

**UPTOWN DEVELOPMENT AUTHORITY**

**FINANCIAL REPORT**

**June 30, 2010**



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**UPTOWN DEVELOPMENT AUTHORITY**  
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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, 2009, 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 Uptown Development Authority, as of June 30, 2009, 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Null-Lairson, PC*

Houston, Texas  
October 21, 2009

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## **Management's Discussion and Analysis**

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**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*June 30, 2010*

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, 2010.

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 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 its project plan. The prominent activities include improving streets and intersections and creating a street grid network.

**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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2010**

**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 five 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 Fund, the Debt Service Fund and the Affordable Housing Debt Service Fund. 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 and liabilities is called net assets. Net assets are categorized based on their availability to provide financial resources for the Authority. Net assets that are "Invested in capital assets" represent the District's investments in capital assets. "Restricted" net assets represent amounts that are restricted for future debt service requirements. "Unrestricted" net assets represent amounts available to meet the Authority's future obligations.

As noted earlier, changes in 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 negative as of June 30, 2010. 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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2010**

A comparative schedule of net assets at June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 24,038,331	\$ 23,127,031
Capital assets	3,118,304	386,055
Land	9,081,040	8,505,662
<b>Total Assets</b>	<u>36,237,675</u>	<u>32,018,748</u>
Accounts payable and other liabilities	10,910,878	38,872,985
Long-term liabilities	72,854,117	32,729,456
<b>Total Liabilities</b>	<u>83,764,995</u>	<u>71,602,441</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	12,199,344	8,891,717
Restricted	11,461,369	6,301,300
Unrestricted	(71,188,033)	(54,776,712)
<b>Total Net Assets</b>	<u>\$ (47,527,320)</u>	<u>\$ (39,583,695)</u>

Total assets increased by \$4,218,927 from the prior year. This was primarily due to the Authority's purchase of pedestrian street lights for the area and purchase of additional green space. Liabilities increased \$12,162,554 due to issuance of new long-term debt.

The total net assets of the Authority decreased by \$7,943,625 during the current fiscal year. A comparative summary of the Authority's statement of activities for the past two years is as follows:

	<u>2010</u>	<u>2009</u>
<b>Revenues</b>		
<b>Program Revenues:</b>		
Capital grants and contributions	\$ 2,046,299	\$
<b>General Revenues:</b>		
Contract tax increment	17,546,600	19,151,730
Investment earnings	100,860	468,518
<b>Total Revenues</b>	<u>19,693,759</u>	<u>19,620,248</u>
<b>Expenses</b>		
General government	529,234	489,771
Affordable housing	5,693,484	6,156,080
Interest on long-term debt	3,265,467	2,388,636
Capital outlay on behalf of City of Houston	18,017,040	19,540,166
Depreciation and amortization	132,159	111,089
<b>Total Expenses</b>	<u>27,637,384</u>	<u>28,685,742</u>
Increase (Decrease) in net assets before transfers	(7,943,625)	(9,065,494)
Increase (decrease) in net assets	(7,943,625)	(9,065,494)
<b>Net assets - beginning</b>	<u>(39,583,695)</u>	<u>(30,518,201)</u>
<b>Net Assets - ending</b>	<u>\$ (47,527,320)</u>	<u>\$ (39,583,695)</u>

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
*June 30, 2010*

Contract tax increment revenues decreased by \$1,605,130 from the previous year due to a decrease in property valuations within the Authority's boundaries. Total expenses were \$27,637,384 in the current year. This is a decrease of \$1,048,358 from the previous year.

**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 \$15,684,124 , a \$4,395,994 increase in comparison with the prior year. Approximately \$13.3 million is reserved for debt service.

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

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Capital Projects	\$ 2,312,091	\$(1,982,711)	\$ 4,294,802	\$(6,338,648)	\$10,633,450
Debt Service	11,034,251	6,425,230	4,609,021	1,898	4,607,123
Affordable Housing Capital Projects					
Affordable Housing Special Revenue	30,003	(46,508)	76,511	7,343	69,168
Affordable Housing Debt Service	2,307,779	(17)	2,307,796	3,607	2,304,189
	<u>\$15,684,124</u>	<u>\$ 4,395,994</u>	<u>\$11,288,130</u>	<u>\$(6,325,800)</u>	<u>\$17,613,930</u>

The \$4,395,994 increase in fund balance for the Capital Projects and Debt Service Fund is due to a new debt issue which requires increased reserves.

