

Uptown Development Authority

Financial Report

June 30, 2006

UPTOWN DEVELOPMENT AUTHORITY
FINANCIAL REPORT
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Uptown Development Authority
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Uptown Development Authority (the "Authority"), a component unit of the City of Houston, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Authority, as of June 30, 2006, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 9 is 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.

Page 2 Independent Auditors' Report

Our audit was performed for the purpose of forming opinions on the Financial Statements, which collectively comprise Uptown Development Authority's Basic Financial Statements. The Combined Funds – Schedule of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds – Budget to Actual and the Operating Expenses, Capital Expenditures and Project Plan Reconciliation are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Houston, Texas
September 8, 2006

Management's Discussion and Analysis

As management of the Uptown Development Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006.

The Authority is a special-purpose government engaged in a single governmental program. It is also a component unit of the City of Houston, Texas. The Authority reports its financial activities in accordance with required reporting standards for special-purpose governments engaged in a single governmental program. The Authority's single governmental program involves improving the general mobility in the Uptown Houston area.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Uptown Development Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

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

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator regarding the financial position of the Authority. Other factors that are not included in the financial statements, such as increased tax base in the Authority's boundaries, should also be considered in evaluating the condition of the Authority's overall financial position.

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

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by incremental tax revenues received from the City of Houston and Houston Independent School District. The governmental activities of the Authority are restricted to those objectives outlined in the Project Plan. The prominent activities include improve streets and intersections and create a street grid network.

The government-wide financial statements can be found on pages **11-12** of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Uptown Development Authority are considered governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Authority maintains three individual governmental funds for both infrastructure and affordable housing. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the capital increment fund, capital bond fund and the debt service fund. All are considered to be major funds.

The Authority adopts an annual appropriated budget for combined funds, which is approved by the City of Houston. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages **13-16** of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages **17-25** of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, net assets were a negative \$31.6 million as of June 30, 2006. The Authority continues to have net asset deficits because the Authority incurs long-term debt for general mobility improvements that are ultimately conveyed to the City of Houston. The Authority then continues to accumulate resources for repayment of this long-term debt over an extended period of years until the debt is repaid. As of year end, the Uptown Development Authority had total assets of approximately \$15.8 million, an increase of \$1.1 million from the prior year.

Total liabilities totaled approximately \$47.4 million for the current year. This is an increase of \$2.6 million from the previous year primarily due to the accrual of payment due to the City of Houston Affordable Housing for tax increment funds.

A schedule of net assets at June 30, 2006 follows:

UPTOWN DEVELOPMENT AUTHORITY		
NET ASSETS		
June 30, 2006		
(in 000s)		
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 10,802	\$ 11,610
Deferred charges	1,283	1,351
Due from other governments	3,195	
Capital assets	550	1,800
Total Assets	<u>15,830</u>	<u>14,761</u>
Long-term liabilities outstanding	37,220	38,630
Other liabilities	10,210	6,196
Total Liabilities	<u>47,430</u>	<u>44,826</u>
Net assets:		
Restricted		
Unrestricted	(31,600)	(30,065)
Total Net Assets	<u>\$ (31,600)</u>	<u>\$ (30,065)</u>

Total expenses were approximately \$3.4 million in the current year. This is a decrease of \$5.7 million from the previous year. This is due to decreased construction activity for infrastructure projects.

Total general revenues were approximately \$8.1 million. This is a slight increase of \$900 thousand from the previous year.

Changes in net assets for the year ended June 30, 2006 follows:

**UPTOWN DEVELOPMENT AUTHORITY
NET ASSETS**

Year Ended June 30, 2006

(in 000s)

	<u>2006</u>	<u>2005</u>
General revenues		
Contract tax increment	\$ 7,847	\$ 7,137
Investment earnings	259	128
Total Revenues	<u>8,105</u>	<u>7,265</u>
Expenses		
General government	244	242
Interest on long-term debt	2,412	2,285
Capital outlay on behalf of City of Houston	811	6,663
Total Expenses	<u>\$ 3,467</u>	<u>\$ 9,190</u>
Increase (Decrease) in net assets before transfers	\$ 4,639	\$ (1,925)
Transfers	<u>\$ (4,321)</u>	<u>\$ (836)</u>
Increase (Decrease) in net assets	317	(2,761)
Net assets-Beginning	<u>(30,065)</u>	<u>(27,304)</u>
Net Assets - Ending	<u><u>\$ (29,748)</u></u>	<u><u>\$ (30,065)</u></u>

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$5.9 million, a decrease of \$1.0 million in comparison with the prior year. Approximately \$6.7 million is reserved for debt service. The remainder, a negative fund balance, is unreserved and otherwise positive balances are available for use for capital projects and affordable housing.

