

UPTOWN DEVELOPMENT

AUTHORITY

FINANCIAL REPORT

JUNE 30, 2003

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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, Texas, as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority's governmental activities and each major fund as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Null-Lairson, A.C.

Houston, Texas
September 25, 2003

UPTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2003

Using this Annual Report

Within this section of the Uptown Development Authority's annual report, the Authority's management provides narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2003.

The Authority is a special-purpose government engaged in a single governmental program. The Authority 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 general mobility in the Uptown Houston area. The accompanying annual report consists of basic financial statements and an additional information schedule that is not a required part the basic financial statements. The basic financial statements combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the Authority. The Authority's government-wide financial statements include the statement of net assets and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to attempt to report all of the assets and liabilities owned by the Authority. The Authority reports all of its assets when acquired or at the beginning of asset maintenance and reports all of its liabilities when they are incurred.

The difference between the Authority's total assets and total liabilities is labeled as *net assets* and this difference is similar to the total owners' equity presented by a commercial enterprise. Although the purpose of the Authority is not to accumulate net assets, in general, as the amount increases, it may indicate that the financial position of the Authority is improving over time. 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 purpose of the statement of activities is to present the revenues and expenses of the Authority. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the Authority. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the Authority reports an amount described as *change in net assets*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the Authority rather than the Authority as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources in relation to finance-related legal requirements established by external parties, governmental statutes or regulations. Fund financial statements are divided into three broad categories: governmental funds, proprietary funds and fiduciary funds. The Authority maintains only governmental funds as part of its operations. These funds include a General Fund, a Debt Service Fund and a Capital Projects Fund.

Governmental Funds

Governmental fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets or long-term liabilities. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's governmental activities. Similarly, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there may be significant differences between the totals presented in these financial statements. For this reason, note disclosures have been included to explain the reconciling items included in the adjustment columns of both the statement of net assets and the statement of activities.

Financial Analysis of the Authority as a Whole

The Authority's overall financial position and operations for the past year is summarized following based on the information included in the government-wide financial statements.

As of year-end, the Authority had total assets of approximately \$4.9 million. Of this amount, \$4.5 million consisted of cash and cash equivalents. Prior year total assets were approximately \$10 million.

Liabilities at June 30, 2003 totaled \$28.2 million. The balance consisted largely of \$24.5 million in bonds payable and 1.8 million in a line of credit. Prior year liabilities were \$26 million.

Net assets at year-end were a negative \$23 million, which represented a decrease of approximately \$7 million from the previous year. The reason that the Authority continues to have net asset deficits is 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.

Tax increments from the various taxing Authorities of \$3,628,255 represented substantially all the Authority's revenues during the year ended June 30, 2003. Prior year tax increments were \$2,678,249.

Expenses totaled \$5,043,402. Construction on behalf of the City of Houston accounted for most of this amount. These amounts were not capitalized because the Authority will not retain title or maintenance responsibilities for the related improvements. Prior year expenses were \$12,287,713.

The financial statements indicate the Authority is poised to continue constructing the general mobility improvements described in the Project Plan and Reinvestment Zone Financing Plan for the Uptown Tax Increment Reinvestment Zone.

Financial Analysis of the Authority's Funds

Governmental funds. 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.

	2003	2002	Change
Current and other assets	\$ 4,719,687	\$ 10,219,991	\$ (5,500,304)
Current liabilities	3,685,062	1,872,011	1,813,051
Fund balances	1,034,625	8,281,193	(7,246,568)
Revenues	3,737,902	2,852,668	885,234
Current expenses	94,517	50,678	43,839
Capital Outlay	3,368,747	11,305,094	(7,936,347)
Debt service	1,704,866	863,313	841,553
Total Expenses	<u>5,168,130</u>	<u>12,219,085</u>	<u>(7,050,955)</u>
Deficiency of Revenues under Expenditures	(1,430,228)	(9,366,417)	7,936,189
<u>Other Financing Sources (Uses)</u>			
Transfer to other government	(5,749,553)	(1,279,987)	(4,469,566)
Bond proceeds	<u>(5,749,553)</u>	<u>10,727,826</u>	<u>(10,727,826)</u>
	(5,749,553)	9,447,839	(15,197,392)
Increase in fund balance	(7,179,781)	81,422	(7,261,203)
Fund balance, beginning of year	<u>8,214,406</u>	<u>8,132,984</u>	<u>81,422</u>
Fund balance, end of year	<u>\$ 1,034,625</u>	<u>\$ 8,214,406</u>	<u>\$ (7,179,781)</u>

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,034,625 a decrease of \$7,179,781 in comparison with the prior year. The capital projects fund balance was zero as all bond proceeds have been expended to date. \$4,217,868 of the fund balance is reserved for bond payments, leaving a deficit fund balance in the general operating fund of \$3,183,243. This deficit is mainly the result of borrowing \$1,888,888 against a line of credit that is expected to be repaid by tax increments and/or bond proceeds.

