

**Uptown Development  
Authority**

**Financial Report**

**June 30, 2004**



UPTOWN DEVELOPMENT AUTHORITY  
FINANCIAL REPORT  
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## FINANCIAL SECTION



11 Greenway Plaza, Suite 1515  
Houston, TX 77046  
(713) 621-1515  
Fax: (713) 621-1570



2117 Post Office  
Galveston, TX 77550  
(409) 762-8380  
Fax: (409) 762-1749

## INDEPENDENT AUDITOR'S 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, 2004, 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, 2004, 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 Auditor's 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 Schedule of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds – Budget to Actual is presented for purposes of additional analysis and is 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.

A handwritten signature in black ink that reads "Nell Garrison, P.C." The signature is written in a cursive style.

Houston, Texas  
August 24, 2004



## Management's Discussion and Analysis

As management of the Uptown Development Authority, we offer readers of the Uptown Development Authority's financial statements this narrative overview and analysis of the financial activities of the Uptown Development Authority for the fiscal year ended June 30, 2004.

The Uptown Development Authority is a special-purpose government. It is also a component unit of the City of Houston, Texas. The Uptown Development Authority reports its financial activities in accordance with required reporting standards for special-purpose governments.

### **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 Uptown Development 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 Uptown Development Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Uptown Development 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 Uptown Development Authority. Other factors that are not included in the financial statements, such as increased tax base in the Uptown Development Authority's boundaries, should also be considered in evaluating the condition of the Uptown Development 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Uptown Development 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 Uptown Development 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 10-11 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 Uptown Development 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 Uptown Development Authority maintains three individual governmental funds. 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 general fund, the debt service fund and the capital projects fund, all of which are considered to be major funds.

The Uptown Development 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 12-15 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 16-24 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 Uptown Development Authority, net assets were a negative \$27.3 million as of June 30, 2004. The Authority continues to have net asset deficits due to the fact 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 \$12 million, an increase of approximately \$7 million from the prior year. Of this amount, approximately \$11.3 million consisted of cash and temporary investments. The balance of the assets consists of amounts due from other governmental agencies.

Total liabilities were approximately \$39.3 million for the current year. This is an increase of approximately \$10.8 million from the previous year due primarily to the issuance of additional long term debt. The balance of these liabilities consist of approximately \$2.2 million of accounts payable and amounts due to other governments.

A schedule of net assets at June 30, 2004 follows:

<b>UPTOWN DEVELOPMENT AUTHORITY</b>		
<b>NET ASSETS</b>		
<i>June 30, 2004</i>		
<i>(in 000s)</i>		
	<b>2004</b>	<b>2003</b>
Current and other assets	<u>\$ 12,019</u>	<u>\$ 4,984</u>
<b>Total Assets</b>	<u>12,019</u>	<u>4,984</u>
Long term liabilities outstanding	36,623	27,769
Other liabilities	2,700	747
<b>Total Liabilities</b>	<u>39,323</u>	<u>28,516</u>
Net Assets:		
Restricted	(27,304)	4,218
Unrestricted		<u>(27,750)</u>
<b>Total Net Assets</b>	<u>\$ (27,304)</u>	<u>\$ (23,532)</u>

Total expenses were approximately \$4.4 million in the current year. This is a decrease of approximately \$600,000 due primarily to a decrease in capital outlay on behalf of the City of Houston.

Total general revenues were approximately \$7.1 million. This is an increase of approximately \$3.4 million due primarily to inclusion in the current year of contract tax increments related to affordable housing.

Changes in net assets for the year ended June 30, 2004 follows:

<b>UPTOWN DEVELOPMENT AUTHORITY</b>		
<b>NET ASSETS</b>		
<i>Year Ended June 30, 2004</i>		
<i>(in 000s)</i>		
	<u>2004</u>	<u>2003</u>
Revenues:		
General Revenues		
Contract tax increment	\$ 7,037	\$ 3,628
Investment earnings	37	110
Miscellaneous	41	
<b>Total Revenues</b>	<u>7,114</u>	<u>3,738</u>
Expenses		
General government	67	95
Interest on long-term debt	1,568	1,580
Capital outlay on behalf of City of Houston	2,804	3,369
<b>Total Expenses</b>	<u>\$ 4,439</u>	<u>\$ 5,043</u>
Increase (Decrease) in net assets before transfers	2,676	(1,306)
Transfers	<u>(6,447)</u>	<u>(5,750)</u>
Increase (Decrease) in net assets	(3,772)	(7,055)
Net Assets - Beginning	<u>(23,532)</u>	<u>(16,477)</u>
<b>Net Assets - Ending</b>	<u>\$ (27,304)</u>	<u>\$ (23,532)</u>

