

UPTOWN DEVELOPMENT AUTHORITY

**FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

**Year Ended June 30, 2015
with Independent Auditor's Report**

UPTOWN DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Uptown Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Uptown Development Authority (the "Authority"), a component unit of the City of Houston, Texas, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Funds – Budget and Actual, and the Operating Expenditures, Capital Expenditures and Project Plan Reconciliation on pages 35 through 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Funds – Budget and Actual, and the Operating Expenditures, Capital Expenditures and Project Plan Reconciliation are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Funds – Budget and Actual, and the Operating Expenditures, Capital Expenditures and Project Plan Reconciliation are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on our consideration of Uptown Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Uptown Development Authority's internal control over financial reporting and compliance.



Houston, Texas
October 22, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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UPTOWN DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2015

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, 2015.

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 is 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 Position* presents information on all of the Authority's assets, liabilities and deferred inflows and outflows, with the difference between the items reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 its project plan. The prominent activities include improving streets and intersections and creating a street grid network.

UPTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (*continued*)

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 Funds Balance Sheet* and the *Governmental Funds 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 four individual governmental funds for both infrastructure and affordable housing. Information is presented separately in the *Governmental Funds Balance Sheet* and in the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* for the Affordable Housing Special Revenue Fund, the Capital Projects Fund, the Affordable Housing Capital Projects and the Debt Service Funds. All are considered to be major funds.

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

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.

Government-wide Financial Analysis

In the government-wide statements, the difference between assets, deferred outflows and inflows, and liabilities is called net position. Net position is categorized based on their availability to provide financial resources for the Authority. Net position that is invested in capital assets represents the Authority's net investment in capital assets. "Restricted" net position represents amounts that are restricted for future debt service requirements. "Unrestricted" net position represents amounts available to meet the Authority's future obligations.

UPTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

As noted earlier, changes in net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, net position was negative as of June 30, 2015. The Authority continues to have a deficit net position 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.

A comparative schedule of net position at June 30, 2015 and 2014 follows:

	2015	2014
Current and other assets	\$ 86,053,236	\$ 87,048,078
Capital assets	11,816,619	12,337,513
Total Assets	97,869,855	99,385,591
 Deferred Outflows of Resources		
Deferred charge on refunding	282,624	317,952
Total deferred outflows of resources	282,624	317,952
 Accounts payable and other liabilities		
	15,893,704	14,592,441
Long-term liabilities	111,135,492	115,989,486
Total Liabilities	127,029,196	130,581,927
 Net Position		
Net investment in capital assets	11,816,619	12,337,513
Restricted for capital projects	50,345,189	53,330,266
Restricted for debt service	19,814,343	19,125,371
Unrestricted (deficit)	(110,852,868)	(115,671,534)
Total Net Position (Deficit)	\$ (28,876,717)	\$ (30,878,384)

Total assets decreased by (\$1,515,736) from the prior year. Liabilities decreased by (\$3,552,731). This is due to payments on long-term debt. Additionally tax increment revenues (cash) increased due to the increase of ad valorem values.

UPTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The total net deficit of the Authority decreased by \$2,001,667 during the current fiscal year. A comparative summary of the Authority's statement of activities for the past two years is as follows:

	2015	2014
Revenues		
Program Revenues:		
Capital grants and contributions	\$ 4,688,550	\$ 1,773,059
General Revenues:		
Contract tax increment	39,843,040	32,287,147
Investment earnings	94,235	21,217
Total Revenues	44,625,825	34,081,423
Expenses		
General government	2,131,535	1,686,952
Affordable housing	11,680,000	9,262,000
Educational Facilities	4,407,304	4,116,949
Interest on long-term debt	5,102,839	4,775,703
Capital outlay on behalf of City of Houston	18,746,258	9,114,732
Depreciation and amortization	556,222	556,222
Total Expenses	42,624,158	29,512,558
Increase (decrease) in net position	2,001,667	4,568,865
Net position - beginning	(30,878,384)	(35,447,249)
Net position - ending	\$ (28,876,717)	\$ (30,878,384)

Contract tax increment revenues increased by \$7,555,893 from the previous year. This was due to an increase in property values. Total expenses were \$42,624,158 in the current year. This is an increase of \$13,111,600 from the previous year. This was due to increased spending for capital projects including the Post Oak Boulevard project and Memorial Park projects. Affordable Housing and Educational Facilities payments increased as well.

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, an 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 \$71,778,197 a \$2,502,844 decrease in comparison with the prior year. Approximately \$21.4 million is restricted for debt service. The Capital Projects fund balance at the end of the fiscal year was \$50,371,702. This is due to a bond sale in January of 2014 and tax increment revenue from the City of Houston. The Authority uses the capital projects fund for infrastructure improvements in the area.

UPTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The final budget to actual results for the capital program cost were \$50 million under budget. This is due to a slower pace on the Post Oak Boulevard project that originally budgeted. During this year, design is 60 percent complete and the Post Oak Boulevard sanitary sewer project began. There has also been substantial progress made in the land acquisition. It is anticipated that the pace will increase in the next fiscal year.

As a public agency, the Uptown Development Authority is governed by strict laws and regulations on how property is acquired for public projects. Objectives of the process are:

1. **Protect public interest** - We must protect the public interest by acquiring property at fair market value.
2. **Protect private property rights** - We must protect private property rights with just compensation for the taking of private property for public use.
3. **Follow Due Process**- We must follow local, state and federal rules and regulations in a transparent, fair and legal process.

The Uptown TIRZ goes beyond the letter and spirit of the laws governing right-of-way acquisition.

The following is a comparative summary of changes in fund balances for the prior two fiscal years:

	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Capital Projects	\$ 50,371,702	\$ (2,932,600)	\$ 53,304,302	\$ 48,129,343	\$ 5,174,959
Debt Service	19,079,959	438,980	18,640,979	7,373,604	11,267,375
Affordable Housing					
Special Revenue	23,487	(2,477)	25,964	10,677	15,287
Affordable Housing					
Debt Service	2,303,049	(6,747)	2,309,796	687	2,309,109
	<u>\$ 71,778,197</u>	<u>\$ (2,502,844)</u>	<u>\$ 74,281,041</u>	<u>\$ 55,514,311</u>	<u>\$ 18,766,730</u>

Capital Asset and Debt Administration

Capital assets held by the Authority at the end of the current and previous fiscal years are summarized as follows:

	<u>2015</u>	<u>2014</u>
Capital assets not being depreciated:		
Land and improvements	<u>\$ 9,081,040</u>	<u>\$ 9,081,040</u>
Capital assets being depreciated:		
ATIS Equipment	459,715	459,715
Pedestrian Lights	<u>5,117,275</u>	<u>5,117,275</u>
	5,576,990	5,576,990
Less accumulated depreciation	<u>(2,841,411)</u>	<u>(2,320,517)</u>
	<u>2,735,579</u>	<u>3,256,473</u>
Capital assets, net of accumulated depreciation	<u>\$ 11,816,619</u>	<u>\$ 12,337,513</u>

UPTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

During the year, no additional assets were purchased.

