815,637. Upon completion, the project is intended to be transferred to a utility district that operates within the boundaries of the District.

During a prior fiscal year, the District entered into an agreement with Harris County, in which the District agreed to pay the County for services rendered in regard to the award, management, execution, and oversight of agreed-upon contracts for the design and/or construction of sanitary sewer systems and water distribution systems serving areas not currently served by such systems. Pursuant to this agreement and during the prior year, the District transferred \$7,348,500 to Harris County for the construction of a sewer project to serve an area within the District. Of the total transferred, \$5,843,000 was from bond proceeds and \$1,505,000 was from available General Fund revenues. Any unused funds were to be returned to the District upon completion of the project. Subsequent to year end, Harris County returned \$1,750,000 to the District. Such amount has been included as a receivable in the Statement of Net Position.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 11. NOTE PAYABLE TO BANK

During the current fiscal year, the District borrowed \$3,218,575 from a bank to purchase 61 acres of land within the District. The District used the proceeds of the note plus its own funds to purchase the land at a cost of \$4,300,126. The note payable is for a term of ten years with monthly payments of \$31,520 including interest at 3.25%

As of December 31, 2012, the debt service requirements on the note were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 277,101	\$ 101,138	\$ 378,239
2014	286,371	91,868	378,239
2015	295,952	82,287	378,239
2016	305,641	72,598	378,239
2017	316,077	62,162	378,239
2018-2022	<u>1,714,630</u>	<u>145,045</u>	<u>1,859,675</u>
	<u>\$ 3,195,772</u>	<u>\$ 555,098</u>	<u>\$ 3,750,870</u>

NOTE 12. 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 natural disasters. The District carries commercial insurance for its fidelity bonds and participated in the Texas Municipal League Intergovernmental risk Pool (TML) to provide general liability, automobile, errors and omissions, law enforcement, real and personal property, boiler and machinery, crime, and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. During the fiscal year ended December 31, 2012, the District contributed \$13,441 to the fund for this insurance coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13. OFFICE LEASE AGREEMENT

During the prior year, the District completed the construction of new office facilities in a shopping center within the District at a total cost to the District of \$158,176. The District entered into a lease agreement with the shopping center for an initial term of 60 months beginning in March, 2011. The District is currently paying \$3,821 per month, or \$45,857 per year, during the initial lease term. Lease expense for the current fiscal year was \$45,857.

EAST ALDINE MANAGEMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 14. INTERFUND PAYABLES AND RECEIVABLES

As of December 31, 2012, the District had the following interfund liabilities: the General Fund owed the Capital Projects Fund \$781,774 for items paid by the Capital Projects Fund which were not to be paid from bond proceeds and it owed the Debt Service Fund \$311,559 for debt service payments.

NOTE 15. SPECIAL SALES AND USE TAX ELECTION

On November 8, 2011, an election was held to determine whether the District should be able to levy and collect a one percent special sales and use tax within the special sales and use tax zone established by the District. Such tax would be in addition to the existing sales and use tax levied within the District. Voters in the District approved the one percent special sales and use tax. The special sales and use tax was first levied by the District on November 16, 2011. See Note 6 for current year activity.

NOTE 16. PRIOR PERIOD ADJUSTMENT

GASB Statement No. 65 was implemented in the current fiscal year. Bond issuance costs previously reported as assets to be amortized over the life of the related debt are now recognized as an expense in the period in which the bonds are sold. The effect of this change in accounting principle is as follows:

Net Position – January 1, 2012	\$1,259,657
Effect of Adjustment	<u>(600,917)</u>
Net Position – January 1, 2012, As Adjusted	<u>\$ 658,740</u>

