

Uptown Development Authority

Financial Report

June 30, 2005

UPTOWN DEVELOPMENT AUTHORITY
FINANCIAL REPORT
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FINANCIAL SECTION

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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, 2005, 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, 2005, 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.

Nell Garrison, P.C.

Houston, Texas
September 2, 2005

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, 2005.

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. 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 affordable housing funds are also included in these 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 \$30 million as of June 30, 2005. 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 \$14.7 million, an increase of \$2.7 million from the prior year.

Total liabilities totaled approximately \$44.8 million for the current year. This is an increase of \$5.5 million from the previous year primarily due to the issuance of additional short-term debt.

A schedule of net assets at June 30, 2005 follows:

UPTOWN DEVELOPMENT AUTHORITY		
NET ASSETS		
June 30, 2005		
(in 000s)		
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 11,610	\$ 12,019
Deferred charges	1,352	
Capital assets	1,800	
Total Assets	<u>14,761</u>	<u>12,019</u>
Long-term liabilities outstanding	38,630	36,623
Other liabilities	6,196	2,700
Total Liabilities	<u>44,826</u>	<u>39,323</u>
Net assets:		
Restricted		
Unrestricted	(30,065)	(27,304)
Total Net Assets	<u>\$ (30,065)</u>	<u>\$ (27,304)</u>

Total expenses were approximately \$9.2 million in the current year. This is an increase of \$4.8 million from the previous year. This is primarily due to increased construction activity for infrastructure projects including West Alabama, McCue and the Post Oak Boulevard waterline project.

Total general revenues were approximately \$7.2 million. This is a slight increase of \$100 thousand from the previous year.

Changes in net assets for the year ended June 30, 2005 follows:

**UPTOWN DEVELOPMENT AUTHORITY
NET ASSETS**

Year Ended June 30, 2004
(in 000s)

	<u>2005</u>	<u>2004</u>
General revenues		
Contract tax increment	\$ 7,137	\$ 7,037
Investment earnings	128	37
Miscellaneous		41
Total Revenues	<u>7,265</u>	<u>7,115</u>
Expenses		
General government	242	67
Interest on long-term debt	2,285	1,569
Capital outlay on behalf of City of Houston	6,663	2,804
Total Expenses	<u>\$ 9,190</u>	<u>\$ 4,440</u>
Increase (Decrease) in net assets before transfers	\$ (1,925)	\$ 2,675
Transfers	\$ (836)	\$ (6,447)
Increase (Decrease) in net assets	(2,761)	(3,772)
Net assets-Beginning	(27,304)	(23,532)
Net Assets - Ending	<u>\$ (30,065)</u>	<u>\$ (27,304)</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 \$6.9 million, a decrease of \$2.3 million in comparison with the prior year. Approximately \$5.4 million is reserved for debt service. The remainder of fund balance is unreserved and 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 approximately \$6.0 million at year-end (approximately \$2.4 million of the fund balance is 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. The fund balance in this fund was a deficit as the bond proceeds were used to fund capital projects during the year.

The debt service fund

The debt service fund has a total fund balance of \$5.4 million, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$.8 million. While, the Authority incurred new indebtedness during the year, it was a relatively small issue and the overall debt service fund balance decreased.

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 \$39.6 million. The slight increase is due to a smaller bond issue during 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

Uptown has over 23 million square feet of commercial office space. Overall, ad valorem values for the office sector were sustained with a slight 1% increase over 2004 values (This is a positive trend as last year's values sustained a 4% decrease over 2003 values.) While the office leasing market has taken a hit over past years, there are some positive signs of recovery.

Retail

Uptown is synonymous with shopping; a world-renowned center for retail. The retail market enjoyed a 4.8% increase over 2004 ad valorem values.