The Authority issues debt or other financing to finance the capital improvement plan adopted by the City of Houston. In accordance with the Authority's agreement with the City of Houston, infrastructure improvements financed with this debt are the property of the City. All costs incurred by the Authority are primarily capital costs to execute the plan. Accordingly, street improvements and other infrastructure assets are not carried on the Authority's statements.

A comparative summary of the Authority's long-term liabilities as of June 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Tax increment contract revenue bonds payable	\$ 111,540,000	\$ 116,430,000
Less unamortized discount on bonds payable	(404,508)	(440,514)
	<u>\$ 111,135,492</u>	<u>\$ 115,989,486</u>

Additional information on the Authority's long-term debt can be found in Note 5.

Economic Factors

The Authority administers the operations of the Tax Increment Reinvestment Zone ("TIRZ") on behalf of the City of Houston (the "City"). The TIRZ is one of the nation's largest suburban districts, which boasts a unique blend of office, retail, hotel and residential sectors. The TIRZ includes approximately 1,010 acres of land within its original boundaries and approximately an additional 36 acres of land annexed in January 2008. In 2013, The Zone and the City approved a fourth amendment to the Zone to provide for the enhancement and improvements to an additional 1,769 acres of land that is primarily Memorial Park. All land lies within the boundaries of the City.

Office Space

Uptown Houston is one of the largest business districts outside a historic core in the United States. It is the 15th largest business district in the United States: comparable to Denver and Cleveland. With almost 24 million square feet of total office space in its market area, Uptown accounts for over 13% of Houston's total 'Class A' office space with 17 million square feet. There are over 96,000 office employees in the Uptown area. At the end of the fiscal year, class A office space was 88% leased.

Overall, 2015 certified ad valorem values for the office sector were approximately 7% higher than 2014 values. Last fiscal year, Uptown celebrated two new additions to the office sector: the BBVA Compass Plaza at 2200 Post Oak Boulevard and 3009 Post Oak Boulevard. During this fiscal year, BHP Billiton's new 30-story office building on Post Oak Boulevard is about 67% percent complete. This will be BHP's new global headquarters and will house between 2,000 to 3,000 employees. The project is expected to be completed late 2016. In addition, the broader Uptown market area saw Amegy Bank break ground on its 350,000 square foot office building as well as Nelson-Murphree's groundbreaking for its 165,000 square foot office tower.

UPTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (*continued*)

Retail

Uptown is synonymous with shopping and is known as a world-renowned center for retail. Ad valorem values for the retail sector were certified over 6% higher 2015. Retail was 99% leased as of 2015. This market maintained as The Galleria is now the fourth largest retail center in the United States. The newest 22-acre mixed-use development known as BLVD Place boasts over 200,000 square feet of retail and office. The Frost Bank regional office opened in BLVD Place in the Spring of 2014, while the new Whole Foods Market opened in November 2014. The Galleria Mall began reconstruction and renovation valued at \$250,000,000 at the corner of Westheimer and Sage. Once completed, an additional 40,000 square feet will be added to the mall.

Hotel

Uptown currently has 31 first quality hotels in the area, offering more than 7,100 rooms for guests. Ad valorem values for this sector were certified 5% higher in 2015. By December 2015, both Hyatt Regency and the Hyatt Place will add an additional 482 rooms to the Uptown market. Landry's is developing a 35 story mixed-use development call "The Post Oak" which broke ground in August 2015. The new hotel will add an additional 240 rooms when completed in 2017.

The area's RevPAR (revenues per available room) is the \$130.48 and comparable to the Houston Central Business District at \$145.34. The RevPAR for Houston City-wide is \$77.15. Uptown Houston also boasts one of the highest occupancy rates in the city at 77.4%, while the Houston City-wide occupancy rate was 71.4% at the end of the second quarter, 2015.

Residential

Seven new high-rise residential towers have been built in Uptown in the past eight years. Single-family properties are holding values with some properties increasing slightly. Multi-family developments certified 30% percent higher this year as the tax rolls for some of these newer projects were updated to reflect the completed project. Residential activity continues to grow in the area. Giorgio Borlenghi's Belfiore and Randall Davis's Astoria are both new condominiums which have sold out. Trammel Crow will soon break ground on its 400 unit project, "Alexan 5151". Hanover's 355 unit luxury apartments just completed and is ahead of occupancy projections. Uptown Houston is one of the most prestigious and desirable areas to live.

The economic outlook is positive in Uptown. In 2015, the ad valorem values were up over 6% from the previous year and Uptown 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 #1700, Houston, Texas 77056.

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BASIC FINANCIAL STATEMENTS

UPTOWN DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES

June 30, 2015

Assets

Cash and temporary investments	\$ 86,053,236
Land	9,081,040
Other Capital assets, net	2,735,579
Total Assets	<u>\$ 97,869,855</u>

Deferred Outflows of Resources

Deferred charge on refunding	\$ 282,624
Total deferred outflows of resources	<u>\$ 282,624</u>

Liabilities

Accounts payable and accrued expenses	\$ 13,621,201
Due to other governments	653,838
Accrued interest	1,618,665
Long-term liabilities:	
Due within one year	5,810,000
Due in more than one year	105,325,492
Total liabilities	<u>\$ 127,029,196</u>

Net Position

Net investment in capital assets	\$ 11,816,619
Restricted for capital projects	50,345,189
Restricted for debt service	19,814,343
Unrestricted (deficit)	(110,852,868)
Total net position (deficit)	<u>\$ (28,876,717)</u>