EAST ALDINE MANAGEMENT DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

**EAST ALDINE MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Sales Tax Revenue	\$ 3,800,000	\$ 3,800,000	\$ 5,218,979	\$ 1,418,979
Grant Revenue	5,000	5,000	5,000	
Investment Revenues	<u>15,000</u>	<u>15,000</u>	<u>11,522</u>	<u>(3,478)</u>
TOTAL REVENUES	<u>\$ 3,820,000</u>	<u>\$ 3,820,000</u>	<u>\$ 5,235,501</u>	<u>\$ 1,415,501</u>
EXPENDITURES				
Service Operations:				
Professional Fees	\$ 60,000	\$ 60,000	\$ 74,773	\$ (14,773)
Contracted Services	43,080	43,080	43,080	
Public Safety and Security	860,960	860,960	838,140	22,820
Economic Development & Public Relations	428,200	428,200	425,396	2,804
Environmental and Urban Design	476,610	476,610	538,567	(61,957)
Community Development	170,080	230,080	210,912	19,168
Water and Sewer	128,340	125,840	115,840	10,000
Public Health and Neighborhood Services	95,080	95,080	54,267	40,813
Transportation and Mobility	80,640	80,640	110,640	(30,000)
Other	141,516	141,516	141,399	117
Capital Outlay	2,098,414	2,098,414	4,859,039	(2,760,625)
Note Payments			<u>31,520</u>	<u>(31,520)</u>
TOTAL EXPENDITURES	<u>\$ 4,582,920</u>	<u>\$ 4,640,420</u>	<u>\$ 7,443,573</u>	<u>\$ (2,803,153)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (762,920)</u>	<u>\$ (820,420)</u>	<u>\$ (2,208,072)</u>	<u>\$ 1,387,652</u>
OTHER FINANCING SOURCES (USES)				
Transfer Out	\$ (1,452,900)	\$ (1,452,900)	\$ (1,349,653)	\$ 103,247
Transfer to Other Governmental Unit			(195,009)	(195,009)
Note Proceeds			<u>3,218,575</u>	<u>3,218,575</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (1,452,900)</u>	<u>\$ (1,452,900)</u>	<u>\$ 1,673,913</u>	<u>\$ 3,126,813</u>
NET CHANGE IN FUND BALANCE	\$ (2,215,820)	\$ (2,273,320)	\$ (534,159)	\$ 1,739,161
FUND BALANCE – JANUARY 1, 2012	<u>2,192,889</u>	<u>2,192,889</u>	<u>2,192,889</u>	
FUND BALANCE – DECEMBER 31, 2012	<u>\$ (22,931)</u>	<u>\$ (80,431)</u>	<u>\$ 1,658,730</u>	<u>\$ 1,739,161</u>

See accompanying independent auditor's report.

EAST ALDINE MANAGEMENT DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2012

**EAST ALDINE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012**

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ -0-</u>
PROFESSIONAL FEES:	
Audit	\$ 15,000
Engineer	22,170
Legal	<u>37,603</u>
TOTAL PROFESSIONAL FEES	<u>\$ 74,773</u>
PURCHASED SERVICES FOR RESALE:	
Public Safety and Security	\$ 838,140
Economic Development and Public Relations	425,396
Environmental and Urban Design	538,567
Community Development	210,912
Public Health and Neighborhood Services	54,267
Water and Sewer	115,840
Transportation and Mobility	<u>110,640</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 2,293,762</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 7,800
District Administrator	<u>35,280</u>
TOTAL CONTRACTED SERVICES	<u>\$ 43,080</u>
UTILITIES:	
Electricity	<u>\$ -0-</u>
REPAIRS AND MAINTENANCE	<u>\$ -0-</u>
ADMINISTRATIVE EXPENDITURES:	
Insurance	\$ 15,434
Office Operations	60,482
Rent	45,857
Other	<u>19,626</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 141,399</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012**

CAPITAL OUTLAY:	
Capital Assets	\$ 4,859,039
Expenditures not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY	<u>\$ 4,859,039</u>
NOTE PAYMENTS	<u>\$ 31,520</u>
FIRE FIGHTING	<u>\$ -0-</u>
PARKS AND RECREATION	<u>\$ -0-</u>
OTHER EXPENDITURES	<u>\$ -0-</u>
TOTAL EXPENDITURES	<u>\$ 7,443,573</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
INVESTMENTS
DECEMBER 31, 2012**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexSTAR	1010611110	Varies	Daily	\$ 526,898	\$
Certificate of Deposit	3300041224	0.65%	8/3/2013	245,181	655
Certificate of Deposit	100604	0.90%	9/3/2013	245,000	169
Certificate of Deposit	4022600	0.80%	8/5/2013	252,414	310
Certificate of Deposit	4087573	0.95%	8/5/2013	248,110	362
Certificate of Deposit	5600101456	1.25%	11/8/2017	<u>377,419</u>	<u>685</u>
TOTAL GENERAL FUND				<u>\$ 1,895,022</u>	<u>\$ 2,181</u>
<u>DEBT SERVICE FUND</u>					
TexSTAR	1010633330	Varies	Daily	\$ 815,860	\$
TexSTAR	1010662330	Varies	Daily	<u>1,242,711</u>	<u> </u>
TOTAL DEBT SERVICE FUND				<u>\$ 2,058,571</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND</u>					
TexSTAR	1010620050	Varies	Daily	\$ 2,333	
Money Market Mutual Fund	740825	Varies	Daily	9,909,094	
Money Market Mutual Fund	740827	Varies	Daily	<u>554,218</u>	<u> </u>
TOTAL CAPITAL PROJECTS FUND				<u>\$ 10,465,645</u>	<u>\$ -0-</u>
TOTAL – ALL FUNDS				<u>\$ 14,419,238</u>	<u>\$ 2,181</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012**