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2010**

**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>2010</u>	<u>2009</u>
Capital assets being depreciated:		
ATIS Equipment	\$ 459,716	\$ 413,888
Pedestrian Lights	2,989,700	220,500
	<u>3,449,416</u>	<u>634,388</u>
Less accumulated depreciation	(331,112)	(248,334)
	<u>3,118,304</u>	<u>386,054</u>
Capital assets, net of accumulated depreciation	<u>\$ 3,118,304</u>	<u>\$ 386,054</u>

During the year, additional assets were purchased. The Authority purchased pedestrian lighting for the recently reconstructed San Felipe as well as other streets within the area. This is the second phase of the extensive pedestrian improvement program which includes lighting as well as sidewalks and medians. Additionally, the Authority purchased excess right-of-way on San Felipe which provides more public green space for the area.

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, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Tax increment contract revenue bonds payable	\$ 75,000,000	\$ 34,335,000
Note payable to Harris County	608,175	884,715
Bank promissory note		11,880,000
	<u>75,608,175</u>	<u>47,099,715</u>
Less unamortized discount on bonds payable	(789,542)	(618,719)
	<u>\$ 74,818,633</u>	<u>\$ 46,480,996</u>

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

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
*June 30, 2010*

**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 18 acres of land annexed in January 2008. 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. With over 23 million square feet of total office space, Uptown accounts for 15% of Houston’s total ‘Class A’ office space with almost 17 million square feet. This is second to only Downtown Houston. At the end of the fiscal year, class A office was 91% leased.

Overall, ad valorem values for the office sector have decreased by approximately 10% in fiscal year 2010, primarily because of the overall national economic environment which adversely affected the values in the Uptown office market.

**Retail**

Uptown is synonymous with shopping and is known as a world-renowned center for retail. In spite of the nation-wide economic crisis, ad valorem values for the retail sector decreased only slightly by approximately 1% in the current fiscal year. However, retail was 98% leased as of the fiscal year end. This market maintained as The Galleria is now the fourth largest retail center in the United States. In early 2008, a 22-acre mixed-use development known as BLVD broke ground in the heart of Uptown. The project will feature over 400,000 square feet of upscale retail stores and restaurants. To date, approximately 70,000 square feet of retail and commercial construction has been completed. Tenants include the acclaimed RDG and Bar Annie restaurant as well as Festari, New Balance and Pickles & Ice Cream.

**Hotel**

Uptown currently has 31 first quality hotels in the area, offering more than 7,100 rooms for guests. Starwood Hotel & Resorts Worldwide Inc. recently completed the ‘aloft’ Hotel, which opened in the fall of 2009. Ad valorem values for this sector have decreased by 1.5% since last year.

The area’s RevPAR (revenues per available room) is the highest in the region at \$94.21 compared to \$87.18 for the Houston Central Business District and \$70.30 for Houston City-wide. Uptown Houston also boasts one of the highest occupancy rates in the city at 63.8%, while the Houston City-wide occupancy rate was 60.2% for the year-end 2009.

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2010**

**Residential**

Seven new high-rise residential towers have been built in Uptown in the past eight years and occupancy rates are among the highest in the city at 92%. With more than 30,000 residences, Uptown Houston is one of the most prestigious and desirable areas to live.