See Notes to Financial Statements

UPTOWN DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenue Capital Grants and Contributions	Net Expense
General government	\$ 2,131,535	\$ -	\$ (2,131,535)
Affordable housing	11,680,000	-	(11,680,000)
Education Facilities	4,407,304	-	(4,407,304)
Interest and other charges	5,102,839	-	(5,102,839)
Depreciation and amortization	556,222	-	(556,222)
Capital outlay on behalf of the City of Houston	18,746,258	4,688,550	(14,057,708)
Totals	<u>\$ 42,624,158</u>	<u>\$ 4,688,550</u>	<u>(37,935,608)</u>
General revenues			
Contract tax increment revenues			\$ 39,843,040
Unrestricted investment earnings			94,235
			<u>39,937,275</u>
Change in net position			2,001,667
Net position (deficit) - beginning			(30,878,384)
Net position (deficit) - ending			<u>\$ (28,876,717)</u>

See Notes to Financial Statements

UPTOWN DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	Capital Projects	Debt Service	Affordable Housing		Total Governmental Funds
			Special Revenue	Debt Service	
Assets					
Cash and temporary investments	\$ 52,961,707	\$ 19,084,993	\$ 11,703,487	\$ 2,303,049	\$ 86,053,236
Due from other funds	5,034	-	-	-	5,034
Total assets	<u>\$ 52,966,741</u>	<u>\$ 19,084,993</u>	<u>\$ 11,703,487</u>	<u>\$ 2,303,049</u>	<u>\$ 86,058,270</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ 1,941,201	\$ -	\$ 11,680,000	\$ -	\$ 13,621,201
Due to other funds		5,034	-	-	5,034
Due to other governments	653,838	-	-	-	653,838
Total liabilities	<u>2,595,039</u>	<u>5,034</u>	<u>11,680,000</u>	<u>-</u>	<u>14,280,073</u>
Fund balances:					
Restricted:					
Debt service	-	19,079,959	-	2,303,049	21,383,008
Affordable Housing	-	-	23,487	-	23,487
Capital Projects	50,371,702	-	-	-	50,371,702
Total fund balances	<u>50,371,702</u>	<u>19,079,959</u>	<u>23,487</u>	<u>2,303,049</u>	<u>71,778,197</u>
Total liabilities and fund balances	<u>\$ 52,966,741</u>	<u>\$ 19,084,993</u>	<u>\$ 11,703,487</u>	<u>\$ 2,303,049</u>	<u>\$ 86,058,270</u>

See Notes to Financial Statements

UPTOWN DEVELOPMENT AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2015

Total fund balance, governmental funds **\$ 71,778,197**

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

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

Land	\$ 9,081,040	
Other capital assets	5,576,990	
Less accumulated depreciation	<u>(2,841,411)</u>	
Change due to capital assets		11,816,619

Some liabilities and deferred outflows are not due and payable in the current period and are not included in the fund financial statements, but are included in the Statement of Net Position. These are as follows:

Bonds payable	(111,540,000)	
Deferred charge on refunding	282,624	
Additional accrued interest	(1,618,665)	
Unamortized bond discount	<u>404,508</u>	
Change due to long-term debt obligations		<u>(112,471,533)</u>

Net Position of Governmental Activities in the Statement of Net Position \$ (28,876,717)

See Notes to Financial Statements

UPTOWN DEVELOPMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2015

	<u>Affordable Housing</u>				
	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Govern- mental Funds</u>
Revenues					
Incremental tax revenue	\$ 17,591,954	\$ 9,428,846	\$ 11,689,866	\$ 1,132,374	\$ 39,843,040
Investment earnings	94,233	2	-	-	94,235
Intergovernmental revenue	4,688,550	-	-	-	4,688,550
Total revenues	<u>22,374,737</u>	<u>9,428,848</u>	<u>11,689,866</u>	<u>1,132,374</u>	<u>44,625,825</u>
Expenditures					
Current:					
Administration salaries	85,000	-	-	-	85,000
Office expenses	60,000	-	-	-	60,000
Insurance	87,535	-	-	-	87,535
Accounting	40,000	-	-	-	40,000
Auditor	16,853	-	-	-	16,853
City of Houston, Municipal charge	446,000	-	-	-	446,000
Legal	49,577	-	-	-	49,577
Legal, in-house	65,000	-	-	-	65,000
Educational facilities cost, transfer to other government	4,407,304	-	-	-	4,407,304
Affordable housing cost, transfer to other government	-	-	11,680,000	-	11,680,000
Other Zone Administration Cost	1,356,762	-	-	-	1,356,762
Capital Outlay on behalf of the City of Houston	18,658,723	-	-	-	18,658,723
Debt Service:					
Principal	-	4,210,000	-	680,000	4,890,000
Interest and other charges	34,583	4,779,868	12,343	459,121	5,285,915
Total expenditures	<u>25,307,337</u>	<u>8,989,868</u>	<u>11,692,343</u>	<u>1,139,121</u>	<u>47,128,669</u>
Net change in fund balances	(2,932,600)	438,980	(2,477)	(6,747)	(2,502,844)
Fund balances - beginning of year	<u>53,304,302</u>	<u>18,640,979</u>	<u>25,964</u>	<u>2,309,796</u>	<u>74,281,041</u>
Fund balances - end of year	<u>\$ 50,371,702</u>	<u>\$ 19,079,959</u>	<u>\$ 23,487</u>	<u>\$ 2,303,049</u>	<u>\$ 71,778,197</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, 2015

Net change in fund balances - total governmental funds: \$ (2,502,844)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of the assets is allocated over their estimated lives as depreciation expense.

Depreciation expense	<u>\$ (520,894)</u>	
Change due to capital assets		(520,894)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. Also governmental funds report issuance costs, premiums and discounts when the related debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Principal payments on debt	4,890,000	
Decrease in accrued interest payable	206,739	
Discount is amortized over the life of the bond	(36,006)	
Deferred charge on refunding is amortized over the life of the bond	<u>(35,328)</u>	
		<u>5,025,405</u>

Change in net position of governmental activities		<u><u>\$ 2,001,667</u></u>
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See Notes to Financial Statements

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

Note 1 - 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.

Creation of Authority

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.

The Authority's project and financing plan was amended in 2008 to annex North and South Wynden, Huntley Street and adjacent properties to be redeveloped. The annexed area has several of the same characteristics as property in the existing boundaries. In 2013, the project and financing plan was amended again to 1) extend the life of the Zone to 2040 and 2) expand the Zone boundaries to include an additional 1,768 acres that is primarily the Memorial Park area. This fourth amendment to the Plan provides for a total project plan of \$1,265,000 which is \$612,250,000 over the previous project plan costs. Plan costs include an Affordable Housing component of \$452,000,000 and \$100,000,000 for infrastructure improvements in Houston's Memorial Park.