Recent Retail Development include:

- ♦ Ethan Allen: Danbury, Conn.-based Ethan Allen Interiors Inc. has constructed a new store at the high-profile intersection of Post Oak Boulevard and Westheimer. The 17,200 square foot store is one of the first in the area to showcase the retailer's new design featuring skylights and a larger variety of home furnishings and is their seventh area store.
- ♦ Fox Sports Grill: The Galleria welcomes this upscale sports bar and restaurant, which offers a contemporary American menu while providing state of the art sports and entertainment viewing. This venue is only the fifth of its kind in the country.
- ♦ Grand Lux Café: This new café has moved into the space left vacant by FAO Schwarz in the Centre at Post Oak. Grand Lux Café is a subsidiary of the Cheesecake Factory Restaurants. The 13,000 square foot restaurant is described as “upscale, casual dining” with an emphasis on lunch, dinner, late night desserts and brunch.
- ♦ The Shops on Sage Road: New retail construction is planned on 2.6 acres at Sage and West Alabama. A Houston-based retail firm, Hunnington Properties, Inc., purchased the property in January 2004, calling it the “last from row parcel of land” in the Galleria area. The upscale retail center will consist of two buildings, 23,899 square feet and 9,350 square feet. Construction should be completed in summer 2005.

Uptown Park Expansion: Uptown Park, the European-styled retail center at Post Oak Boulevard and West Loop 610 South, has broken ground on an expansion project. This 22,000 square foot structure will be built on a 2.5 acre tract situated across Uptown Park Boulevard from the main complex and will have room for five to seven tenants. The new addition is expected to be completed by summer 2005.

Hotel

There are 26 first-quality, full-service hotels offering more than 6,300 rooms for guests. The ad valorem values for this sector remained constant as compared to 2004 values. RevPAR (revenue per available room) is still the highest in the City at \$87.26. Houston central business district/Downtown is at \$79.57.

Slohat Hotels, L.P. renovated the Doubletree Hotel on Post Oak Boulevard as part of a six-hotel renovation project and the name of the hotel has changed to Hilton Houston Post Oak. The remodeling process cost \$13 million and was completed March 1, 2005. All of the 448 rooms, the common areas and the lobby were updated with a more contemporary look.

New Hotel Construction:

- ♦ **Hilton Garden Inn:** Located on Sage Road between Richmond Avenue and Hidalgo Street, this proposed hotel will be eight-stories and include 182 guestrooms. Construction is scheduled for completion in November 2005.
- ♦ **Homewood Suites:** This hotel will be located on Sage Road near West Alabama, situated between 3000 Sage apartments and Shops on Sage retail. The 14-story project will have 160 rooms. Construction is scheduled for completion in fall 2005.
- ♦ **Granduca:** Interfin is constructing this luxury extended-stay hotel that will open in autumn 2006. The 6-story project will feature 132 elegant residences ranging from 425 to 2,100 square feet along with amenities and conveniences of a complete residential setting. Granduca is located at 1080 Uptown Park Boulevard, across the street from Uptown Park shopping center.
- ♦ **Hotel Indigo:** This luxury boutique hotel is located at 5160 Hidalgo, and will include 132-units. Construction is scheduled to be completed by November 2005.

Residential

The Uptown residential market has grown tremendously. The Uptown area boasts six high-rise condominium developments all erected within the past four years.

Randall Davis, in partnership with Hines, is developing The Empire. This 70-unit condominium project is situated next to The Manhattan, at the corner of Post Oak Boulevard and Hidalgo. The one-bedroom to three-bedroom units will range from the \$300,000's to \$1 million. The project is 80% pre-sold, and construction broke ground in April 2005.

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, 2005

	Governmental Activities
	<hr/>
ASSETS	
Cash and temporary investments	\$ 4,472,443
Receivables	7,137,285
Deferred charges	1,351,521
Land	1,800,000
Total Assets	<hr/> <u>14,761,249</u> <hr/>
 LIABILITIES	
Accounts payable and accrued expenses	989,379
Due to other governmental agencies	95,209
Long-term liabilities	
Due within one year	
Other Notes Payable	3,547,721
Bonds	920,000
Accrued interest	644,114
Due in more than one year	
Bonds	38,630,000
Total liabilities	<hr/> <u>44,826,423</u> <hr/>
 NET ASSETS	
Invested in capital assets, net of related debt	1,800,000
Restricted for:	
Debt Service	4,830,044
Unrestricted	(36,695,218)
Total net assets	<hr/> <u>\$ (30,065,174)</u> <hr/>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