The economic and financial stresses that have adversely affected the nation have also impacted the Uptown area. In fiscal year 2010, the ad valorem values were down 4% from the previous year. Ad valorem values are expected to decline further for the next fiscal and stabilize in the subsequent year. However, the Uptown District remains a viable district and it is expected that new development will emerge as the financial markets continue to improve. 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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## **Basic Financial Statements**

# UPTOWN DEVELOPMENT AUTHORITY

## Statement of Net Assets - Governmental Activities

June 30, 2010

### Assets

Cash and investments	\$ 22,749,825
Deferred issue costs, net	1,288,506
Land	9,081,040
Other Capital assets, net	3,118,304
<b>Total Assets</b>	<u>36,237,675</u>

### Liabilities

Accounts payable and accrued expenses	3,163,237
Due to other governments	3,902,464
Accrued interest	1,880,661
<b>Long-term liabilities:</b>	
Due within one year	1,964,516
Due in more than one year	72,854,117
<b>Total liabilities</b>	<u>83,764,995</u>

### Net Assets

Invested in capital assets	12,199,344
Restricted for debt service	11,461,369
Unrestricted (deficit)	(71,188,033)
<b>Total net assets (deficit)</b>	<u><u>\$ (47,527,320)</u></u>

See Notes to Financial Statements

**UPTOWN DEVELOPMENT AUTHORITY***Statement of Activities**For the Year Ended June 30, 2010*

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue Capital Grants and Contributions</b>	<b>Net Expense</b>
General government	\$ 529,234	\$	\$ (529,234)
Affordable housing	5,693,484		(5,693,484)
Interest	3,265,467		(3,265,467)
Depreciation and amortization	132,159		(132,159)
Capital outlay on behalf of the City of Houston	18,017,040	2,046,299	(15,970,741)
<b>Totals</b>	<u>\$ 27,637,384</u>	<u>2,046,299</u>	<u>(25,591,085)</u>
<b>General revenues</b>			
Contract tax increment revenues			17,546,600
Unrestricted investment earnings			100,860
			<u>17,647,460</u>
Change in net assets			(7,943,625)
<b>Net assets (deficit) - beginning</b>			<u>(39,583,695)</u>
<b>Net assets (deficit) - ending</b>			<u>\$ (47,527,320)</u>

See Notes to Financial Statements

**UPTOWN DEVELOPMENT AUTHORITY**

*Balance Sheet - Governmental Funds*

*June 30, 2010*

	<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>
<b>Assets</b>					
Cash and temporary investments	\$ 3,684,308	\$ 11,034,251	\$ 5,723,487	\$ 2,307,779	\$ 22,749,825
Due from other governments	1,791,020				1,791,020
<b>Total assets</b>	<u>\$ 5,475,328</u>	<u>\$ 11,034,251</u>	<u>\$ 5,723,487</u>	<u>\$ 2,307,779</u>	<u>\$ 24,540,845</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 3,163,237	\$	\$	\$	\$ 3,163,237
Due to other governments			5,693,484		5,693,484
Accrued interest					
<b>Total liabilities</b>	<u>3,163,237</u>		<u>5,693,484</u>		<u>8,856,721</u>
<b>Fund balances:</b>					
<b>Reserved:</b>					
Debt service		11,034,251		2,307,779	13,342,030
Authorized construction	2,312,091		30,003		2,342,094
<b>Total fund balances</b>	<u>2,312,091</u>	<u>11,034,251</u>	<u>30,003</u>	<u>2,307,779</u>	<u>15,684,124</u>
<b>Total liabilities and fund balances</b>	<u>\$ 5,475,328</u>	<u>\$ 11,034,251</u>	<u>\$ 5,723,487</u>	<u>\$ 2,307,779</u>	<u>\$ 24,540,845</u>

See Notes to Financial Statements

## UPTOWN DEVELOPMENT AUTHORITY

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2010

**Total fund balance, governmental funds** \$ 15,684,124

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 as assets in governmental funds.

Land	\$ 9,081,040	
Other capital assets	3,449,415	
Less accumulated depreciation	<u>(331,112)</u>	
Change due to capital assets		12,199,343

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

Bonds payable	(75,000,000)	
Note payable to Harris County	(608,174)	
Additional accrued interest	(1,880,661)	
Deferred charge for issuance costs	1,288,506	
Unamortized bond discount	<u>789,542</u>	
Change due to long term debt		<u>(75,410,787)</u>

Net Assets of Governmental Activities in the Statement of Net Assets \$ (47,527,320)