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.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

Note 1 - Summary of Significant Accounting Policies (*continued*)

Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report information about the Authority as a whole. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. For the most part, the effect of interfund activity has been removed from these statements.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. These fund financial statements are the *Governmental Funds- Balance Sheet* and the *Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances*.

The Authority reports the following major governmental funds:

The ***Capital Projects Fund*** is used to account for construction of the Authority's general mobility improvement projects. The principal source of revenue is contract tax increment revenues. Expenditures include administrative costs, as well as infrastructure improvement expenditures.

The ***Debt Service Fund*** is used to account for the payment of interest and principal on the infrastructure improvement long-term debt of the Authority. The primary source of revenue is provided by contract tax increment revenues. Expenditures are principal and interest payments.

The ***Affordable Housing Special Revenue Fund*** is used to account for the receipt of contract tax revenues for the City's affordable housing program. Expenditures consist of transfers to the City of Houston.

The ***Affordable Housing Debt Service Fund*** is used to account for the payment of principal and interest on the Authority's affordable housing bonds. The principal source of revenue is contract tax increment revenue. Expenditures are principal and interest payments.

Measurement Focus and Basis of Accounting

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. Contract tax increment revenues are recognized as revenues in the year for which they are levied

The Authority's government-wide net position are categorized as follows:

- Net investment in capital assets - This component of net position consists of capital assets net of accumulated depreciation.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 1 - Summary of Significant Accounting Policies *(continued)*

Measurement Focus and Basis of Accounting *(continued)*

- Restricted - This component of net position 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 position - This component of net position consists of net position that do not meet the definition of "restricted."

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 are recorded only when payment is due.

Cash and Investments

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Authority's receivables consist of amounts due from the City of Houston and Houston Independent School District for contract tax increment revenues. These amounts are considered collectible and, accordingly, an allowance for uncollectible accounts has not been recorded.

Capital Assets

Capital assets are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are depreciated over their remaining useful lives (i.e., five years) using the straight-line method.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

Note 1 - Summary of Significant Accounting Policies (*continued*)

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.

Fund Balance / Restricted Assets

The Authority records restrictions for all or portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unassigned fund balance indicates the portion of fund balance which is available for appropriation in future periods. The restricted fund balances for governmental funds represent the amount that has been identified for specific purposes.

The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. The Authority does not have any nonspendable Fund Balance.

Restricted fund balance – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance – amounts constrained to specific purposes by the Authority itself, using its highest level of decision-making authority (i.e. the Board of Directors). To be reported as committed, amounts cannot be used for any other purposes unless the Authority takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the Authority intends to use for a specific purpose. Intent can be expressed by the Authority or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund. The Authority does not have a general fund.

The Authority establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds. The Authority has only restricted fund balances as of June 30, 2015.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

	2015	2014
Deferred charge on refunding bonds beginning of year	\$ 317,952	\$ 353,280
Current year amortization	(35,328)	(35,328)
Deferred charge on refunding bonds end of year	\$ 282,624	\$ 317,952

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has no item that qualifies for reporting in this category, which arise only under a modified accrual basis of accounting.

Note 2 - Deposits and Investments

At year end, the Authority's cash was comprised of the following:

	Capital Projects	Debt Service	Affordable Housing		Total
			Special Revenue	Debt Service	
Money market funds	\$ 2,218,368	\$ -	\$ -	\$ -	\$ 2,218,368
Total	\$ 2,218,368	\$ -	\$ -	\$ -	\$ 2,218,368

At year end the Authority's investments was comprised of the following:

	Capital Projects	Debt Service	Affordable Housing		Total
			Special Revenue	Debt Service	
Money market mutual funds	\$ 50,743,339	\$ 19,084,993	\$ 11,703,487	\$ 2,303,049	\$ 83,834,868
Total	\$ 50,743,339	\$ 19,084,993	\$ 11,703,487	\$ 2,303,049	\$ 83,834,868

The Authority's investments in money market mutual funds have a weighted average maturity of 55 days and are rated AAAM by Standard and Poor's.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

Note 2 - Deposits and Investments (continued)

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The Public Funds Collateral Act (Chapter 2257, Texas Government Code) requires that all of the Authority's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The Authority has adopted a written investment policy, which establishes additional requirements for collateralization of deposits. The Authority's deposits were adequately collateralized as of June 30, 2015.

Authorized Investments

The Authority is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The Authority has adopted a written investment policy to establish the principles by which the Authority's investment program should be managed. This policy further restricts the Authority's allowable investments.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The Authority's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 3 - Deferred Charge on Refunding

Deferred charges consist of a loss associated with the Authority's 2012 Refunding Tax Increment Contract Revenue bonds. This cost is being amortized over the life of the bonds. Total expense for the year was \$35,328

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Capital Assets

During the year, the Authority's capital assets changed as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 9,081,040	\$ -	\$ -	\$ 9,081,040
Capital assets being depreciated:				
Equipment	\$ 5,576,990	\$ -	\$ -	\$ 5,576,990
Less accumulated depreciation	(2,320,517)	(520,894)	-	(2,841,411)
	<u>3,256,473</u>	<u>(520,894)</u>	<u>-</u>	<u>2,735,579</u>
Capital assets, net	<u>\$12,337,513</u>	<u>\$ (520,894)</u>	<u>\$ -</u>	<u>\$ 11,816,619</u>

Depreciation expense in the amount of \$520,894 has been recorded in the government wide statements.

In accordance with an agreement between the Authority and the City of Houston ("the City"), the Authority conveys all of its infrastructure improvements to the City. However, some long-lived capital assets, primarily pedestrian lights, are recorded with the Authority. In this fiscal year, there were no capital assets purchased.