<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	\$ 241,603	\$ (241,603)
Interest on Long-term debt	2,283,820	(2,283,820)
Capital outlay on behalf of the City of Houston	6,664,355	(6,664,355)
Total governmental activities	<u>9,189,778</u>	<u>(9,189,778)</u>
	General revenues:	
	Taxes:	
	Contract tax increment	7,137,285
	Unrestricted investment earnings	127,805
	Miscellaneous	
	Affordable housing-transfer to the primary government	(836,071)
	Total general revenues	<u>6,429,019</u>
	Change in net assets	(2,760,759)
	Net assets - beginning	(27,304,415)
	Net assets - ending	<u>\$ (30,065,174)</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	Debt Service	Capital Projects Increment	Capital Projects Bonds	Total Governmental Funds
ASSETS				
Cash and temporary investments	\$ 3,788,633	\$ 679,037	\$ 4,773	\$ 4,472,443
Taxes receivable, net	1,678,430	5,458,856		7,137,286
Total assets	<u>5,467,063</u>	<u>6,137,893</u>	<u>4,773</u>	<u>11,609,729</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable			989,368	989,368
Due to other governments	-	95,209		95,209
Other accrued expenses			7,095	7,095
Short-term notes payable			3,547,721	3,547,721
Total liabilities		<u>95,209</u>	<u>4,544,184</u>	<u>4,639,393</u>
Fund balances:				
Debt service	5,467,063			5,467,063
Authorized construction		6,042,684	(4,539,411)	1,503,273
Total fund balances	<u>5,467,063</u>	<u>6,042,684</u>	<u>(4,539,411)</u>	<u>6,970,336</u>
Total liabilities and fund balances	<u>\$ 5,467,063</u>	<u>\$ 6,137,893</u>	<u>\$ 4,773</u>	<u>\$ 11,609,729</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets
June 30, 2005

Total fund balance, governmental funds \$ 6,970,336

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. 1,800,000

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	(39,550,000)
Accrued interest	(637,019)
Deferred charge for issuance costs	424,035
Deferred charge for bond discount	927,474
Net Assets of Governmental Activities in the Statement of Net Assets	\$ (30,065,174)

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, 2005

	<u>Debt Service</u>	<u>Capital Projects Increment</u>	<u>Capital Projects Bonds</u>	<u>Total Governmental Funds</u>
REVENUES				
Contract tax increment	\$ 1,678,429	\$ 5,458,856	\$	\$ 7,137,285
Investment earnings	81,930	45,876		127,806
Total revenues	<u>1,760,359</u>	<u>5,504,732</u>		<u>7,265,091</u>
EXPENDITURES				
Current:				
Debt Service:				
Principal	790,000			790,000
Interest and other charges	2,043,498	174,607		2,218,105
Capital Outlay		1,800,000	6,905,959	8,705,959
Total Expenditures	<u>2,833,498</u>	<u>1,974,607</u>	<u>6,905,959</u>	<u>11,714,064</u>
Excess (deficiency) of revenues over expenditures	<u>(1,073,139)</u>	<u>3,530,125</u>	<u>(6,905,959)</u>	<u>(4,448,973)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	\$ 278,007		\$ 2,658,568	\$ 2,936,575
Transfer out to other government			(836,071)	(836,071)
Transfers in		175,025		175,025
Transfers out			(175,025)	(175,025)
Total other financing sources (uses)	<u>278,007</u>	<u>175,025</u>	<u>1,647,472</u>	<u>2,100,504</u>
Revenue and other financing sources/(uses) over/(under) expenditures	(795,132)	3,705,150	(5,258,487)	(2,348,469)
Fund balances - beginning of year	6,262,195	2,337,534	719,076	9,318,805
Fund balances - End of Year	<u>\$ 5,467,063</u>	<u>\$ 6,042,684</u>	<u>\$ (4,539,411)</u>	<u>\$ 6,970,336</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, 2005

Net change in fund balances - total governmental funds: \$ (2,348,469)

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

Governmental funds report capital outlays as expenditures. 1,800,000

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. (2,941,595)

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. 790,000

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	(1,653)
Amortization of bond issue costs	(20,193)
Amortization of bond discount	(38,849)
Change in net assets of governmental activities	<u>\$ (2,760,759)</u>

See Notes to Financial Statements.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