BOND SERIES - 2005			
Due During Fiscal Years Ending December 31	Principal Due February 15	Interest Due February 15/ August 15	Total
2013	\$ 140,000	\$ 103,000	\$ 243,000
2014	145,000	95,875	240,875
2015	150,000	88,875	238,875
2016	155,000	82,013	237,013
2017	160,000	74,925	234,925
2018	170,000	67,500	237,500
2019	175,000	59,738	234,738
2020	185,000	51,637	236,637
2021	190,000	43,200	233,200
2022	200,000	34,425	234,425
2023	210,000	25,200	235,200
2024	220,000	15,525	235,525
2025	235,000	5,287	240,287
2026			
2027			
2028			
2029			
2030			
2031			
2032			
TOTAL	<u>\$ 2,335,000</u>	<u>\$ 747,200</u>	<u>\$ 3,082,200</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012**

BOND SERIES - 2009

Due During Fiscal Years Ending December 31	Principal Due February 15	Interest Due February 15/ August 15	Total
2013	\$ 515,000	\$ 474,213	\$ 989,213
2014	530,000	458,538	988,538
2015	550,000	442,338	992,338
2016	565,000	425,259	990,259
2017	585,000	406,925	991,925
2018	605,000	386,831	991,831
2019	625,000	364,681	989,681
2020	650,000	340,525	990,525
2021	675,000	314,431	989,431
2022	705,000	286,391	991,391
2023	735,000	256,231	991,231
2024	765,000	223,400	988,400
2025	800,000	188,188	988,188
2026	840,000	150,763	990,763
2027	880,000	110,438	990,438
2028	920,000	67,688	987,688
2029	965,000	22,919	987,919
2030			
2031			
2032			
TOTAL	<u>\$ 11,910,000</u>	<u>\$ 4,919,759</u>	<u>\$ 16,829,759</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012**

BOND SERIES - 2012

Due During Fiscal Years Ending December 31	Principal Due February 15	Interest Due February 15/ August 15	Total
2013	\$ 21,000	\$ 11,932	\$ 32,932
2014	22,000	15,023	37,023
2015	23,000	14,824	37,824
2016	24,000	14,550	38,550
2017	24,000	14,207	38,207
2018	25,000	13,778	38,778
2019	26,000	13,247	39,247
2020	27,000	12,623	39,623
2021	27,000	11,928	38,928
2022	28,000	11,172	39,172
2023	29,000	10,348	39,348
2024	30,000	9,461	39,461
2025	31,000	8,517	39,517
2026	32,000	7,520	39,520
2027	32,000	6,491	38,491
2028	33,000	5,430	38,430
2029	34,000	4,319	38,319
2030	35,000	3,158	38,158
2031	36,000	1,946	37,946
2032	<u>38,000</u>	<u>663</u>	<u>38,663</u>
TOTAL	<u>\$ 577,000</u>	<u>\$ 191,137</u>	<u>\$ 768,137</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012**

NOTE PAYABLE - 2012

Due During Fiscal Years Ending December 31	Principal Due Monthly	Interest Due Monthly	Total
2013	\$ 277,101	\$ 101,138	\$ 378,239
2014	286,371	91,868	378,239
2015	295,952	82,287	378,239
2016	305,641	72,598	378,239
2017	316,077	62,162	378,239
2018	326,651	51,588	378,239
2019	337,578	40,661	378,239
2020	348,780	29,459	378,239
2021	360,540	17,699	378,239
2022	341,081	5,638	346,719
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
TOTAL	<u>\$ 3,195,772</u>	<u>\$ 555,098</u>	<u>\$ 3,750,870</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012**