Revenues, most of which are derived from incremental tax revenues, increased significantly. Capital outlay expenditures were lower this year as the balance of bond proceeds were expended. Debt service expenditures scheduled increases occurred this year. There were no proceeds from bond sales in 2003 as in 2002.

Project Plan and Reinvestment Zone Financing Plan

The Authority has received approval of its Project Plan and Reinvestment Zone Financing Plan by the City of Houston. The primary source of revenue is the ad valorem property taxes on the annual value increment by the taxing jurisdictions: City of Houston, Harris County, and the Houston Independent School District. All infrastructure assets will be conveyed to the City and maintained by them. Following is summary of the mobility improvement program planned.

Improve existing streets	\$ 67,000,000
Create a street grid network	33,000,000
Improve intersections	26,000,000
Develop a parking management program	50,000,000
Create a pedestrian network	53,000,000
Administration	6,000,000
	<u>\$235,000,000</u>

UPTOWN DEVELOPMENT AUTHORITY
GOVERNMENTAL ACTIVITIES
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Assets</u>			
Cash and temporary investments	\$ 75,145	\$ 4,225,868	\$ 201,337
Interfund receivable	209,337		8,000
Unamortized discount			
Total Assets	<u>\$ 284,482</u>	<u>\$ 4,225,868</u>	<u>\$ 209,337</u>
<u>Liabilities</u>			
Accounts payable	\$ 702,134	\$	\$
Retainage payable	44,428		
Interfund payable		8,000	209,337
Line of credit due in less than one year	1,888,000		
Bonds payable due in less than one year			
Due to other governments	826,768		
Accrued interest payable	6,395		
Bonds payable due in greater than one year			
Total Liabilities	<u>3,467,725</u>	<u>8,000</u>	<u>209,337</u>
<u>Fund Balances/Net Assets</u>			
Reserved for:			
Debt service		4,217,868	
Authorized construction			
Unreserved, undesignated	<u>(3,183,243)</u>		
Total Fund Balances	<u>(3,183,243)</u>	<u>4,217,868</u>	
Total Liabilities and Fund Balances	<u>\$ 284,482</u>	<u>\$ 4,225,868</u>	<u>\$ 209,337</u>
<u>Net Assets</u>			
Restricted for debt service			
Restricted for capital projects			
Unrestricted			
Total Net Assets			

See Notes to Financial Statements.

<u>Totals</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 4,502,350	\$	\$ 4,502,350
217,337	(217,337)	
	481,217	481,217
<u>\$ 4,719,687</u>	<u>\$ 263,880</u>	<u>\$ 4,983,567</u>
\$ 702,134	\$	\$ 702,134
44,428		44,428
217,337	(217,337)	
1,888,000		1,888,000
	755,000	755,000
826,768		826,768
6,395	453,315	459,710
	23,840,000	23,840,000
<u>3,685,062</u>	<u>24,830,978</u>	<u>28,516,040</u>
4,217,868	(4,217,868)	
<u>(3,183,243)</u>	<u>3,183,243</u>	
<u>1,034,625</u>	<u>(1,034,625)</u>	
<u>\$ 4,719,687</u>		
	4,217,868	4,217,868
	(27,750,341)	(27,750,341)
	<u>\$ (23,532,473)</u>	<u>\$ (23,532,473)</u>

UPTOWN DEVELOPMENT AUTHORITY
GOVERNMENTAL ACTIVITIES
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2003

	General	Debt Service	Capital Projects
<u>Revenues</u>			
Tax increment	\$ 3,628,255	\$	\$
Interest on tax increment	66,178		
Interest on investments	7,695	15,037	20,737
Total Revenues	3,702,128	15,037	20,737
<u>Expenditures/Expenses</u>			
Current:			
Contracted services	87,398		
Administrative	7,119		
Capital Outlay			3,368,747
Transfer to other government			
Debt Service:			
Principal retirement		405,000	
Interest and fiscal charges	22,616	1,277,250	
Discount amortization			
Total Expenditures/Expenses	117,133	1,682,250	3,368,747
Excess (deficiency) of revenues over expenditures	3,584,995	(1,667,213)	(3,348,010)
Other Financing Sources (Uses)			
Transfer to other government	(5,749,553)		
Transfer from (to) other funds	(3,234,850)	3,234,850	
Total Other Financing Sources (Uses)	(8,984,403)	3,234,850	
Excess (deficiency) of revenues and transfers over expenditures Change in Net Assets	(5,399,408)	1,567,637	(3,348,010)
Fund Balances/Net Assets			
Beginning of year, as restated	2,216,165	2,650,231	3,348,010
End of year	\$ (3,183,243)	\$ 4,217,868	\$ -

See Notes to Financial Statements.