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, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority reports the following major governmental funds:

The *Capital Increment 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, 2005

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	\$ 576,659
Investments not subject to categorization:	
Money market mutual funds	<u>3,895,784</u>
	<u><u>\$ 4,472,443</u></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, 2005

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, 2005, the Authority received \$4,108,648 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, 2005

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 (issued in current year) 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 (issued in current year) 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, 2005 the following changes occurred in long-term liabilities:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Revenue Bonds	\$ 37,340,000	\$ 3,000,000	\$ (790,000)	\$ 39,550,000	\$ 920,000

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 920,000	\$ 1,987,675	\$ 2,907,675
2007	1,410,000	2,011,170	3,421,170
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>\$ 39,550,000</u>	<u>\$ 23,958,616</u>	<u>\$ 63,508,616</u>

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 – LONG TERM DEBT (continued)

The following is a summary of the terms of obligation of revenue bonds outstanding as of June 30, 2005:

Series	Original Issue	Interest Rates	Debt Outstanding	Unamortized Discount/ Issuance Costs
2001A	\$ 9,385,000	4.25% - 6.00%	\$ 8,530,000	\$ 169,493
2001B	4,670,000	4.25% - 6.00%	4,245,000	84,426
2002A	7,280,000	3.00% - 5.60%	6,835,000	118,190
2002B	3,665,000	3.00% - 5.60%	3,440,000	59,498
2004A	9,000,000	2.60% - 5.125%	9,000,000	473,812
2004B	4,500,000	2.60% - 5.125%	4,500,000	245,033
2004C	2,000,000	3.30% - 5.30%	2,000,000	138,455
2004D	1,000,000	3.30% - 5.30%	1,000,000	62,613
			<u>\$ 39,550,000</u>	<u>\$ 1,351,521</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, 2005 was \$3,547,721.

UPTOWN DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

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, 2005, the Authority remitted \$535,207 to the District. This amount consisted of \$180,000 for operating and administrative costs, \$200,000 for traffic control and mobility and \$155,207 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 \$4.5 million as of June 30, 2005. 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	\$ 7,471,220	\$ 7,137,285	\$ (333,935)
Investment earnings	80,000	127,806	47,806
Miscellaneous			
Total revenues	<u>7,551,220</u>	<u>7,265,091</u>	<u>(286,129)</u>
EXPENDITURES			
Current:			
General government	180,000		180,000
Debt Service:			
Principal	825,000	790,000	35,000
Interest and other charges	6,975,000	2,218,105	4,756,895
Capital Outlay	10,000,000	8,705,959	1,294,041
Total Expenditures	<u>17,980,000</u>	<u>11,714,064</u>	<u>6,265,936</u>
Excess (deficiency) of revenues over expenditures	<u>(10,428,780)</u>	<u>(4,448,973)</u>	<u>(6,552,065)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	20,000,000	2,936,575	(17,063,425)
Transfers out to other government	(8,156,872)	(836,071)	7,320,801
Total other financing sources (uses)	<u>11,843,128</u>	<u>2,100,504</u>	<u>(9,742,624)</u>
Revenue and other financing sources/(uses) over/(under) expenditures	1,414,348	(2,348,469)	(3,762,817)
Fund balances - beginning of year	3,875,227	9,318,805	5,443,578
Fund balances - End of Year	<u><u>5,289,575</u></u>	<u><u>\$ 6,970,336</u></u>	<u><u>\$ 1,680,761</u></u>

UPTOWN DEVELOPMENT AUTHORITY

*Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005*

FY05 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	180000	88821	
Administration Consultant				
Office Expenses	N/A		91179	
Insurance	N/A		25271.1	
Accounting				
Auditor			11200	
Property Account Consultant				
Bond Trustee				
Financial Advisor				
Subtotal		\$ 180,000.00	\$ 216,471.10	\$ 36,471.10
PROGRAM AND PROJECT CONSULTANTS				
Legal - Allen Boone Humphries			25131.88	
Architect Consultants				
Engineering Consultants				
Project Management Consultants				
Construction Audits				
Other Professional Services				
Subtotal			25131.88	25131.88
Total Management Consulting Services		\$ 180,000.00	\$ 241,602.98	\$ 61,602.98

Note: The City of Houston budgets capital projects in a single year regardless of number of years in which the funds are expended. However, the UDA budgets for projects on an annual basis and the expenditures may span a 3 -5 year budget period. The information in this budget reflects FY05 expenditures and represent one year of a multi-year implementation. Conclusions regarding expenditures for construction, design, or construction management cannot be properly made based on a single budget year, rather the entire implementation cycle.