**ANNUAL REQUIREMENTS
FOR ALL DEBT**

Due During Fiscal Years Ending December 31	Principal Due	Interest Due	Total
2013	\$ 953,101	\$ 690,283	\$ 1,643,384
2014	983,371	661,304	1,644,675
2015	1,018,952	628,324	1,647,276
2016	1,049,641	594,420	1,644,061
2017	1,085,077	558,219	1,643,296
2018	1,126,651	519,697	1,646,348
2019	1,163,578	478,327	1,641,905
2020	1,210,780	434,244	1,645,024
2021	1,252,540	387,258	1,639,798
2022	1,274,081	337,626	1,611,707
2023	974,000	291,779	1,265,779
2024	1,015,000	248,386	1,263,386
2025	1,066,000	201,992	1,267,992
2026	872,000	158,283	1,030,283
2027	912,000	116,929	1,028,929
2028	953,000	73,118	1,026,118
2029	999,000	27,238	1,026,238
2030	35,000	3,158	38,158
2031	36,000	1,946	37,946
2032	<u>38,000</u>	<u>663</u>	<u>38,663</u>
TOTAL	<u>\$ 18,017,772</u>	<u>\$ 6,413,194</u>	<u>\$ 24,430,966</u>

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
CHANGES IN LONG-TERM BOND AND NOTE DEBT
FOR THE YEAR ENDED DECEMBER 31, 2012**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2012
East Aldine Management District Sales Tax Revenue Bonds – Series 2005	\$ 3,195,000	\$ 2,470,000
East Aldine Management District Sales Tax Revenue Bonds – Series 2009	13,365,000	12,410,000
East Aldine Management District Sales Tax Revenue Bonds – Series 2012	<u>577,000</u>	<u> </u>
TOTAL	<u>\$ 17,137,000</u>	<u>\$ 14,880,000</u>
Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ -0-	\$ -0-
Amount Issued	<u>-0-</u>	<u>-0-</u>
Remaining to be Issued	<u>\$ -0-</u>	<u>\$ -0-</u>
Debt Service Fund cash and investment balances as of December 31, 2012:		<u>\$ 2,060,034</u>
Average annual debt service payment (principal and interest) for remaining term of all bond debt:		<u>\$ 1,034,005</u>

For interest rates, interest payment dates and maturity dates, see Note 3.

Description	Original Note Issued	Note Outstanding January 1, 2012
Note Payable to Bank	<u>\$ 3,218,575</u>	<u>\$ -0-</u>
Average annual debt service payment (principal and interest) for remaining term of note payable:		<u>\$ 375,087</u>

See accompanying independent auditor's report.

Current Year Transactions				Bonds Outstanding December 31, 2012	Paying Agent
Bonds Sold	Retirements				
		Principal	Interest		
\$	\$ 135,000	\$ 109,875	\$ 2,335,000	Wells Fargo Bank, N.A. Houston, TX	
	500,000	489,438	11,910,000	Wells Fargo Bank, N.A. Houston, TX	
<u>577,000</u>			<u>577,000</u>	BNY Mellon Corporate Trust, Houston, TX	
<u>\$ 577,000</u>	<u>\$ 635,000</u>	<u>\$ 599,313</u>	<u>\$ 14,822,000</u>		

Current Year Transactions				Note Outstanding December 31, 2012
Note Issued	Retirements			
		Principal	Interest	
\$ 3,218,575	\$ 22,803	\$ 8,717	\$ 3,195,772	