On June 30, 2015 the Authority purchased a parcel of land on behalf of the City as an infrastructure improvement to be transferred to the City upon completion of the Post Oak Boulevard project, and therefore not recorded as a capital asset addition in the Authority's Statement of Net Position. The land purchase has been recorded in the Capital Outlay on behalf of the City of Houston expenditure account in the Statement of Activities and in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

Note 5 - Long Term Liabilities

As of June 30, 2015, the Authority's long term liabilities are comprised of the following:

	<u>Total</u>	<u>Due Within One Year</u>	<u>Due Over One Year</u>
Tax increment contract revenue bonds payable	\$ 111,540,000	\$ 5,810,000	\$ 105,730,000
Unamortized discounts on bonds payable	(404,508)	-	(404,508)
	<u>\$ 111,135,492</u>	<u>\$ 5,810,000</u>	<u>\$ 105,325,492</u>

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Liabilities (continued)

During the year, the Authority's long-term liabilities changed as follows:

	Beginning Balances	Additions	Reductions	Ending Balances
Tax increment contract revenue bonds payable	\$ 116,430,000	\$ -	\$ (4,890,000)	\$ 111,540,000
Unamortized discounts on bonds payable	(440,514)	-	36,006	(404,508)
	<u>\$ 115,989,486</u>	<u>\$ -</u>	<u>\$ (4,853,994)</u>	<u>\$ 111,135,492</u>

Tax Increment Contract Revenue Bonds

The Authority issues Tax Increment Contract Revenue bonds in order to construct infrastructure improvement facilities and the City of Houston's affordable housing facilities. The City of Houston has authorized the Authority to issue bonds and notes with aggregate principal amounts not to exceed \$155,000,000 outstanding at any time. The maximum authorization for short-term debt is \$27,000,000 outstanding at any time.

Bonds payable are comprised of the following individual issues:

Series	Amount Outstanding	Original Issue	Interest Rates	Beginning/Ending Maturity Dates	Interest Payment Dates	Call Dates
2001B	\$ 2,255,000	\$ 4,670,000	4.25% - 6.25%	Sep 1, 2002 - 2021	Mar 1, Sep 1	Sep 1, 2011
2002B	1,950,000	3,665,000	3.00% - 6.00%	Sep 1, 2003 - 2022	Mar 1, Sep 1	Sep 1, 2012
2004A	5,940,000	9,000,000	2.60% - 5.375%	Sep 1, 2006 - 2025	Mar 1, Sep 1	Sep 1, 2014
2004B	2,970,000	4,500,000	2.60% - 5.50%	Sep 1, 2006 - 2025	Mar 1, Sep 1	Sep 1, 2014
2004C	1,325,000	2,000,000	3.30% - 5.30%	Sep 1, 2006 - 2025	Mar 1, Sep 1	Sep 1, 2014
2004D	665,000	1,000,000	3.30% - 5.30%	Sep 1, 2006 - 2025	Mar 1, Sep 1	Sep 1, 2014
2009A	36,215,000	42,260,000	2.90% - 5.50%	Sep 1, 2011 - 2029	Mar 1, Sep 1	Sep 1, 2019
2012A	8,155,000	10,755,000	2.750%	Sep 1, 2012 - 2022	Mar 1, Sep 1	N/A
2014	52,065,000	53,195,000	3.875%	Sep 1, 2014 - 2033	Mar 1, Sep 1	Sep 1, 2023
	<u>\$ 111,540,000</u>					

The Series 2002A, 2004A and 2004C were issued in order to construct infrastructure improvement facilities. The Authority issued Tax Increment Contract Revenue Refunding Bonds, Series 2012A in fiscal year 2012. The Series 2001B, 2002B, 2004B and 2004D were issued for the City of Houston's affordable housing facilities. On January 22, 2014 the Authority issued Tax Increment Contract Revenue Bonds, Series 2014 in the amount of \$53,195,000.

All of the Authority's bonds are secured by the Authority's pledge of certain tax increment payments received from the City and Houston Independent School District. As a result of the Tax Increment Contract Revenue Refunding Bonds, Series 2012A, the Authority has no defeased bonds outstanding as of June 30, 2015.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Liabilities (continued)

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 Authority was in compliance with these reserve requirements.

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

Infrastructure Bonds, All Series						
Year	2004A		2004C		2009A	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 415,000	\$ 297,388	\$ 95,000	\$ 65,763	\$ 1,670,000	\$ 1,824,781
2017	435,000	277,351	95,000	61,155	1,745,000	1,749,931
2018	455,000	255,536	100,000	56,328	1,830,000	1,669,281
2019	480,000	232,161	105,000	51,203	1,920,000	1,575,681
2020	505,000	207,221	115,000	45,703	2,020,000	1,477,481
2021	530,000	180,500	120,000	39,738	2,120,000	1,377,311
2022	560,000	152,160	125,000	33,429	2,225,000	1,271,866
2023	590,000	121,744	130,000	26,765	2,340,000	1,157,741
2024	620,000	89,225	140,000	19,610	2,460,000	1,036,511
2025	655,000	54,959	145,000	12,058	2,590,000	905,794
2026	695,000	18,678	155,000	4,108	2,735,000	764,303
2027	-	-	-	-	2,885,000	611,463
2028	-	-	-	-	3,050,000	448,250
2029	-	-	-	-	3,220,000	275,825
2030	-	-	-	-	3,405,000	93,638
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
	<u>\$ 5,940,000</u>	<u>\$ 1,886,923</u>	<u>\$ 1,325,000</u>	<u>\$ 415,860</u>	<u>\$ 36,215,000</u>	<u>\$ 16,239,857</u>

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Liabilities (continued)

Infrastructure Bonds, All Series (continued)

Year	2012A		2014		Total
	Principal	Interest	Principal	Interest	
2016	\$ 1,015,000	\$ 210,306	\$ 1,905,000	\$ 1,980,609	\$ 9,478,847
2017	1,050,000	181,913	1,980,000	1,905,338	9,480,688
2018	1,075,000	152,694	2,055,000	1,827,160	9,475,999
2019	1,100,000	122,788	2,135,000	1,745,978	9,467,811
2020	1,135,000	92,056	2,215,000	1,661,697	9,474,158
2021	1,165,000	60,431	2,305,000	1,574,122	9,472,102
2022	1,195,000	27,981	2,395,000	1,483,059	9,468,495
2023	420,000	5,775	2,485,000	1,388,509	8,665,534
2024	-	-	2,580,000	1,290,375	8,235,721
2025	-	-	2,680,000	1,188,463	8,231,274
2026	-	-	2,785,000	1,082,578	8,239,667
2027	-	-	2,895,000	972,528	7,363,991
2028	-	-	3,005,000	858,216	7,361,466
2029	-	-	3,120,000	739,544	7,355,369
2030	-	-	3,245,000	616,222	7,359,860
2031	-	-	3,370,000	488,056	3,858,056
2032	-	-	3,500,000	354,950	3,854,950
2033	-	-	3,635,000	216,710	3,851,710
2034	-	-	3,775,000	73,141	3,848,141
	<u>\$ 8,155,000</u>	<u>\$ 853,944</u>	<u>\$ 52,065,000</u>	<u>\$ 21,447,255</u>	<u>\$ 144,543,838</u>