UPTOWN DEVELOPMENT AUTHORITY

*Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005*

FY05 CAPITAL EXPENDITURES

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project 1: Rice / Sage Phase I				
The UDA provided design, ROW and construction costs exceeding \$2M in partnership with HCTRA to double capacity of Rice under US 59.				
The total project costs were approximately \$4M.				
Engineering (Planning) Services	Walter P Moore	\$	3,323	
	Knudson & Associates	\$	5,096	
Architectural Services	SWA Group	\$	6,181	
Construction Management				
Project Management	HCID	\$	11,690	
Construction Costs	Landscape Art	\$	192,462	
	Superior Concrete	\$	53,100	
Project Financing		\$	19,389	
Other Professional Services				
		\$	-	
Subtotal		\$ 350,000	\$ 291,241	\$ (58,759)
Project 2: McCue Street and Reconstruction				
The UDA roadway widening project with total project costs of approximately \$3M.				
Engineering Services	Cobb, Fendley & Assoc.	\$	133,191	
	Walter P Moore	\$	31,389	
Architectural Services	SWA Group	\$	21,631	
Construction Management	Cobb, Fendley & Assoc.	\$	148,885	
Project Management	HCID	\$	110,408	
Construction Costs	Texas Sterling	\$	2,337,154	
Project Financing		\$	19,389	
Other Professional Services	John A Horton	\$	1,766	
	Communication Arts	\$	6,746	
Subtotal		\$ 1,300,000	\$ 2,810,560	\$ 1,510,560

UPTOWN DEVELOPMENT AUTHORITY

***Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005***

Project 3: Post Oak Waterline

City of Houston waterline replacement project in which the UDA provided design, construction and \$500,000 (approximately \$1M total).
The total project costs exceed \$5M.

Engineering Services	Lockwood, Andrews, Newman	\$	61,408		
	TEDSI	\$	8,300		
	Walter P Moore	\$	6,767		
Architectural Services					
Construction Management					
Project Management	HCID	\$	23,802		
Construction Costs	City of Houston	\$	725,000		
Project Financing		\$	19,389		
Other Professional Services		\$	-		
	Subtotal	\$	-	\$	844,666 \$ 844,666

Project 4: West Alabama

UDA roadway project in response to TxDOT agreement which added free flow right turn onto South bound 610 frontage road.
Total project costs approximately \$800,000.

Engineering Services	Walter P Moore	\$	7,891		
Architectural Services	SWA Group	\$	9,561		
Construction Management	Cobb, Fendley & Assoc.	\$	50,263		
Project Management	HCID	\$	27,756		
Construction Costs	Conrad Construction	\$	583,052		
Project Financing		\$	19,389		
Other Professional Services	Communication Arts	\$	1,427		
	Subtotal	\$	650,000	\$	699,339 \$ 49,339

Project 5: Rice / Sage Phase II

UDA temporary intersection improvement and ROW adjustment to serve wider Rice under US 59.

Total project costs approximately \$4M.

Engineering Services	Walter P Moore	\$	3,627		
Architectural Services	SWA Group	\$	-		
Construction Management	Thompson	\$	33,762		
Project Management	HCID	\$	12,756		
Construction Costs	T&T Construction	\$	267,961		
Project Financing		\$	19,389		
Other Professional Services					
	Subtotal	\$	-	\$	337,495 \$ 337,495

UPTOWN DEVELOPMENT AUTHORITY

*Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005*

Project 6: TxDot Priority Corridor

UDA providing local match (\$250,000) for TxDOT grant (\$1.25M) for traffic management and traffic signal improvements.