The capital projects fund - Increment

This fund is the chief operating fund for the Authority. All tax increment (not reserved for debt service payment) is used to carry out the capital mobility program as mandated by the Project plan. General operating expenses for administration are limited according to the Project plan (approximately \$180,000 dollars per year). The capital fund balance was a negative \$950 thousand at year-end for infrastructure and \$42 thousand for affordable housing.

The capital projects fund - Bonds

This fund is used to account for the receipt and subsequent expenditure of bond proceeds in order to carry out the capital mobility program as mandated by the Project plan. There was no activity for this fund during the fiscal year.

The debt service fund

The debt service fund has a total fund balance of \$6.7 million, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$.1.3 million.

Capital Asset and Debt Administration

Capital assets.

The Authority issues debt to finance the capital improvement plan adopted by the City of Houston. As mentioned earlier, the assets are the property of the City. All costs incurred by the Authority are primarily capital costs to execute the plan. Street improvements and other assets are not carried on the Authority's statements.

Long-term debt at the end of the current fiscal year totaled \$38.7 million. The decrease is due to principal payments made during the year. Additionally, there was no bond issue in the fiscal year.

Additional information on the Authority's long-term debt can be found in Note 6 on pages 22-24 of this report.

Economic Factors and Next Year's Budgets and Rates

The Authority administers the operations of the TIRZ on behalf of the City of Houston.

The TIRZ (Uptown) is one of the nation's largest suburban districts, which boasts a unique blend of office, retail, hotel and residential sectors. Uptown includes approximately 1,010 acres of land within its boundaries, all of which lie within the City.

Office Space

Uptown has over 23 million square feet of office space. Overall, 2006 ad valorem values for the office sector have increased by 18% over the 2005 values. This is primarily because of the tremendous amount of leasing activity in the past four quarters. Net office space absorption has almost doubled in the last year, from 232,000 square feet to 402,000 square feet. One of the most active properties in the past year was Williams Tower, which reduced its availability to 64,000 square feet of contiguous available space, down from 500,000 square feet of contiguous space in 2004.

Uptown Houston's Class A office space occupancy is the highest the area has experienced since 2002, and it continues to soar. In the first quarter of 2006, the occupancy rate reached 85.7 percent, up more than 6.5 percent from the same time last year.

Retail

Uptown is synonymous with shopping and is known as a world-renowned center for retail. Overall, 2006 ad valorem values for the retail sector increased approximately 5% over 2005 values. This market continues to perform as The Galleria is now the fourth largest retail center in the United States. Uptown also has a 22-acre mixed-use development known as Boulevard Place breaking ground in late 2006. This development will feature over 400,000 square feet of upscale retail stores and restaurants.

According to CoStar's mid-year Retail Market Report, Uptown Houston's retail market has the lowest vacancy rate of any submarket in the region at 2.3%. Also, quoted lease rates were among the highest in the region at \$25 per square foot.

Hotel

Uptown welcomed two new hotels in the past year, and two more are currently under construction. In total, there are now 31 first quality hotels in Uptown offering more than 7,000 rooms for guests. Ad valorem values for this sector have increased by 26% since last year.

The area's RevPAR (revenues per available room) are among the city's highest at \$100.40 (compared to \$86.51 from the same time last year). Uptown also one of the highest occupancy rates in the city at 74.9% (compared to 68.7% last year).

Residential

With seven new high-rise residential towers built in Uptown in the past six years and occupancy rates among the highest in the city at 93.6%, Uptown is one of the most prestigious and desirable areas to live. There are now over 30,000 residents in Uptown. Two condominium projects are currently under construction, and Trammell Crow Residential has just broken ground on Alexan Post Oak, which is an upscale, mid-rise apartment project at 1111 Post Oak Boulevard. Proposed opening date is third quarter 2007.