### **Financial Analysis of the Government's Funds**

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

The focus of the Uptown Development 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 Uptown Development 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 Uptown Development Authority's governmental funds reported combined ending fund balances of approximately \$9.3 million, an increase of approximately \$8.3 million in comparison with the prior year. This increase is due to receipt of bond funds through the issuance of long term debt. Approximately \$6.3 million is reserved for debt service. The remainder of fund balance is reserved and available for use primarily for capital projects.

### **The capital projects fund – Increment**

This fund is the chief operating fund for the Uptown Development Authority. Tax increments not reserved for debt service payments are used to carry out the administrative and 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). Fund balance in this fund was approximately \$2.3 million at year- end, an increase of approximately \$5.5 million from the prior year. This increase is due to the repayment of expenditures from the capital projects fund – bonds for expenditures related to the capital mobility program.

### **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. Fund balance in this fund was approximately \$719,000, an increase of 100% from the prior year. This change is due to the receipt and expenditure of bond funds through the issuance of long term debt.

### **The debt service fund**

This fund had a total fund balance of \$6.3 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 \$2 million. This increase was primarily due to the receipt of interest related to the issuance of additional long term debt.

### **Capital Assets and Debt Administration**

#### Capital assets

The Uptown Development 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 Uptown Development Authority are primarily capital costs to execute the plan. Street improvements and other assets are not carried on the Uptown Development Authority's statements.

At the end of the current fiscal year, the Uptown Development Authority had total debt outstanding of approximately \$37.3 million, an increase of approximately \$12.7 million. This increase was due to the issuance of additional long term debt. This entire amount represents revenue bonds secured solely by tax increments received by the City of Houston,

Additional information on the Uptown Development Authority's long-term debt can be found in note 6 on pages 21-22 of this report.

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

The UDA 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 (of which 576 acres are developable) within its boundaries, all of which lie within the City.

#### **Office**

Uptown has over 23 million square feet of commercial office space. Overall, ad valorem values for the office sector decreased by approximately 4% from 2003. Over half of the value decrease is from the Williams Tower office building, which currently has over 600,000 square feet of available space. While the office leasing market has taken a hit over past years, there are some positive signs of recovery. At the end of the second quarter (ending June 30, 2004), Uptown's office market featured the largest quarterly absorption gain compared to Houston's other submarkets (districts). The nearly 212,000 square feet of positive absorption represents the first absorption rate gain in 10 consecutive quarters.

## **Retail**

Uptown is synonymous with shopping; a world-renowned center for retail. With the new Galleria Foley's/Nordstrom Wing expansion, approximately 700,000 square feet of retail space and parking garages were added to the existing retail center. The lead tenants occupying space in the expansion are Nordstrom and Foley's, plus there is retail space available for approximately 50 other retailers. The \$100 million expansion was completed March 2003. Overall, ad valorem values for the retail sector increased by approximately 11% from 2003. Most of this increase is attributed to the Galleria expansion.

## **Hotel**

There are 26 first-quality, full-service hotels offering more than 6,300 rooms for guests. While the ad valorem values for this sector decreased by approximately 6% from the previous year, the occupancy rate increased by 3.8% in the past year. Additionally, the RevPAR (revenue per available room) increased 11.6% to a rate of \$86.37 (significantly higher than Houston's average RevPAR of \$58.74). Uptown's occupancy rate is 21% higher than Houston's downtown occupancy rate.

The 893-room Westin Galleria and Westin Oaks, the two hotels located in The Galleria, started a \$28 million renovation June 2002. The complete refurbishment and upgrade of all rooms, public space and meeting rooms in the Westin Galleria was completed in February 2003 with the same improvements in the Westin Oak completed in June 2003.

## **Residential**

With several new developments, the Uptown residential market has exploded over the past four years. The Uptown multi-family (apartment) market had the highest number of units absorbed in the Houston region for the period ending June 30, 2004. With approximately 3,500 multi-family units, average rent for Class A multi-family unit is approximately 1.18 per square foot and average occupancy stands at 85%. There have been over 2,000 multi-family residential units built in the Uptown area since January 2000.

There are approximately 1,500 single-family homes and town homes. Median sales of more than \$180 per square foot for an average of \$689,563 for a single-family home (compared to Houston's average sales price of \$138,000).