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, 2010*

	<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>
<b>Revenues</b>					
Contract tax increment	\$ 5,621,895	\$ 5,128,887	\$ 5,658,714	\$ 1,137,104	\$ 17,546,600
Investment earnings	100,803		55		100,858
Miscellaneous					
Reimbursement income	2,046,299				2,046,299
<b>Total revenues</b>	<u>7,768,997</u>	<u>5,128,887</u>	<u>5,658,769</u>	<u>1,137,104</u>	<u>19,693,757</u>
<b>Expenditures</b>					
<b>Current:</b>					
General Government	529,234				529,234
Affordable Housing			5,693,484		5,693,484
<b>Debt Service:</b>					
Principal	276,540	1,065,000		530,000	1,871,540
Interest and other charges	1,081,521	1,213,275	11,793	607,121	2,913,710
Capital Outlay	21,407,445				21,407,445
<b>Total expenditures</b>	<u>23,294,741</u>	<u>2,278,275</u>	<u>5,705,277</u>	<u>1,137,121</u>	<u>32,415,414</u>
<b>Excess of revenues over / (under) expenditures</b>	(15,525,744)	2,850,612	(46,508)	(17)	(12,721,657)
<b>Other Financing Sources</b>					
Proceeds from bond sale	13,543,032	3,574,618			17,117,650
<b>Total other financing sources</b>	<u>13,543,032</u>	<u>3,574,618</u>			<u>17,117,650</u>
<b>Net change in fund balances</b>	(1,982,712)	6,425,230	(46,508)	(17)	4,395,993
<b>Fund balances - beginning of year</b>	4,294,803	4,609,021	76,511	2,307,796	11,288,131
<b>Fund balances - end of year</b>	<u>\$ 2,312,091</u>	<u>\$ 11,034,251</u>	<u>\$ 30,003</u>	<u>\$ 2,307,779</u>	<u>\$ 15,684,124</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, 2010*

Net change in fund balances - total governmental funds: \$ 4,395,993

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 are allocated over their estimated lives as depreciation expense.

Capital outlay expenditures	\$ 3,390,405	
Depreciation expense	<u>\$ (82,778)</u>	
Change due to capital assets		3,307,627

Governmental funds report the proceeds from the issuance of long term debt as other financing sources. In contrast, the Statement of Activities reports this as an addition to long-term liabilities. (17,117,650)

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.

Note payable		
Principal payments on debt	1,871,540	
Bond issue costs as expense	884,915	
Accrued interest and amortization of discount	(1,236,670)	
Amortization of bond issue costs	<u>(49,380)</u>	
		1,470,405

Change in net assets of governmental activities \$ (7,943,625)

See Notes to Financial Statements

# **UPTOWN DEVELOPMENT AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

*June 30, 2010*

### **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. Additionally, the amendment provides for the acquisition and development of parks and public space within the original TIRZ boundaries to be added to the Plan's list of proposed improvements and estimated project costs of the Local Mobility Improvement Plan.

#### **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.

#### **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. 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.



**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010**

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

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 Capital Projects Fund*** is used to account for capital activity related to the Authority's affordable housing program. The principal source of revenue is bond proceeds in the event of a bond offering.

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 assets are categorized as follows:

- Invested in capital assets - This component of net assets consists of capital assets net of accumulated depreciation.
- 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."

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010**

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

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.

**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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
*June 30, 2010*

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

**Fund Equity / Restricted Assets**

The Authority records reservations 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. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. The reserved 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 assets are available.

**Note 2 - Deposits and Investments**

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

	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Affordable Housing</b>		<b>Total</b>
			<b>Special Revenue</b>	<b>Debt Service</b>	
Demand and time deposits	\$ 3,684,308	\$ 11,034,251	\$ 5,723,487	\$2,307,779	\$ 22,749,825
<b>Total</b>	<u>\$ 3,684,308</u>	<u>\$ 11,034,251</u>	<u>\$ 5,723,487</u>	<u>\$2,307,779</u>	<u>\$ 22,749,825</u>

The Authority's investments in money market mutual funds have a weighted average maturity of 43 days and are rated AAAM by Standard and Poor's.