The economic factors affecting Uptown, while encouraging, are difficult to forecast. However, with the new construction and promising proposed developments on the horizon, the Uptown district remains a viable district. The capital budget for the Authority is based on the increment value received from the City of Houston and new bond issues. While economic factors (property values, vacancy rates, future development, etc.) impact the size of debt issues, management takes a conservative approach to ensure that adequate resources are available to support the projects within the mandates of the Plan.

Requests for Information

This financial report is designed to provide a general overview of the Uptown Development Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 1980 Post Oak Boulevard #1580, Houston, Texas 77056.

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UPTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Cash and temporary investments	\$ 10,801,969
Deferred charges	1,283,328
Due from other governmental agencies	3,194,624
Land	550,000
Total Assets	15,829,921
 LIABILITIES	
Accounts payable and accrued expenses	2,017,975
Due to other governmental agencies	3,237,108
Long-term liabilities	
Due within one year	
Other Notes Payable	2,754,362
Bonds	1,505,000
Accrued interest	695,510
Due in more than one year	
Bonds	37,220,000
Total liabilities	47,429,955
 NET ASSETS	
Invested in capital assets, net of related debt	550,000
Restricted for:	
Debt Service	6,149,830
Unrestricted	(38,299,864)
Total net assets	\$ (31,600,034)

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Governmental Activities</u>
Governmental Activities		
General Government	\$ 244,207	\$ (244,207)
Interest on Long-term debt	2,410,990	(2,410,990)
Capital outlay on behalf of the City of Houston	811,519	(811,519)
Total governmental activities	<u>3,466,716</u>	<u>(3,466,716)</u>
	General revenues:	
	Taxes:	
	Contract tax increment	7,846,635
	Unrestricted investment earnings	258,606
	Miscellaneous	
	Affordable housing-transfer to the primary government	(4,321,291)
	Total general revenues	<u>3,783,950</u>
	Change in net assets	317,234
	Net assets - beginning	(31,917,268)
	Net assets - ending	<u>\$ (31,600,034)</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Affordable Housing-Special Revenue	Capital Projects	Affordable Housing-Capital Projects	Debt Service	Affordable Housing-Debt Service	Total Governmental Funds
ASSETS						
Cash and temporary investments	\$ 41,709	\$ 8,021,210	\$ 50,834	\$ 1,792,036	\$ 896,177	\$ 10,801,966
Taxes receivable, net	1,854,256				1,382,755	3,237,011
Due from other funds				2,755,397		2,755,397
Total assets	<u>1,895,965</u>	<u>8,021,210</u>	<u>50,834</u>	<u>4,547,433</u>	<u>2,278,932</u>	<u>16,794,374</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable		163,715				163,715
Due to other governments		6,034,893				6,034,893
Payable to other governments	1,854,256					1,854,256
Other accrued expenses		18,975				18,975
Short-term notes payable		2,754,362				2,754,362
Total liabilities	<u>1,854,256</u>	<u>8,971,945</u>				<u>10,826,201</u>
Fund balances:						
Debt service				4,547,433	2,278,932	6,826,365
Authorized construction	41,709	(950,735)	50,834			(858,192)
Total fund balances	<u>41,709</u>	<u>(950,735)</u>	<u>50,834</u>	<u>4,547,433</u>	<u>2,278,932</u>	<u>5,968,173</u>
Total liabilities and fund balances	<u>\$ 1,895,965</u>	<u>\$ 8,021,210</u>	<u>\$ 50,834</u>	<u>\$ 4,547,433</u>	<u>\$ 2,278,932</u>	<u>\$ 16,794,374</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
***Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets***
June 30, 2006

Total fund balance, governmental funds \$ 5,968,173

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds. 550,000

Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.