Engineering Services	Walter P Moore	\$	87,296		
Architectural Services		\$	-		
Construction Management		\$	-		
Project Management	HCID	\$	10,177		
Construction Costs	TxDot (Local Match)	\$	213,778		
Project Financing		\$	19,389		
Other Professional Services					
	Subtotal	\$	300,000	\$	330,640 \$ 30,640

Project 7: Traffic Signals

UDA design, construction management and installation of traffic signals including program enhancements for Uptown traffic signals

Engineering Services	Walter P Moore	\$	7,408		
Architectural Services		\$	-		
Construction Management	TEDSI Infrastructure	\$	57,760		
Project Management	HCID	\$	10,644		
Construction Costs	Traffic System Construction	\$	223,586		
Project Financing		\$	19,389		
Other Professional Services	Gerard DeCamp, Engineer	\$	68,688		
	Subtotal	\$	150,000	\$	387,475 \$ 237,475

Project 8: Construction related Traffic Management and Communication

Engineering Services					
Architectural Services		\$	-		
Construction Management		\$	-		
Construction Costs		\$	-		
Other Professional Services	HCID	\$	-	\$	200,000
	Subtotal	\$	-	\$	200,000 \$ 200,000

UPTOWN DEVELOPMENT AUTHORITY

*Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005*

Project 9: Conceptual Project Development

Engineering Services		\$	-		
Architectural Services	SWA Group	\$	36,240		
Construction Management		\$	-		
Construction Costs		\$	-		
Other Professional Services	Communication Arts	\$	16,201		
	Goodman Corporation	\$	28,000		
	Spillette Consulting	\$	10,314		
	Vollmer	\$	25,984		
Subtotal		\$	-	\$	116,739
				\$	116,739

Project 10: Right-of-Way Acquisitions

UDA is acquiring property for the widening of San Felipe, Rice/Sage and other UDA Projects.

Engineering Services	Walter P Moore (parcel survey)	\$	6,899		
	Thompson (parcel survey)	\$	3,807		
Architectural Services		\$	-		
Construction Management		\$	-		
Construction Costs		\$	-		
Right-of-way acquisition costs		\$	632,285		
Subtotal		\$	6,200,000	\$	642,990
				\$	(5,557,010)

Project 11: San Felipe Phase 2 (Sage to Post Oak Boulevard)

UDA roadway widening project currently in ROW acquisition and engineering phase (Total project cost estimate - \$15M)

Engineering Services		\$	-		
Architectural Services		\$	-		
Construction Management		\$	-		
Construction Costs		\$	-		
Other Professional Services	Goodman Corp.	\$	33,800		
Subtotal		\$	350,000	\$	33,800
				\$	(316,200)

Project 12: Post Oak Boulevard Transit Corridor (HCTRA payment)

UDA agreement with TxDOT and HCTRA for 33 feet of ROW between south bound 610 frontage road and north bound Westpark Tollway for future transportation project. Estimated cost is \$2M which will be reimbursed to HCTRA on installments.

Project 13: Uptown Drainage Project		\$	350,000	\$	-
				\$	(350,000)

UDA review and preliminary design of overall drainage improvements to be applied in individual UDA roadway projects.

UPTOWN DEVELOPMENT AUTHORITY

*Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005*

**Project 14: Pedestrian Network / Sidewalks and
Streets to Standard**

UDA program to complete an Uptown pedestrian network and provide ADA improvements.

Engineering Services	TEDSI	\$	25,019		
Architectural Services	SWA Group	\$	3,999		
Construction Management	TEDSI	\$	15,000		
Construction Costs	Bill Mcdonald Construction	\$	52,172		
Other Professional Services	Communication Arts	\$	4,900		
	Subtotal	\$	-	\$	101,090
Total Capital Expenditures		\$	10,000,000	\$	6,796,036
				\$	(3,253,413)

UPTOWN DEVELOPMENT AUTHORITY
Operating Expenses, Capital Expenditures, and Project Plan Reconciliation
For the Year ending June 30, 2005

	PROJECT PLAN RECONCILIATION			
	<i>Project Plan Amount</i>	<i>Expenditures to FY05</i>	<i>Variance</i>	<i>Notes</i>
Non-Education Projects				
Mobility Improvement Program	\$ 229,289,000	\$ 31,825,514		
Education Projects				
Zone Administration / Operations	\$ 6,000,000	\$ 993,889		