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	<u>Amounts</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Sales Tax Revenue	\$ 5,218,979	\$ 3,405,477	\$ 3,203,662
Grant Revenue	5,000	6,512	106,899
Investment Revenues	<u>11,522</u>	<u>12,336</u>	<u>25,863</u>
TOTAL REVENUES	<u>\$ 5,235,501</u>	<u>\$ 3,424,325</u>	<u>\$ 3,336,424</u>
EXPENDITURES			
Professional Fees	\$ 74,773	\$ 138,729	\$ 151,597
Contracted Services	43,080	39,609	36,069
Public Safety and Security	838,140	784,658	743,254
Water and Sewer	115,840		
Public Health and Neighborhood Services	54,267		
Neighborhood Cleanup and Beauty			
Economic Development and Public Relations	425,396	317,309	176,053
Environmental and Urban Design	538,567	404,432	355,690
Community Development	210,912	177,939	232,990
Management Services		103,188	73,468
Transportation and Mobility	110,640	63,617	55,238
Other	141,399	208,852	49,418
Capital Outlay	4,859,039	2,196,672	755,490
Note Payments	<u>31,520</u>		
TOTAL EXPENDITURES	<u>\$ 7,443,573</u>	<u>\$ 4,435,005</u>	<u>\$ 2,629,267</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (2,208,072)</u>	<u>\$ (1,010,680)</u>	<u>\$ 707,157</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	\$	\$	\$
Transfer Out	(1,349,653)	(1,349,303)	(1,246,192)
Transfer to Other Governmental Unit	(195,009)	(1,631,198)	
Note Proceeds	<u>3,218,575</u>		
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 1,673,913</u>	<u>\$ (2,980,501)</u>	<u>\$ (1,246,192)</u>
NET CHANGE IN FUND BALANCE	\$ (534,159)	\$ (3,991,181)	\$ (539,035)
BEGINNING FUND BALANCE	<u>2,192,889</u>	<u>6,184,070</u>	<u>6,723,105</u>
ENDING FUND BALANCE	<u>\$ 1,658,730</u>	<u>\$ 2,192,889</u>	<u>\$ 6,184,070</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2009</u>	<u>2008</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 3,370,052	\$ 3,540,248	99.7%	99.4%	96.0%	99.4%	97.8%
		0.1	0.2	3.2		
<u>21,888</u>	<u>80,640</u>	<u>0.2</u>	<u>0.4</u>	<u>0.8</u>	<u>0.6</u>	<u>2.2</u>
<u>\$ 3,391,940</u>	<u>\$ 3,620,888</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 87,940	\$ 31,309	1.4%	4.1%	4.5%	2.6%	0.9%
111,676	31,750	0.8	1.2	1.1	3.3	0.9
724,084	644,579	16.0	22.9	22.3	21.3	17.8
		2.2				
		1.0				
287,794	281,210				8.5	7.8
320,039	322,513	8.1	9.3	5.3	9.4	8.9
11,525	15,015	10.3	11.8	10.7	0.3	0.4
		4.0	5.2	7.0		
			3.0	2.2		
48,680	30,504	2.1	1.9	1.7	1.4	0.8
94,152	27,037	2.7	6.1	1.5	2.8	0.7
55,895	14,294	92.8	64.1	22.6	1.7	0.4
		<u>0.6</u>				
<u>\$ 1,741,785</u>	<u>\$ 1,398,211</u>	<u>142.0%</u>	<u>129.6%</u>	<u>78.9%</u>	<u>51.3%</u>	<u>38.6%</u>
<u>\$ 1,650,155</u>	<u>\$ 2,222,677</u>	<u>(42.0)%</u>	<u>29.6%</u>	<u>21.1%</u>	<u>48.7%</u>	<u>61.4%</u>
\$ 3,280,000	\$					
(2,007,854)	(251,225)					
<u>34,841</u>	<u>(3,148,291)</u>					
<u>\$ 1,306,987</u>	<u>\$ (3,399,516)</u>					
\$ 2,957,142	\$ (1,176,839)					
<u>3,765,963</u>	<u>4,942,802</u>					
<u>\$ 6,723,105</u>	<u>\$ 3,765,963</u>					

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	<u>Amounts</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Investment Revenues	\$ 2,432	\$ 2,068	\$ 3,399
EXPENDITURES			
Debt Service Principal	\$ 635,000	\$ 615,000	\$ 595,000
Debt Service Interest and Fees	<u>600,313</u>	<u>621,713</u>	<u>642,100</u>
TOTAL EXPENDITURES	<u>\$ 1,235,313</u>	<u>\$ 1,236,713</u>	<u>\$ 1,237,100</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (1,232,881)</u>	<u>\$ (1,234,645)</u>	<u>\$ (1,233,701)</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>\$ 1,349,653</u>	<u>\$ 1,349,303</u>	<u>\$ 1,246,192</u>
NET CHANGE IN FUND BALANCE	\$ 116,772	\$ 114,658	\$ 12,491
BEGINNING FUND BALANCE	<u>2,254,821</u>	<u>2,140,163</u>	<u>2,127,672</u>
ENDING FUND BALANCE	<u>\$ 2,371,593</u>	<u>\$ 2,254,821</u>	<u>\$ 2,140,163</u>

See accompanying independent auditor's report.