These are as follows:

Bonds payable	(38,725,000)
Accrued interest	(676,535)
Deferred charge for issuance costs	595,784
Deferred charge for bond discount	687,544
Net Assets of Governmental Activities in the Statement of Net Assets	<hr style="border: 0.5px solid black;"/> \$ (31,600,034)

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	Affordable Housing- Special Revenue	Capital Projects	Affordable Housing- Capital Projects	Debt Service	Affordable Housing-Debt Service	Total Governmental Funds
REVENUES						
Contract tax increment	\$ 1,854,256	\$ 1,854,127	\$	\$ 2,755,396	\$ 1,382,855	\$ 7,846,634
Investment earnings	19,058	114,267	1,962	82,198	41,121	258,606
Total revenues	<u>1,873,314</u>	<u>1,968,394</u>	<u>1,962</u>	<u>2,837,594</u>	<u>1,423,976</u>	<u>8,105,240</u>
EXPENDITURES						
Current:						
Debt Service:						
Principal				550,000	275,000	825,000
Interest and other charges	4,929	264,806	8,485	1,384,642	692,524	2,355,386
Capital Outlay		1,605,726				1,605,726
Total Expenditures	<u>4,929</u>	<u>1,870,532</u>	<u>8,485</u>	<u>1,934,642</u>	<u>967,524</u>	<u>4,786,112</u>
Excess (deficiency) of revenues over expenditures	<u>1,868,385</u>	<u>97,862</u>	<u>(6,523)</u>	<u>902,952</u>	<u>456,452</u>	<u>3,319,128</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	(4,321,291)					(4,321,291)
Total other financing sources (uses)	<u>(4,321,291)</u>					<u>(4,321,291)</u>
Revenue and other financing sources/(uses) over/(under) expenditures	<u>(2,452,906)</u>	<u>97,862</u>	<u>(6,523)</u>	<u>902,952</u>	<u>456,452</u>	<u>(1,002,163)</u>
Fund balances - beginning of year	2,494,615	(1,048,597)	57,357	3,644,481	1,822,480	6,970,336
Fund balances - End of Year	<u>\$ 41,709</u>	<u>\$ (950,735)</u>	<u>\$ 50,834</u>	<u>\$ 4,547,433</u>	<u>\$ 2,278,932</u>	<u>\$ 5,968,173</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds: \$ (1,002,163)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. 550,000

Governmental funds report payment of bond issue costs and repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats repayments as a reduction in long-term liabilities as an expense. This is the amount of repayments made. 825,000

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These are as follows:

Accrued interest not reflected on Governmental funds	12,578
Amortization of bond issue costs	(29,332)
Amortization of bond discount	(38,849)
Change in net assets of governmental activities	<u>\$ 317,234</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – AUTHORITY CREATION AND RELATED INFORMATION

The Uptown Development Authority (the “Authority”) of the City of Houston, Texas, (the “City”) a not-for-profit local government corporation, was created under Chapter 394 of the Texas Local Government Code and Chapter 431 of the Texas Transportation Code and the general laws of the State of Texas. The Authority was created to aid and assist in the development of the Uptown area by providing improvements for general mobility. These projects include an emphasis on minimizing traffic congestion through the financing of improvements to existing streets, a street grid network, improvements to intersections, a parking management program and a pedestrian network. The Authority is empowered to act on behalf of the City with respect to administering Reinvestment Zone Number Sixteen, City of Houston, Texas (the “Zone”). The purpose of the Zone is to provide funding for these mobility improvements.

Property within the Zone is located on the west side of Houston, near the interchange of the I-610 and US 59 freeways. The Authority is governed by a nine member Board of Directors, five of whom are appointed by the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

A. Reporting Entity

The Authority’s financial statements include the accounts of all the Authority’s operations. In conformity with generally accepted accounting principles, the Authority is considered a component unit of the City of Houston.

Additionally, as required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the Authority’s financial reporting entity. Based on these considerations, no other entities, organizations or functions have been included in the Authority’s financial reporting entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the Authority as a whole. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported as general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority reports the following major governmental funds:

The *Special Revenue Fund* is used to account for administrative operations of the Authority. The principal source of revenue is a portion of the contract tax increment revenue received. Expenditures include all costs associated with the daily operations of the Authority.

The *Debt Service Fund* is used to account for the payment of interest and principal on all general long-term debt of the Authority. The primary source of revenue is provided by contract tax increment revenue.

The *Capital Projects Fund* is used to account for construction of the Authority's general mobility improvement projects.

D. Cash and Temporary Investments

The Authority's cash consists of demand deposits and funds are maintained by a trustee in no-load money market mutual funds as mandated by the Bond Indentures and Resolutions.

E. Bond Discounts

In governmental fund types, bond discounts are recognized in the current period and are deferred and amortized in the Government-Wide Statement of Activities.