<u>Totals</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 3,628,255	\$	\$ 3,628,255
66,178		66,178
43,469		43,469
<u>3,737,902</u>		<u>3,737,902</u>
87,398		87,398
7,119		7,119
3,368,747	(3,368,747)	3,368,747
	3,368,747	
405,000	(405,000)	
1,299,866	255,461	1,555,327
	24,811	24,811
<u>5,168,130</u>	<u>(124,728)</u>	<u>5,043,402</u>
<u>(1,430,228)</u>	<u>124,728</u>	<u>(1,305,500)</u>
(5,749,553)		(5,749,553)
<u>(5,749,553)</u>		<u>(5,749,553)</u>
(7,179,781)		
	124,728	(7,055,053)
8,214,406	(24,691,826)	(16,477,420)
<u>\$ 1,034,625</u>	<u>\$ (24,567,098)</u>	<u>\$ (23,532,473)</u>

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE 1 - AUTHORITY CREATION AND RELATED INFORMATION

Uptown Development Authority (the "Authority") of the City of Houston, Texas, (the "City") a not-for-profit local government corporation, was created under Chapter 431 of the Texas Transportation Code and the general laws of the State of Texas. The Authority is a special-purpose government engaged in a single governmental program. The Authority was created to aid and assist in 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 of Houston (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 Houston's near west side near the interchange of the IH-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

Reporting Entity

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the Authority's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Authority is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Authority's financial reporting entity status is that of a component unit are: that it does not have a separately elected governing body; and it is not fiscally independent of other state and local governments.

Based on criteria prescribed by generally accepted accounting principles, the Authority is considered a component unit of the City. The primary criteria for this is financial accountability. The City appoints voting board members and approves the Authority's budget.

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 function have been included in the Authority's financial reporting entity.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority's primary activities include managing and financing improvement projects and/or services benefiting Uptown. The Authority is authorized to administer the Zone, construct and improve infrastructure in the Zone, enter into agreements and sell bonds.

The Authority is economically dependent on property taxes collected in the Zone. A general downturn in property values could impact the Authority's ability to fund operating expenditures.

Generally Accepted Accounting Principles

The financial statements of the Authority have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In June 1999, the GASB approved Statement 34 Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. The Authority elected to implement the requirements of the statement starting in fiscal year 2001-02.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

As a special-purpose government engaged in a single governmental program, the Authority has opted to combine its government-wide and fund financial statements in a columnar format showing a final column for reconciling items between the two. All funds are considered major funds under financial reporting guidelines. Taxes and other revenues are the Authority's general revenues. The Authority has no program revenues.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. All funds are classified as governmental funds and include: the General Fund, the Debt Service Fund and the Capital Projects Fund.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis Of Presentation

General Fund

The General Fund is used to account for all operations funded from the Authority's Pledged Revenue bank account and the Surplus bank account in accordance with tri-party agreement. The principal source of revenue is provided by incremental property taxes assessed to and paid by property owners within the Authority. Expenditures include all costs associated with the Authority's basic operating activities.

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on the Authority's general long-term debt. The primary source of revenue for debt service is incremental property tax revenue.

Capital Projects Fund

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

Measurement Focus And Basis Of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The Government-wide Financial Statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental Funds are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This measurement focus concentrates on the funds' resources available for spending in the near future. Only transactions and events affecting the funds' current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual accounting, a current financial resource

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when 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 generally are recorded when a liability is incurred, as under accrual accounting.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and bases of accounting, such as when the Authority receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures. For instance, if grant monies were received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt and other long-term liabilities must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements and is further disclosed in Note 3 following.

Annual Financial Plan (Non-Appropriated) - The Board of Directors adopts a non-appropriated annual financing plan for combined governmental funds. The plan must be submitted to the City of Houston for approval. The plan is reviewed by the Board throughout the year in managing the Authority's operations. No budget comparison is included in these financial statements.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Temporary Investments - Cash consists of checking account and money market accounts. Additionally, funds are maintained by a trustee as mandated by the Bond Indentures and Resolutions. Cash is stated at fair value.