New development includes:

*The Manhattan:* This six-story complex features 68 loft-style luxury condominiums. The condominium units average 2,500 square feet and range in price from \$265,000 to \$1,000,000. Construction was completed in the Fall of 2003.

*The Mark:* The Mark, completed in December 2001, is located at 3520 Sage Road. This 30-story, high-rise building includes 301 condominium units. The condominiums range from 826 square feet to 1477 square feet with a selling price ranging from \$150,000 to \$500,000.

*Montierra Apartments:* This four-story complex features 346 apartments units. The units range from 683 square feet to 1,538 square feet and lease for \$1,000 to \$3,000 per month. Construction was completed in December 2003.

*Lofts on Post Oak:* This complex ranges from four to eight stories and features 351 apartment units. Units range from 690 square feet to 1,662 square feet and lease for \$1,150 to \$3,100 per month. Construction was completed in the Fall of 2004.

*The Mercer:* This 30-story high-rise condominium development will feature two buildings and will have 108 total condominium units, 54 in each building. Units will range from 2,155 square feet to 4,600 square feet and will sell for approximately \$310,000 to \$1,250,000. Construction of the first high-rise was completed in April 2003. Completion of the second high-rise is scheduled for August 2005.

*Montebello:* This 30-story, high-rise building features 112 luxury condominiums to compliment the Villa d'Este. The condominium units range from 2,090 square feet to 5,780 square feet and sell for approximately \$500,000 to \$2,100,000. Construction was completed in the Summer of 2004.

*1200 Post Oak Boulevard:* This 33-story, high-rise, apartment building features 356 units. The units range from 839 square feet to 3,723 square feet and lease for \$1,529 to \$7,899 per month. This project was completed in in Summer 2003.

The economic factors affecting Uptown, while encouraging, are difficult to forecast. However, for the next budget year, the City of Houston has decreased it property tax rate from .065 to .060. This will result in a decrease of the increment funds received. The capital budget for the UDA 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.) certainly impact the size of debt issues for the UDA, 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 Blvd #1580, Houston, TX 77056.

**UPTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS**  
*June 30, 2004*

	<b>Governmental Activities</b>
	<hr/>
<b>ASSETS</b>	
Cash and temporary investments	\$ 11,284,367
Due from other governmental agencies	734,248
Total Assets	<hr/> <u>12,018,615</u> <hr/>
 <b>LIABILITIES</b>	
Accounts payable and accrued expenses	481,869
Due to other governmental agencies	2,217,944
Long-term liabilities	
Due within one year	
Bonds	790,000
Accrued interest	492,699
Due in more than one year	
Bonds	35,340,518
Total liabilities	<hr/> <u>39,323,030</u> <hr/>
 <b>NET ASSETS</b>	
Restricted for:	
Capital projects	(33,073,912)
Debt Service	5,769,497
Total net assets	<hr/> <u>\$ (27,304,415)</u> <hr/>

*See Noted to Financial Statements.*



**UPTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended June 30, 2004*

<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	\$ 66,687	\$ (66,687)
Interest on Long-term debt	1,568,261	(1,568,261)
Capital outlay on behalf of the City of Houston	2,803,897	(2,803,897)
Total governmental activities	<u>4,438,845</u>	<u>(4,438,845)</u>
	<b>General revenues:</b>	
	Taxes:	
	Contract tax increment	7,037,041
	Unrestricted investment earnings	36,730
	Miscellaneous	40,607
	Affordable housing-transfer to the primary government	<u>(6,447,475)</u>
	Total general revenues	<u>666,903</u>
	Change in net assets	<u>(3,771,942)</u>
	Net assets - beginning	(23,532,473)
	Net assets - ending	<u>\$ (27,304,415)</u>

*See Noted to Financial Statements.*

**UPTOWN DEVELOPMENT AUTHORITY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
*June 30, 2004*

	<u>Debt Service</u>	<u>Capital Projects Increment</u>	<u>Capital Projects Bonds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 3,874,120	\$ 6,209,306	\$ 1,200,943	\$ 11,284,369
Due from other funds	2,390,743	2,667		2,393,410
Receivable from other governments		734,248		734,248
Total assets	<u>6,264,863</u>	<u>6,946,221</u>	<u>1,200,943</u>	<u>14,412,027</u>
 <b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable			481,867	481,867
Due to other funds	2,667	2,390,743		2,393,410
Payable to other governments		2,217,944		2,217,944
Total liabilities	<u>2,667</u>	<u>4,608,687</u>	<u>481,867</u>	<u>5,093,221</u>
 Fund balances:				
Reserved for:				
Debt service	6,262,196			6,262,196
Authorized construction		2,337,534	719,076	3,056,610
Total fund balances	<u>6,262,196</u>	<u>2,337,534</u>	<u>719,076</u>	<u>9,318,806</u>
Total liabilities and fund balances	<u>\$ 6,264,863</u>	<u>\$ 6,946,221</u>	<u>\$ 1,200,943</u>	<u>\$ 14,412,027</u>