F. Use of Estimates

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

G. Fund Equity

In the fund financial statements the Authority reserves or designates all or portions of fund equity in the various governmental fund financial statements. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 – CASH AND TEMPORARY INVESTMENTS

The Authority is authorized to place deposits and investments in the following:

- Obligations of the United States or its agencies and instrumentalities;
- Direct obligations of the State of Texas or its agencies and instrumentalities;
- Various other items that comply with the Public Funds Investment Act and the Authority's Investment Policy.

At year end, the carrying value of the Authority's cash and temporary investments (which approximates market value) were as follows:

	<u>Carrying Value</u>
Demand and time deposits	\$ 7,984,644
Investments not subject to categorization:	
Money market mutual funds	<u>2,817,325</u>
	<u>\$ 10,801,969</u>

Credit Risk Categorization

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit or securities underlying a repurchase agreement, will decline.

Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. The Authority's deposits at year end were entirely covered by federal depository insurance or by acceptable collateral held by the Authority's agent in the Authority's name.

Investments at year-end are representative of the types of investments maintained by the Authority during the year.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 – CASH AND TEMPORARY INVESTMENTS (continued)

Temporary Investments

Investments of the Authority consist of balances in a no-load money market mutual fund registered with and regulated by the SEC with a dollar-weighted average maturity not exceeding 90 days and which aims for a net asset value (“NAV”) of \$1 per share which provide the investor with a prospectus and other information required by the SEC.

Investment balances in no-load money market mutual funds are not evidenced by underlying securities that exist in physical or book entry form and, therefore, are not subject to credit risk categorization.

NOTE 4 – REINVESTMENT ZONE NUMBER 16

On December 15, 1999, the City of Houston, acting under provisions of Chapter 311, Texas Tax Code, created the Zone to promote development of the Uptown area. It terminates December 31, 2029, or earlier, if all outstanding debt has been paid in full. Incremental ad valorem taxes on property located in the Zone are deposited into a “Tax Increment Fund” at the City. These funds will be used to repay bonds sold to fund improvements that will significantly enhance the values of taxable real property in the Zone. The City, on behalf of the Zone, will pay the Authority by July 1st of each year, all monies in the Tax Increment Fund, less administrative fees. During the year ended June 30, 2006, the Authority received \$4,609,524 in tax increments from the Zone.

As required by statute, the City dedicates one-third of the tax increments for affordable housing in other areas of the City during the term of the Zone. This affordable housing activity, which is required by the City, is considered a part of the general mobility plan of the Authority.

The Authority is dependent upon the tax increments.

NOTE 5 – CONVEYANCE OF CONSTRUCTED FACILITIES

The Authority has received approval of its Project Plan and Reinvestment Zone Financing Plan from the City of Houston, Texas. As part of such approval, the City agrees to accept conveyance of and maintenance responsibility for the improvements.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 6 – LONG TERM DEBT

The Authority has issued contract revenue bonds in order to construct infrastructure improvement facilities and the City of Houston’s affordable housing facilities.

The Series 2001A, 2002A, 2004A and 2004C consist of tax increment revenue bonds issued in order to construct infrastructure improvement facilities. These bonds are secured by the Authority’s pledge of certain tax increment payments received from the City.

The Series 2001B, 2002B, 2004B and 2004D consist of tax increment revenue bonds issued for the City of Houston’s affordable housing facilities. These bonds are secured by the Authority’s pledge of certain tax increment payments received from the City.

During the year ended June 30, 2006 the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Revenue Bonds	\$ 39,550,000	\$ -	\$ (825,000)	\$ 38,725,000	\$ 1,505,000