Affordable Housing Bonds, All Series

Year	2001B		2002B		2004B	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 265,000	\$ 129,773	\$ 195,000	\$ 110,760	\$ 205,000	\$ 148,769
2017	285,000	113,538	205,000	99,150	215,000	138,868
2018	300,000	95,988	220,000	86,400	230,000	127,958
2019	320,000	77,188	235,000	72,750	240,000	116,208
2020	340,000	56,976	250,000	58,200	255,000	103,674
2021	360,000	35,313	265,000	42,750	265,000	90,250
2022	385,000	12,032	280,000	26,400	280,000	76,080
2023	-	-	300,000	9,000	295,000	60,872
2024	-	-	-	-	310,000	44,612
2025	-	-	-	-	330,000	27,412
2026	-	-	-	-	345,000	9,272
	<u>\$ 2,255,000</u>	<u>\$ 520,808</u>	<u>\$ 1,950,000</u>	<u>\$ 505,410</u>	<u>\$ 2,970,000</u>	<u>\$ 943,975</u>

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Liabilities (continued)

Affordable Housing Bonds, All Series (continued)
2004D

Year	Principal	Interest	Total
2016	\$ 45,000	\$ 33,073	\$ 1,132,375
2017	50,000	30,768	1,137,324
2018	50,000	28,293	1,138,639
2019	55,000	25,668	1,141,814
2020	55,000	22,918	1,141,768
2021	60,000	19,998	1,138,311
2022	65,000	16,779	1,141,291
2023	65,000	13,383	743,255
2024	70,000	9,805	434,417
2025	75,000	5,963	438,375
2026	75,000	1,988	431,260
	<u>\$ 665,000</u>	<u>\$ 208,636</u>	<u>\$ 10,018,829</u>

Note 6 - Contract Tax Increment Revenues

On December 15, 1999, the City of Houston (the “City”) acting under provisions of Chapter 311, Texas Tax Code, created the Tax Increment Reinvestment Zone No. 16 (the “Zone”) to promote development of the Uptown area. The Zone terminates December 31, 2040, 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 are 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, remits all monies in the Tax Increment Fund less administrative fees to the Authority by July 1st of each year.

During the year ended June 30, 2015, the Authority received \$39,843,040 in tax increment revenues as follows:

Tax Increment Revenues

	City of Houston	Houston ISD	Total
Total tax increments	\$ 26,635,242	\$ 13,207,798	\$ 39,843,040
Retainage for administrative costs	(1,331,762)	(25,000)	(1,356,762)
Set-aside for educational facilities	-	(4,407,304)	(4,407,304)
Net received	<u>\$ 25,303,480</u>	<u>\$ 8,775,495</u>	<u>\$ 34,078,975</u>

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 is considered a part of the general mobility plan of the Authority.

The Authority is dependent upon the tax increments revenues.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (*continued*)

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 year ended June 30, 2015, the Authority remitted \$1,340,000 to the District. This amount consisted of \$250,000 for operating and administrative costs, \$200,000 for traffic control and mobility, \$620,000 for project management and \$270,000 for communications and public relations for the Post Oak Boulevard project.

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; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage and no settlements.

Note 9 - Commitments

At year-end, the Authority had no commitments outstanding in the form of contracts.

Note 10 - Related Party Transactions

During the reporting period, the Uptown Development Authority began the process of purchasing right-of-way parcels for the purpose of reconstructing Post Oak Boulevard. Some parcel purchases will involve related party transactions as some members of the Board of Directors have either direct or indirect interest in the parcels. The Authority has contracted with an independent consultant to lead the appraisal and negotiation process. Additionally, an independent attorney has been retained to review appraisals and the process for fairness and appropriateness. Directors with interest/affiliation in parcels must file affidavits stating the nature of their interest and abstain from voting on any transactions.

UPTOWN DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 10 - Related Party Transactions (continued)

On June 30, 2015 the Authority purchased a parcel of land from Weingarten Realty Investors (a publicly traded company of the NYSE). The Authority Chairman is a former Vice Chairman/COO of Weingarten (retired in 2008) and current shareholder. The Chairman filed an affidavit and recused himself from the Board vote. As of this reporting, there are two additional parcels under negotiations in which there is direct or indirect interest by a Director. No purchases have been made at this reporting. The Authority has chosen to keep the purchase prices for property acquired along Post Oak Boulevard confidential until all acquisitions are complete, this information is excepted from disclosure under 552.105 of the Texas Government Code.

Note 11 - Subsequent Event

In September 2015, the Authority authorized the issuance of \$35,000,000 Tax Increment Contract Revenue Bonds, Series 2015.

OTHER SUPPLEMENTARY INFORMATION

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UPTOWN DEVELOPMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUNDS - BUDGET TO ACTUAL**

June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Over/(Under)
Budgetary fund balance, beginning of the year	\$ 74,281,041	\$ 74,281,041	\$ 74,281,041	\$ -
Resources				
Incremental property tax	36,778,746	36,778,746	39,843,040	3,064,294
Miscellaneous	327,739	327,739	94,235	(233,504)
Grant proceeds	5,000,000	5,000,000	4,688,550	(311,450)
Total revenues/other resources	<u>116,387,526</u>	<u>116,387,526</u>	<u>118,906,866</u>	<u>2,519,340</u>
Expenditures				
Management and consulting services	976,000	976,000	849,965	(126,035)
Project costs and capital expenditures	68,250,000	68,250,000	18,658,723	(49,591,277)
Zone Administration	1,205,066	1,205,066	1,356,762	151,696
Debt service:				
Principal	4,890,000	4,890,000	4,890,000	-
Interest and other charges	5,238,991	5,238,991	5,285,915	46,924
Educational facilities transfer	4,403,961	4,403,961	4,407,304	3,343
Affordable housing transfer	12,259,581	12,259,581	11,680,000	(579,581)
Total use of resources	<u>97,223,599</u>	<u>97,223,599</u>	<u>47,128,669</u>	<u>(50,094,930)</u>
Budgetary fund balance, end of year	<u>\$ 19,163,927</u>	<u>\$ 19,163,927</u>	<u>\$ 71,778,197</u>	<u>\$ 52,614,270</u>