The Authority classifies investments which have a remaining maturity of one year or less at the date of purchase as “money market investments” in accordance with Governmental Accounting Standards Board Statement No. 31, “Accounting And Reporting For Certain Investments And External Investment Pools” (Statement No. 31). Statement No. 31 defines “money market investments” as short-term, highly liquid debt instruments including commercial paper, banker’s acceptances, and U.S. Treasury and agency obligations. The Authority values its “money market investments” at fair value. The Authority’s certificates of deposit, if any, are recorded at cost in accordance with Statement No. 31.

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 reported amounts 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 expenses during the reporting period. Actual results could differ from those estimates.

Fund Equity – In fund financial statements, reserved equity balances represent those portions of fund balance not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated fund balances represent available balances for the Authority’s future use.

The Authority plans to remedy the deficit fund balance in the General Fund through bond sales and/or future tax increment revenues.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

**NOTE 3 - RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Net change in fund balances--total governmental funds	\$ (7,179,781)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental activities do not report principal payments for long term debt as an expense	405,000
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Governmental funds report interest expenditures as paid while governmental activities report as interest expense on the accrual basis	(255,461)
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Governmental funds do not record discount associated with bond proceeds. Governmental activities capitalize bond discount and amortize it over the life of the bonds.	(24,811)
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Change in Net Assets of Governmental Activities	\$ (7,055,053)
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Fund balance	\$ 1,034,625
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Governmental activities include outstanding bonds payable, line of credit and accrued interest payable	(25,048,315)
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Governmental activities include the unamortized discount on bonds	481,217
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Net Assets - Governmental Activities	\$ (23,532,473)
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UPTOWN DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2003

NOTE 4 - CASH AND TEMPORARY INVESTMENTS

The Authority held cash and cash equivalent at June 30, 2003, as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
CASH				
Checking and money market accounts	\$ 3,349	\$	\$ 163,851	\$ 167,200
Funds held by trustee	<u>71,796</u>	<u>4,225,868</u>	<u>37,486</u>	<u>4,335,150</u>
TOTAL	<u>\$ 75,145</u>	<u>\$ 4,225,868</u>	<u>\$ 201,337</u>	<u>\$ 4,502,350</u>

Investment Policy

The Authority has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the Authority are in compliance with their investment policies.

State statutes require that all funds invested in depository institutions be covered by federal depository insurance and/or pledged collateral. The types of collateral to be pledged to secure Authority demand deposits and investments are stated in the Authority's Investment Policy. Balances in the Authority's demand accounts at year-end were entirely covered by federal depository insurance or securities pledged as collateral. However, during the year, cash was not entirely secured by collateral. As required by law, the Authority has entered into Depository Pledge Agreements with the financial institutions that maintain Authority funds and investments. Such agreements require the financial institutions to pledge collateral to secure Authority deposits.

It is the Authority's policy to hold all investments to maturity.

NOTE 5 – REINVESTMENT ZONE NUMBER 16

On December 15, 1999, the City, acting under provisions of Chapter 311, Texas Tax Code, created the Zone to promote development of the Uptown area. The Zone terminates December 31, 2029 or earlier if all outstanding debt has been paid in full. Incremental increases in the ad valorem taxes on property located in the Zone are deposited into a "Tax Increment Fund" at the City of Houston. These funds are transferred to the Authority and will be used to repay Authority bonds sold to fund improvements that will significantly enhance the values of taxable real property in the Zone. The

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 5 – REINVESTMENT ZONE NUMBER 16 (continued)

City on behalf of the Zone, is obligated to pay the Authority by July 1st of each year, all monies in the Tax Increment Fund less administrative fees.

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 required by the City of Houston is considered a part of the general mobility plan of the Authority.

As of June 30, 2003, the Authority received \$3,628,255 in tax increments from the City and the Zone.

NOTE 6 - CONVEYANCE OF CONSTRUCTED FACILITIES

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

NOTE 7– CHANGES IN GENERAL LONG –TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS

General long-term debt consists of two types of contract revenue bonds payable. The Series 2001A and 2002A bonds consist of Tax Increment Contract Revenue Bonds issued for infrastructure improvement facilities. These bonds are secured by the Authority's pledge of certain of the tax increment payments it is to receive from the City pursuant to the Tri-Party Agreement.

The Series 2001B and 2002B bonds consist of Tax Increment Contract Revenue Bonds issued for the City of Houston's affordable housing facilities. These bonds are also secured by the Authority's pledge of certain of the payments to be received pursuant to the Tri-Party Agreement.