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Annual debt service requirements to retire outstanding revenue bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2007	1,505,000	2,011,170	3,516,170
2008	1,465,000	1,952,538	3,417,538
2009	1,525,000	1,888,253	3,413,253
2010	1,600,000	1,818,324	3,418,324
2011	1,675,000	1,742,793	3,417,793
2012	1,765,000	1,660,616	3,425,616
2013	1,835,000	1,571,912	3,406,912
2014	1,945,000	1,476,538	3,421,538
2015	2,045,000	1,373,293	3,418,293
2016	2,150,000	1,262,486	3,412,486
2017	2,275,000	1,141,616	3,416,616
2018	2,410,000	1,010,191	3,420,191
2019	2,550,000	869,716	3,419,716
2020	2,705,000	719,753	3,424,753
2021	2,860,000	559,144	3,419,144
2022	3,025,000	388,100	3,413,100
2023	1,985,000	244,296	2,229,296
2024	1,150,000	157,688	1,307,688
2025	1,215,000	94,564	1,309,564
2026	1,040,000	27,950	1,067,950
	<u>\$ 38,725,000</u>	<u>\$ 21,970,941</u>	<u>\$ 60,695,941</u>

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 6 – LONG TERM DEBT (continued)

The following is a summary of the terms of obligation of revenue bonds outstanding as of June 30, 2006:

Series	Original Issue	Interest Rates	Debt Outstanding	Unamortized Discount/ Issuance Costs
2001A	\$ 9,385,000	4.25% - 6.00%	\$ 8,215,000	\$ 159,523
2001B	4,670,000	4.25% - 6.00%	4,090,000	79,459
2002A	7,280,000	3.00% - 5.60%	6,600,000	111,624
2002B	3,665,000	3.00% - 5.60%	3,320,000	56,193
2004A	9,000,000	2.60% - 5.125%	9,000,000	451,249
2004B	4,500,000	2.60% - 5.125%	4,500,000	233,365
2004C	2,000,000	3.30% - 5.30%	2,000,000	132,162
2004D	1,000,000	3.30% - 5.30%	1,000,000	59,767
			<u>\$38,725,000</u>	<u>\$ 1,283,342</u>

The bond indentures and resolutions stipulate the Authority will establish separate reserve funds for the infrastructure improvement facilities Tax Increment Contract Revenue Bonds and the affordable housing Tax Increment Contract Revenue Bonds. Each reserve fund will be maintained in an amount equal to the lesser of (1) 1.25 times the average annual debt service requirements, (2) maximum annual debt service or (3) 10% of the stated principal amount of the bonds or 10% of the issue price of the bonds if they were issued with more than a minimum amount of original issue discount. These reserves are maintained within the Debt Service Fund.

The City of Houston has authorized the Authority to issue bonds and notes with an aggregate principal amount not to exceed \$25,000,000 and \$6,000,000, respectively, outstanding at any time.

The Authority acquired short term notes payable to cover operating expenses and to purchase a tract of land for right-of-way provisions. The balance of the notes payable as of June 30, 2006 was \$2,754,362.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 7 – CONTRACTS

The Authority has entered into various contracts in the course of performing its duties. Summaries of the Authority's significant contracts follow:

Tri Party Agreement

In 1999 an agreement between the City, the Zone and the Authority was approved and executed by each of the parties. This agreement sets forth the duties and responsibilities of each party. The Authority agrees to manage the affairs and activities of the Zone. It also has the authority to acquire and develop land and to issue bonds, notes or other obligations. The Authority is required to use all monies received from the Zone to 1) pay principal and interest on any obligations and 2) pay administrative costs. The City and the Zone are required to establish a Tax Increment Fund and deposit into it appropriate tax increment revenues. These funds are required to be remitted to the Authority no later than July 1st of each year.

Agreement with Harris County Improvement District No. 1

The Authority and the Harris County Improvement District No. 1 (the "District") have entered into an agreement whereby the District provides administrative, management and special services to the Zone and the Authority. During the period ended June 30, 2006, the Authority remitted \$535,206 to the District. This amount consisted of \$180,000 for operating and administrative costs, \$200,000 for traffic control and mobility and \$155,206 for project management.

NOTE 8– RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage and no settlements.

NOTE 9– DEFICIT FUND EQUITY

The Authority capital projects fund had a deficit fund balance of \$1.0 million as of June 30, 2006. The fund incurs expenditures for the capital mobility program and the bond proceeds are used to fund capital projects during the year. Future bond proceeds will be utilized to cover the deficit.