*See Noted to Financial Statements.*

**UPTOWN DEVELOPMENT AUTHORITY**  
***Reconciliation of the Governmental Funds Balance Sheet to  
the Statement of Net Assets***  
***June 30, 2004***

Total fund balance, governmental funds \$ 9,318,806

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

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 and related discount	(36,130,522)
Accrued interest	(492,699)

Net Assets of Governmental Activities in the Statement of Net Assets	<hr/>
	\$ (27,304,415) <hr/>

*See Noted to Financial Statements.*

**UPTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - GOVERNMENTAL FUNDS**  
*For the Year Ended June 30, 2004*

	<u>Debt Service</u>	<u>Capital Projects Increment</u>	<u>Capital Projects Bonds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Contract tax increment	\$ 2,415,951	\$ 4,621,090	\$	\$ 7,037,041
Investment earnings	18,671	5,418	12,643	36,732
Miscellaneous		40,607		40,607
<b>Total revenues</b>	<u>2,434,622</u>	<u>4,667,115</u>	<u>12,643</u>	<u>7,114,380</u>
<b>EXPENDITURES</b>				
Current:				
General government		66,687		66,687
Debt Service:				
Principal	755,000			755,000
Interest and other charges	1,384,549	109,174	464,433	1,958,156
Capital Outlay			2,803,897	2,803,897
<b>Total Expenditures</b>	<u>2,139,549</u>	<u>175,861</u>	<u>3,268,330</u>	<u>5,583,740</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>295,073</u>	<u>4,491,254</u>	<u>(3,255,687)</u>	<u>1,530,640</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt, net	1,749,255		11,451,761	13,201,016
Transfer out to other government		(2,269,289)	(4,178,186)	(6,447,475)
Transfers in		3,298,812		3,298,812
Transfers out			(3,298,812)	(3,298,812)
<b>Total other financing sources (uses)</b>	<u>1,749,255</u>	<u>1,029,523</u>	<u>3,974,763</u>	<u>6,753,541</u>
<b>Revenue and other financing sources/(uses) over/(under) expenditures</b>	2,044,328	5,520,777	719,076	8,284,181
Fund balances - beginning of year	4,217,868	(3,183,243)		1,034,625
<b>Fund balances - End of Year</b>	<u>\$ 6,262,196</u>	<u>\$ 2,337,534</u>	<u>\$ 719,076</u>	<u>\$ 9,318,806</u>

*See Noted 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, 2004***

Net change in fund balances - total governmental funds: \$ 8,284,181

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

Governmental funds report proceeds from the issuance of long term debt as other financing sources. In contrast, the Statement of Activities treats such sources as an addition to long-term liabilities. This is the amount of bond proceeds received. (13,206,892)

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 and bond issue costs as an expense. This is the amount of repayments made and bond issue costs paid. 1,219,433

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 (9,622)  
Amortization of bond issue costs (59,042)

Change in net assets of governmental activities \$ (3,771,942)

*See Noted to Financial Statements.*

**UPTOWN DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

*June 30, 2004*

**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 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 the west side of Houston, near the interchange of the IJ-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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Authority reports the following major governmental funds:

The *General 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 FINANCIAL STATEMENTS**  
*June 30, 2004*

**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	\$ 2,879,453
Investments not subject to categorization:	
Money market mutual funds	8,404,914
	<u>\$ 11,284,367</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.