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June 30, 2003

NOTE 7– CHANGES IN GENERAL LONG –TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS (continued)

The following is a summary of general long-term debt transactions of the Authority for the year ended June 30, 2003:

Bonds payable, beginning balance	\$ 25,000,000
Retirements	<u>405,000</u>
Bonds payable, ending balance	<u><u>\$ 24,595,000</u></u>

Bonds payable at year-end consisted of the following individual issues:

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Interest Rates</u>	<u>Maturity Date, Serially, Beginning/Ending</u>	<u>Interest Payment Dates</u>	<u>Callable Dates*</u>
2001A	\$ 9,115,000	4.25 - 6.00%	September 1, 2002/2022	September 1 March 1/	2011
2001B	4,535,000	4.25 - 6.00%	September 1, 2002/2022	September 1 March 1/	2011
2002A	7,280,000	3.00-5.60%	September 1, 2003/2023	September 1 March 1/	2012
2002B	<u>3,665,000</u>	3.00-5.60%	September 1, 2003/2023	September 1 March 1/	2012
	<u>\$ 24,595,000</u>				

*Or any interest payment date thereafter in accordance with redemption provisions of the bond indentures and resolutions.

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June 30, 2003

NOTE 7– CHANGES IN GENERAL LONG –TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS (continued)

The debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2004	\$ 755,000	\$ 1,352,864	\$ 2,107,864
2005	790,000	1,321,374	2,111,374
2006	825,000	1,285,426	2,110,426
2007	865,000	1,245,849	2,110,849
2008	905,000	1,202,944	2,107,944
2009	950,000	1,156,554	2,106,554
2010-2014	5,590,000	4,956,915	10,546,915
2015-2019	7,395,000	3,149,395	10,544,395
2020-2023	6,520,000	719,025	7,239,025
Totals	<u>\$ 24,595,000</u>	<u>\$ 16,390,344</u>	<u>\$ 40,985,344</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 (A) 1.25 times the average annual debt service, (B) maximum annual debt service or (C) 10% of the stated principal amount of the bonds or 10% of the issue price of the bonds if the bonds were issued with more than a minimum amount of original issue discount. The Authority has the right, subject to compliance with certain conditions, to issue additional Tax Increment Contract Revenue Bonds. These reserves are maintained within the Debt Service Fund.

The Authority was authorized by the City to issue bonds in an aggregate principal amount not to exceed \$25,000,000 outstanding at any time and notes in aggregate principal amount not to exceed \$6,000,000 .

NOTE 8 – LETTER OF CREDIT

During the current year, The Authority negotiated an unsecured revolving line of credit in to fund public works and improvements, with the Bank of Texas in the amount of \$3,000,000 with an unused commitment of \$1,112,000 as of June 30, 2003. The interest rate is variable with an initial rate of 4.25%. Subsequent to year-end, the line of credit was renewed and increased to an amount of \$5,000,000 with a variable rate with the initial rate of 4.00%.

UPTOWN DEVELOPMENT AUTHORITY
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June 30, 2003

NOTE 9 – CONTRACTS

The Authority has entered into various contracts in the course of performing its duties. Following are the significant agreements.

Tri Party Agreement

In 1999 the City, the Zone and the Authority approved an agreement setting forth the duties and responsibilities of each party with respect to the Zone. The Authority agrees to manage the affairs and activities of the Zone. It also has the authority to acquire 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. No later than July 1st of each year, they must remit these funds to the Authority.

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 and management services to the Zone and the Authority. During the period ended June 30, 2003, the Authority incurred expenses totaling \$454,920 to the District. This amount consisted of \$184,915 for operating administrative costs, \$105,000 for traffic control and \$165,005 for project management.

NOTE 10 – 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 11- DEFICIT FUND BALANCE

The deficit fund balance in the General Operating Fund was created by borrowing against a line of credit. The Authority plans to sell bonds and repay the line of credit.

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NOTE 12 – RESTATEMENT OF FUND BALANCES

As a result of reclassifying transactions between the General Fund and Capital Projects Fund, the Authority has restated fund balances in these funds at the beginning of the year (June 30, 2002) to reflect the proper reporting of these transactions. The restatement of beginning fund balances is shown below.

	General Fund	Capital Projects Fund
Fund Balance as reported, 2001	\$ 960,737	\$ 5,177,037
Adjustment of interfund accounts	(69,647)	16,372
Fund Balance as restated, 2001	<u>891,090</u>	<u>5,193,409</u>
Adjustment of interfund accounts and line of credit	1,325,075	(1,845,399)
Fund Balance as restated, 2002	<u><u>\$ 2,216,165</u></u>	<u><u>\$ 3,348,010</u></u>

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