UPTOWN DEVELOPMENT AUTHORITY
COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL **UNAUDITED**
For the Year Ended June 30, 2005

	Original And Final Budget	Actual	Variance with Final Budget Positive / (Negative)
REVENUES			
Contract tax increment	\$ 12,421,539	\$ 7,846,634	\$ (4,574,905)
Investment earnings	235,000	258,607	23,607
Miscellaneous			
Total revenues	<u>12,656,539</u>	<u>8,105,241</u>	<u>(4,551,298)</u>
EXPENDITURES			
Current:			
General government	180,000		180,000
Debt Service:			
Principal	825,000	825,000	
Interest and other charges	3,154,666	2,355,386	799,280
Capital Outlay	17,451,618	1,605,726	15,845,892
Total Expenditures	<u>21,611,284</u>	<u>4,786,112</u>	<u>16,825,172</u>
Excess (deficiency) of revenues over expenditures	<u>(8,954,745)</u>	<u>3,319,129</u>	<u>12,273,874</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	16,005,000		(16,005,000)
Transfers out to other government	(10,332,103)		10,332,103
Transfers out		(4,321,291)	(4,321,291)
Total other financing sources (uses)	<u>5,672,897</u>	<u>(4,321,291)</u>	<u>(9,994,188)</u>
Revenue and other financing sources/(uses) over/(under) expenditures	(3,281,848)	(1,002,162)	2,279,686
Fund balances - beginning of year	5,289,575	6,970,336	1,680,761
Fund balances - End of Year	<u>2,007,727</u>	<u>\$ 5,968,174</u>	<u>\$ 3,960,447</u>

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

FY06 OPERATING EXPENSES

<i>Category</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
TIRZ ADMINISTRATION AND OVERHEAD				
Administration (salary and benefits)	N/A	50985	56300	
Administration Consultant				
Office Expenses	N/A	41179	64806	
Insurance	N/A	24000	23334	
Accounting	N/A	0	15000	
Auditor	Null- Lairson	11000	10000	
Property Account Consultant				
Bond Trustee				
Financial Advisor				
Subtotal		\$ 127,164.00	\$ 169,440.00	\$ -
PROGRAM AND PROJECT CONSULTANTS				
Legal	Allen Boone Humphries	15000	20872	
In-House Legal Counsel		37836	21947.5	
Architect Consultants				
Engineering Consultants				
Project Management Consultants				
Construction Audits				
Other Professional Services				
Subtotal		\$ 52,836.00	\$ 42,819.50	
Total Management Consulting Services		\$ 180,000.00	\$ 212,259.50	\$ -

Note: List all consultants (vendor) individually.

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

		FY06 CAPITAL EXPENDITURES		
<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project 1: McCue Street and Reconstruction		\$	641,128	
Engineering Services				
Architectural Services				
Construction Management	Cobb Fendley		\$ 22,482.04	
	SWA Group		\$ 2,377.23	
Project Management	HCID		\$ 138,798.00	
Construction Costs	Texas Sterling		\$ 397,461.64	
Program Financing			\$ 89,722.00	
Other Professional Services				
	Subtotal	\$	641,128	\$ 650,841 \$ -
Project 2: Post Oak Waterline		\$	181,250	
Engineering Services				
Architectural Services				
Construction Management	Lockwood Andrews Newman		\$ 76,054	
Project Management	HCID		\$ 34,700	
Construction Costs	HCID (median repairs)		\$ 22,949	
Program Financing			\$ 22,374	
Other Professional Services				
	Subtotal	\$	181,250	\$ 156,077 \$ -
Project 3: Sage/Rice		\$	259,200	
Engineering Services				
Architectural Services				
Construction Management				
Construction Costs	TxDot		\$ 211,399	
Program Financing			\$ 47,686	
Other Professional Services				
	Subtotal	\$	259,200	\$ 259,085 \$ -
Project 4: TxDot Priority Corridor		\$	1,000,000	
Engineering Services				
Architectural Services				
Construction Management	Walter P Moore		\$ 138,382	
Construction Costs	Transcore		\$ 99,532	
Project Management	HCID		\$ 43,375	
Program Financing			\$ 28,024	
Other Professional Services				
	Subtotal	\$	1,000,000	\$ 309,313 \$ -