		Percent of Total Revenues					
<u>2009</u>	<u>2008</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	
\$ <u>3,044</u>	\$ <u>7,740</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
\$ <u>120,000</u>	\$ <u>120,000</u>	26,110.2%	29,738.9%	17,505.1%	3,942.2%	1,550.4%	
<u>214,758</u>	<u>133,975</u>	<u>24,683.9</u>	<u>30,063.5</u>	<u>18,890.9</u>	<u>7,055.1</u>	<u>1,730.9</u>	
\$ <u>334,758</u>	\$ <u>253,975</u>	<u>50,794.1%</u>	<u>59,802.4%</u>	<u>36,396.0%</u>	<u>10,997.3%</u>	<u>3,281.3%</u>	
\$ <u>(331,714)</u>	\$ <u>(246,235)</u>	<u>(50,694.1)%</u>	<u>(59,702.4)%</u>	<u>(36,296.0)%</u>	<u>(10,897.3)%</u>	<u>(3,181.3)%</u>	
\$ <u>2,007,854</u>	\$ <u>251,225</u>						
\$ <u>1,676,140</u>	\$ <u>4,990</u>						
<u>451,532</u>	<u>446,542</u>						
\$ <u>2,127,672</u>	\$ <u>451,532</u>						

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2012**

District Mailing Address - East Aldine Management District
P. O. Box 22167
Houston, TX 77227-2167

District Telephone Number - (713) 541-0447

Board Members	Term of Office (Appointed)	Fees of Office for the year ended December 31, <u>2012</u>	Expense Reimbursements for the year ended December 31, <u>2012</u>	<u>Position</u>
Joyce Wiley	01/12 06/15	\$ -0-	\$ -0-	1
Virginia Bazan	11/12 06/15	\$ -0-	\$ -0-	2
Reyes Garcia, Jr.	06/11 06/15	\$ -0-	\$ -0-	3 Assistant Secretary
Patti Acosta	06/11 06/15	\$ -0-	\$ -0-	4
Deborah Foster	06/11 06/15	\$ -0-	\$ -0-	5 Secretary
Bob Beasley	06/09 06/13	\$ -0-	\$ -0-	6 Vice Chairman
Gerald Overturff	06/09 06/13	\$ -0-	\$ -0-	7 Chairman
Gilbert Hoffman	06/09 06/13	\$ -0-	\$ -0-	8
John Meinke	08/11 06/13	\$ -0-	\$ -0-	9 Treasurer

See accompanying independent auditor's report.

**EAST ALDINE MANAGEMENT DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2012**

<u>Consultants:</u>	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2012</u>	<u>Title</u>
Hawes Hill Calderon, LLP P. O. Box 22167 Houston, TX 77227-2167	10/16/01	\$ 548,504	Administrator (1)
Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, TX 77027	08/19/03	\$ 48,353	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	10/19/02	\$ 10,000	Auditor
Roland, Fry & Warren, LLC 1525 Lakeville Drive, Suite 121 Kingwood, TX 77339	07/22/03	\$ 14,466	Bookkeeper
Jones and Carter, Inc. 6335 Gulfton, Suite 100 Houston, TX 77081-1169	10/23/02	\$ 10,751	Engineer
Montgomery & Barnes, Inc. 400 Gears Road, Suite 200 Houston, TX 77067	02/18/03	\$ 26,321	Prior Engineer
Kudela & Weinheimer 7155 Old Katy Road, Suite 270 Houston, TX 77024	06/16/09	\$ 33,359	Landscape Architect
First Southwest Company 700 Milam Street, Suite 500 Houston, TX 77002	05/20/03	\$ 10,032	Financial Advisor
Jack Roland 1525 Lakeville Drive, Suite 121 Kingwood, TX 77339	07/20/04	\$ -0-	Investment Officer

- (1) Provides Personnel for Various Positions:
David W. Hawes – Executive Director
Richard Cantu – Director of Services
Scott Bean – Infrastructure Director and Executive Director Aldine Water and Sewer Authority
Gretchen Larson – Business and Economic Director
Roy Hill – Community Liaison

See accompanying independent auditor's report.