Explanation of Differences between Budgetary Inflows and GAAP Revenues

Sources/Inflows of Resources:

Actual Amounts (Budgetary Basis)	\$ 118,906,866
Differences - Budget to GAAP:	
The Fund Balance at the Beginning of the Year is a Budgetary Resource but is not a Current Year Revenue for Financial Reporting Purposes	<u>(74,281,041)</u>

Total Revenue as Reported on the Statement of Revenues, Expenditures and

Changes in Fund Balances - Total Governmental Funds \$ 44,625,825

Uses/Outflows of Resources:

Actual Amounts (Budgetary Basis)	\$ 47,128,669
Differences - Budget to GAAP:	<u>-</u>

Total Expenditures as Reported on the Statement of Revenues, Expenditures and

Changes in Fund Balances - Total Governmental Funds \$ 47,128,669

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION**

For the Year Ended June 30, 2015

TIRZ #16 Uptown Development Authority

FY15 OPERATING EXPENDITURES

<i>Category</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
TIRZ ADMINISTRATION AND OVERHEAD				
Administration (salary and benefits)	HCID No. 1	\$ 85,000	\$ 85,000	\$ -
Office Expenses	HCID No. 1	75,000	60,000	15,000
Insurance	Highpoint Insurance	75,000	87,535	(12,535)
Accounting	HCID No. 1	40,000	40,000	-
Auditor	Whitley Penn, LLP	15,000	16,853	(1,853)
COH Municipal Charge		446,000	446,000	-
Bond Trustee		-	33,373	(33,373)
Subtotal		\$ 736,000	\$ 768,761	\$ (32,761)
PROGRAM AND PROJECT CONSULTANTS				
Legal	Allen Boone Humphries	45,000	41,931	3,069
In-House Legal Counsel		30,000	65,000	(35,000)
Architect Consultants		160,000	-	160,000
Construction Audits		5,000	-	5,000
Subtotal		\$ 240,000	\$ 106,931	\$ 133,069
Total Zone Administration / Operations		\$ 976,000	\$ 875,692	\$ 100,308

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION (continued)**

For the Year Ended June 30, 2015

<i>Project</i>	<i>Vendor</i>	FY15 CAPITAL EXPENDITURES		
		<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project T1627: Sage Reconstruction		\$ 300,000		
Engineering Services				
Architectural Services				
Construction Management				
Project Management				
Construction Costs				
Program Financing				
Other Professional Services				
Subtotal		\$ 300,000	\$ -	\$ 300,000
Project T1608: Advance Traveler Information System		\$ 550,000		
Engineering Services	TEAL Engineering		134,901	
Architectural Services				
Construction Management				
Construction Costs / ATIS Equipment				
	Transcore		21,800	
	Teradek		23,600	
	Mercury Network		23,410	
	Spectaveris		27,884	
	KMJ Communications		6,361	
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
Subtotal		\$ 550,000	\$ 237,956	\$ 312,044
Project T1609: Area Intersection and Signalization		\$ 100,000		
Engineering Services				
	Gunda Corporation		196,369	
Architectural Services				
Construction Management	Gunda		47,553	
	Reliable signal Construction		55,063	
Construction Costs				
	Reytec Construction			
	Pfiever Ltd			
	Traffic Systems Construction			
Project Management	HCID No. 1			
Program Financing				
Other Professional Services	TEAL Engineering		7,057	
Subtotal		\$ 100,000	\$ 306,042	\$ (206,042)
Project T1629: Hallmark		\$ 900,000		
Engineering Services	TEDSI		66,921	
Architectural Services				
Construction Management				
Construction Costs				
Program Financing				
Other Professional Services				
Subtotal		\$ 900,000	\$ 66,921	\$ 833,079

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION (continued)**

For the Year Ended June 30, 2015

<i>Project</i>	<i>Vendor</i>	FY15 CAPITAL EXPENDITURES		
		<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project T1611: Right of Way		\$ 30,000,000		
Engineering Services				
Architectural Services				
Construction Management				
Construction Costs			390,520	
Program Financing				
Other Professional Services	Andrews Kurth		439,482	
	Deal Sikes		857,154	
	Design Workshop		62,605	
	Lupher LLC		42,993	
	HCID No. 1's Staff Counsel			
Subtotal		\$ 30,000,000	\$ 1,792,754	\$ 28,207,246
Project T1636: BUTC Terminal		\$ 5,600,000		
Engineering Services / Advanced Planning				
	ARUP		4,040	
	Dannebaum		192,600	
	Gunda		319,103	
	Lupher		55,050	
	Parsons Brinkerhoff		73,376	
	RS&H		53,571	
	Walter P Moore		43,092	
Architectural Services				
Project Management	HCID #1		105,000	
Construction Costs				
Other Professional Services	Deal Sikes		2,150	
Subtotal		\$ 5,600,000	\$ 847,982	\$ 4,752,018
Project T1630: Hollyhurst Reconstruction		\$ 1,000,000		
Engineering Services	Cobb Fendley		2,166	
Architectural Services				
Construction Management				
Construction Costs				
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
Subtotal		\$ 1,000,000	\$ 2,166	\$ 997,834
Project T1624: Woodway Outfall		\$ -		
Engineering Services	AECOM		9,140	
Architectural Services				
Construction Management				
Construction Costs	Gulf Coast Paver Construction		21,894	
	Reytec Construction		80,060	
Project Management	HCID No. 1			
Program Financing				
Other Professional Services	Sechrist Duckers		624	
Subtotal		\$ -	\$ 111,718	\$ (111,718)