**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. The Zone 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 of Houston. 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, 2004, the Authority received \$3,964,959 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 of Houston, 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 FINANCIAL STATEMENTS***June 30, 2004***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 and 2004A 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 and 2004B 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, 2004 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>
<b>Governmental Activities</b>					
Revenue Bonds	\$ 24,595,000	\$ 13,500,000	\$ (755,000)	\$ 37,340,000	\$ 790,000

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 790,000	\$ 2,004,149	\$ 2,794,149
2006	825,000	1,915,682	2,740,682
2007	1,310,000	1,870,318	3,180,318
2008	1,360,000	1,815,086	3,175,086
2009	1,420,000	1,754,635	3,174,635
2010	1,490,000	1,688,852	3,178,852
2011	1,560,000	1,617,941	3,177,941
2012	1,645,000	1,540,796	3,185,796
2013	1,710,000	1,457,492	3,167,492
2014	1,810,000	1,367,930	3,177,930
2015	1,905,000	1,271,099	3,176,099
2016	2,005,000	1,167,012	3,172,012
2017	2,125,000	1,053,246	3,178,246
2018	2,250,000	929,321	3,179,321
2019	2,380,000	796,846	3,176,846
2020	2,525,000	655,383	3,180,383
2021	2,670,000	504,044	3,174,044
2022	2,830,000	342,784	3,172,784
2023	1,775,000	209,316	1,984,316
2024	930,000	133,838	1,063,838
2025	985,000	82,372	1,067,372
2026	1,040,000	27,950	1,067,950
	<u>\$ 37,340,000</u>	<u>\$ 24,206,088</u>	<u>\$ 61,546,088</u>

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2004*

**NOTE 6 – LONG TERM DEBT (continued)**

The following is a summary of the terms of obligation of revenue bonds outstanding as of June 30, 2004:

Series	Original Issue	Interest Rates	Debt Outstanding	Unamortized Discount/ Issuance Costs
2001A	\$ 9,385,000	4.25%-6.00%	\$ 8,830,000	\$ 124,757
2001B	4,670,000	4.25%-6.00%	4,395,000	62,804
2002A	7,280,000	3.00%-5.60%	7,060,000	179,463
2002B	3,665,000	3.00%-5.60%	3,555,000	89,392
2004A	9,000,000	2.60%-5.125%	9,000,000	359,630
2004B	4,500,000	2.60%-5.125%	4,500,000	393,436
			<u>\$ 37,340,000</u>	<u>\$ 1,209,482</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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2004*

**NOTE 8 – 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 1<sup>st</sup> 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, 2004, the Authority remitted \$535,199 to the District. This amount consisted of \$179,999 for operating and administrative costs, \$200,000 for traffic control and mobility and \$155,200 for project management.

**NOTE 9 – 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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2004*

**NOTE 10 – INTERFUND ACTIVITY**

Receivable and Payables

Payable Fund	Receivable Fund		
	Debt Service	Capital Projects Increment	Total
Debt Service	\$	\$ 2,667	\$ 2,667
Capital Projects-Increment	2,390,743		2,390,743
	\$ 2,390,743	\$ 2,667	\$ 2,393,410

Amounts booked as due to/from are considered temporary loans and will be repaid during the following fiscal year.

Interfund Transfers

The Capital Projects Fund – Bonds transferred approximately \$3.3 million to the Capital Projects Fund – Increment to repay costs incurred related to the capital mobility program.

**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, 2004*

	<b>Original And Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive / (Negative)</b>
<b>REVENUES</b>			
Contract tax increment	\$ 7,618,650	\$ 7,037,041	\$ (581,609)
Investment earnings	80,000	36,732	36,732
Miscellaneous		40,607	40,607
<b>Total revenues</b>	<u>7,698,650</u>	<u>7,114,380</u>	<u>(504,270)</u>
<b>EXPENDITURES</b>			
Current:			
General government	180,000	66,687	113,313
Debt Service:			
Principal	755,000	755,000	
Interest and other charges	6,352,900	1,958,156	4,394,744
Capital Outlay	15,000,000	2,803,897	12,196,103
<b>Total Expenditures</b>	<u>22,287,900</u>	<u>5,583,740</u>	<u>4,508,057</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(14,589,250)</u>	<u>1,530,640</u>	<u>(5,012,327)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long-term debt, net	26,000,000	13,201,016	(12,798,984)
Transfer out to other government	(8,341,797)	(6,447,475)	1,894,322
<b>Total other financing sources (uses)</b>	<u>17,658,203</u>	<u>6,753,541</u>	<u>(10,904,662)</u>
<b>Revenue and other financing sources/(uses) over/(under) expenditures</b>	3,068,953	8,284,181	5,215,228
Fund balances - beginning of year	806,274	1,034,625	
<b>Fund balances - End of Year</b>	<u>3,875,227</u>	<u>\$ 9,318,806</u>	<u>\$ 5,443,579</u>