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

Project 5: Traffic Signalization		\$	2,000,000			
Engineering Services	TEDSI			\$	52,243	
Architectural Services						
Construction Management						
Construction Costs	T&J Electronics			\$	12,283	
	Traffic Maintenance & Construction			\$	12,664	
Other Professional Services						
	Subtotal	\$	2,000,000	\$	77,190	\$ -
Project 6: New Signals		\$	150,000			
Engineering Services				\$	-	
Architectural Services						
Construction Management						
Construction Costs				\$	-	
				\$	-	
Other Professional Services						
	Subtotal	\$	150,000	\$	-	\$ -
Project 6: Construction related Traffic Management and Communication						
Engineering Services				\$	-	
Architectural Services						
Construction Management						
Construction Costs				\$	-	
Other Professional Services	HCID			\$	200,000	
	Subtotal	\$	-	\$	200,000	\$ -
Project 7: San Felipe		\$	2,509,200			
Engineering Services						
Architectural Services						
Construction Management						
Construction Costs	Right of Way			\$	744,198	
Other Professional Services						
	Subtotal	\$	2,509,200	\$	744,198	\$ -

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

Project 8: Right of Way		\$	1,005,000			
Engineering Services						
Architectural Services						
Construction Management						
Construction Costs						
Program Financing				\$	87,000	
Other Professional Services	Andrews Kurth			\$	234,729	
	HCID Staff Counsel			\$	21,947	
	Subtotal	\$	1,005,000	\$	343,676	\$ -
Project 8: Transit Corridor		\$	350,000			
Engineering Services						
Architectural Services						
Construction Management						
Construction Costs						
Other Professional Services						
	Subtotal	\$	350,000	\$	-	\$ -
Project 9: Project Planning / Development		\$	-			
Engineering Services						
Architectural Services						
Construction Management						
Construction Costs						
Other Professional Services	Goodman Corporation			\$	47,950	
	Spillette Consulting			\$	10,955	
	SWA Group			\$	6,369	
	Vollmer			\$	4,220	
	Walter P Moore			\$	22,428	
	Thompson			\$	16,105	
	John Horton Consulting			\$	1,017	
	Subtotal	\$	-	\$	109,045	\$ -

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

Project 10: Streets / Sidewalks Standard

Engineering Services					
Architectural Services					
Construction Management					
Construction Costs			\$	28,900	
Other Professional Services					
Subtotal	\$	-	\$	28,900	\$ -

Project 11: Uptown Pedestrian Network

Engineering Services	\$	400,000			
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	400,000	\$	-	\$ -

Project 12: Westheimer Pedestrian Improvements

Engineering Services	\$	1,178,240			
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	1,178,240	\$	-	\$ -

Project 13: Rice / Sage Phase 2

Engineering Services	\$	709,200			
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	709,200	\$	-	\$ -

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

Project 14: McCue Phase 2 - now South Post Oak lane	\$	3,809,200			
Engineering Services					
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	3,809,200	\$	-	\$ -
Project 15: Ambassador Way	\$	759,200			
Engineering Services					
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	759,200	\$	-	\$ -
Project 16: Guilford Court	\$	700,000			
Engineering Services					
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	700,000	\$	-	\$ -
Project 17: Secondary Roadways	\$	500,000			
Engineering Services					
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	500,000	\$	-	\$ -

UPTOWN DEVELOPMENT AUTHORITY

Operating Expenses, Capital Expenditures, and Project Plan reconciliation
For the Year ended June 30, 2006

Project 18: Hallmark / Garrettson / Lynn	\$	1,300,000			
Engineering Services					
Architectural Services					
Construction Management					
Construction Costs					
Other Professional Services					
Subtotal	\$	1,300,000	\$	-	\$ -
Total Capital Expenditures	\$	17,451,618	\$	2,878,324	\$ -

PROJECT PLAN RECONCILIATION

	<i>Project Plan Amount</i>	<i>Expenditures to FY06</i>	<i>Variance</i>	<i>Notes</i>
Non-Education Projects				
Improve Existing Streets	\$ 67,000,000	\$ 29,675,957		
Create Street Grid Network	\$ 33,000,000	\$ 4,477,705		
Improve Intersections	\$ 26,000,000	\$ 3,392,529		
Parking Management Program	\$ 50,000,000	\$ -		
Pedestrian Network	\$ 53,000,000	\$ 524,814		
Education Projects	\$ 129,000,000	\$ 7,217,397	\$ 121,782,603	
Zone Administration / Operations	\$ 6,000,000	\$ 1,503,019	\$ 4,496,982	