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION (continued)**

For the Year Ended June 30, 2015

<i>Project</i>	<i>Vendor</i>	FY15 CAPITAL EXPENDITURES		
		<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project T1632: Hidalgo		\$ 200,000		
Engineering Services	TEDSI		9,000	
Architectural Services				
Construction Management				
Construction Costs				
Project Management				
Program Financing				
Other Professional Services	Lupher LLC		31,285	
Subtotal		\$ 200,000	\$ 40,285	\$ 159,715
Project T1616: Secondary Roadways (Woodway Pavement Restoration)		\$ 100,000		
Planning / Engineering Services				
Architectural Services				
Construction Management	Cobb Fendley		5,955	
Construction Costs	Reytec Construction		151,407	
	Landsepae Art		34,815	
Program Financing				
Other Professional Services	Kirst Kosmoski			
Subtotal		\$ 100,000	\$ 192,177	\$ (92,177)
Project T1638: Post Oak Lane		\$ 100,000		
Engineering Services				
	TEDSI		37,500	
	Lupher LLC		54,066	
Architectural Services				
Construction Management	SWA Group			
	Gunda			
Construction Costs	Jerdon LP			
	Reytec Construction			
	Utility			
	Pfeiffer			
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
Subtotal		\$ 100,000	\$ 91,566	\$ 8,434
Project TXXX: Westheimer Waterline		\$ -		
Preliminary Engineering	LAN		68,522	
Architectural Services				
Construction Management				
Construction Costs				
Program Management	HCID #1			
Other Professional Services				
Subtotal		\$ -	\$ 68,522	\$ (68,522)

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION (continued)**

For the Year Ended June 30, 2015

<i>Project</i>	<i>Vendor</i>	FY15 CAPITAL EXPENDITURES		
		<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project T1633:Post Oak Boulevard Reconstruction		\$ 17,000,000		
Planning Preliminary Design Services	Gunda Corporation		1,440,987	
	Design Workshop		545,279	
	ARUP		150,738	
	Walter P Moore		136,420	
	Lupher LLC		40,047	
Final Design Services	Gunda Corporation		1,997,509	
	Design Workshop		500,342	
	ARUP		179,286	
	Walter P Moore		51,763	
	Cobb Fendley		15,116	
	Hunt & Hunt Engineering		31,500	
	LAN		346,840	
	Lupher LLC		278,165	
	TEDSI		388,200	
Construction Management	Aurora		60,200	
	Gunda Corporation		115,095	
	BSCI		30,800	
	Design Workshop		13,262	
	Othon		7,590	
	Cobb Fendley		19,713	
Project Management	HCID No. 1		210,000	
Program Financing				
Construction Costs	Environmental Design		2,970,429	
	Boyer Inc.		266,966	
Other Professional Services	Sechrist Duckers		825	
	HCID #1		538,875	
	Subtotal	\$ 17,000,000	\$ 10,335,947	\$ 6,664,053
Project T1637: Wesbriar Reconstruction		\$ 1,200,000		
Engineering Services	TEDSI		118,750	
Architectural Services				
Construction Management				
Construction Costs				
Project Management	HCID #1			
Program Financing				
Other Professional Services	Dancie Ware			
	Subtotal	\$ 1,200,000	\$ 118,750	\$ 1,081,250

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION (continued)**

For the Year Ended June 30, 2015

<i>Project</i>	<i>Vendor</i>	FY15 CAPITAL EXPENDITURES		
		<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
Project T1635: Memorial Park		\$ 9,500,000		
Engineering Services	Walter P Moore		429,871	
Design Services	Design Workshop		136,253	
Construction Costs	Millis Development & Construction		170,061	
	SCR Construction		728,352	
	Davey Tree Experts		5,760	
Master Plan Design	Nelson Byrd Woltz		1,774,609	
Project Management	HCID #1		305,000	
Other Professional Services	Dancie Ware		73,326	
	Beeton Consulting		20,769	
	Core Design		7,200	
	Lord Cultural Resources		149,403	
	Lupher LLC		193,099	
	BoyarMiller		2,847	
	Sechrist & Ducker		3,350	
	Subtotal	\$ 9,500,000	\$ 3,999,900	\$ 5,500,100
Project T1622: Parks		\$ 1,700,000		
Engineering /Design Services	Design Workshop		111,844	
	AlaCarte		9,800	
	SWA Group		176,932	
Architectural Services				
Construction Management				
Construction Costs/ Purchase				
Maintenance/Operation			129,745	
Other Professional Services	Lupher LLC		26,572	
	Subtotal	\$ 1,700,000	\$ 454,893	\$ 1,245,107
Total Capital Expenditures		\$ 68,250,000	\$ 18,667,579	\$ 49,582,421

UPTOWN DEVELOPMENT AUTHORITY

**OPERATING EXPENDITURES, CAPITAL EXPENDITURES AND PROJECT PLAN
RECONCILIATION (continued)**

For the Year Ended June 30, 2015

PROJECT PLAN RECONCILIATION						
	<i>*Project Plan Amount</i>	<i>Beginning</i>	<i>Current Year Expenditures</i>	<i>Expenditures to Date</i>	<i>Variance</i>	
Non-Education Projects						
Improve Existing Streets	\$ 66,000,000	\$ 65,872,460	\$ -	\$ 65,872,460	\$ 127,540	
Create Street Grid Network	15,000,000	14,011,162	-	14,011,162	988,838	
Improve Intersections	12,000,000	11,147,748	-	11,147,748	852,252	
Parking Management Program	52,000,000	-	-	-	52,000,000	
Pedestrian Network	20,000,000	19,510,975	-	19,510,975	489,025	
Roadways, Streets, Sidewalks, Lighting	186,000,000	15,306,698	12,420,032	27,726,730	158,273,270	
Public Utilities	94,000,000	-	-	-	94,000,000	
Land Acquisition	37,000,000	-	1,792,754	1,792,754	35,207,246	
Cultural and Public Facility Improvements	46,000,000	-	-	-	46,000,000	
Memorial Park Improvements	100,000,000	1,276,970	3,999,900	5,276,870	94,723,130	
Parks	41,000,000	569,610	454,893	1,024,503	39,975,497	
Subtotal	\$ 669,000,000	\$ 127,695,623	\$ 18,667,579	\$ 146,363,202	\$ 522,636,798	
Education Projects	\$ 129,000,000	\$ 32,032,989	\$ 4,407,304	\$ 36,440,293	\$ 92,559,707	
Affordable Housing	\$ 452,000,000	\$ 76,432,259	\$ 11,680,000	\$ 88,112,259	\$ 363,887,741	
Zone Administration / Operations	\$ 15,000,000	\$ 5,561,430	\$ 875,692	\$ 6,437,122	\$ 8,562,878	
Total Project Plan	\$ 1,265,000,000	\$ 241,722,301	\$ 35,630,575	\$ 277,352,876	\$ 987,647,124	

* Project Plan Amendment in February 2013

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Uptown Development Authority
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Uptown Development Authority (the “Authority”), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Houston, Texas
October 22, 2015