**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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010**

**Note 2 - Deposits and Investments (Continued)**

**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 Charges**

Deferred charges consist of issuance costs associated with the Authority's tax increment contract revenue bonds. These costs are being amortized over the life of the bonds. Total amortization expense for the year was \$49,381.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010**

**Note 4 - Capital Assets**

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Equipment	\$ 634,388	\$ 2,815,028	\$	\$ 3,449,416
Less accumulated depreciation	(248,334)	(82,778)		(331,112)
Land	8,505,662	575,378		9,081,040
	<u>8,891,716</u>	<u>3,307,628</u>		<u>12,199,344</u>
Capital assets, net	<u>\$ 8,891,716</u>	<u>\$ 3,307,628</u>	<u>\$</u>	<u>\$12,199,344</u>

Depreciation expense in the amount of \$82,778 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 are recorded with the Authority. In this fiscal year, the Authority purchased additional pedestrian lights as well as excess reserve which is maintained as public green space.

**Note 5 - Long Term Liabilities**

As of June 30, 2010, the Authority’s long term liabilities are comprised of the following:

	<u>Total</u>	<u>Due Within One Year</u>
Tax increment contract revenue bonds payable	\$ 75,000,000	\$ 376,577
Unamortized discounts on bonds payable	(789,542)	
Note payable to Harris County	608,175	294,516
	<u>\$ 74,818,633</u>	<u>\$ 671,093</u>

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>
Tax increment contract revenue bonds payable	\$ 34,335,000	\$ 42,260,000	\$ (1,595,000)	\$ 75,000,000
Unamortized discounts on bonds payable*	(618,719)	(217,665)	46,842	(789,542)
Note payable to Harris County	884,715		(276,540)	608,175
Bank promissory note	25,000,000		(25,000,000)	
	<u>\$ 59,600,996</u>	<u>\$ 42,042,335</u>	<u>\$(26,824,698)</u>	<u>\$ 74,818,633</u>

\*Includes \$335,151 premium on the 2009A issue

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
*June 30, 2010*

**Note 5 - Long Term Liabilities (Continued)**

***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 \$75,000,000 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:

<u>Series</u>	<u>Amount Outstanding</u>	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Beginning/Endi ng Maturity Dates</u>	<u>Interest Payment Dates</u>	<u>Call Dates</u>
2001A	\$ 6,790,000	\$ 9,385,000	4.25% - 6.25%	Sep 1, 2002 - 2021	Mar 1, Sep 1	Sep 1, 2011
2001B	3,385,000	4,670,000	4.25% - 6.25%	Sep 1, 2002 - 2021	Mar 1, Sep 1	Sep 1, 2011
2002A	5,540,000	7,280,000	3.00% - 6.00%	Sep 1, 2003 - 2022	Mar 1, Sep 1	Sep 1, 2012
2002B	2,785,000	3,665,000	3.00% - 6.00%	Sep 1, 2003 - 2022	Mar 1, Sep 1	Sep 1, 2012
2004A	7,760,000	9,000,000	2.60% - 5.375%	Sep 1, 2006 - 2025	Mar 1, Sep 1	Sep 1, 2014
2004B	3,885,000	4,500,000	2.60% - 5.50%	Sep 1, 2006 - 2025	Mar 1, Sep 1	Sep 1, 2014
2004C	1,730,000	2,000,000	3.30% - 5.30%	Sep 1, 2006 - 2025	Mar 1, Sep 1	
2004D	865,000	1,000,000	3.30% - 5.30%	Sep 1, 2006 - 2025	Mar 1, Sep 1	
2009A	42,260,000	42,260,000	2.90% - 5.50%	Sep 1, 2011 - 2029	Mar 1, Sep 1	
	<u>\$75,000,000</u>					

The Series 2001A, 2002A, 2004A and 2004C were issued in order to construct infrastructure improvement facilities. The Series 2001B, 2002B, 2004B and 2004D were issued for the City of Houston's affordable housing facilities. 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. In October of 2009, the UDA issued new debt (2009A) in order to retire the line of credit with Bank of America (\$25,000,000) and fund continued infrastructure improvements.

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.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010**

**Note 5 - Long Term Liabilities (Continued)**

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

<b>Infrastructure Bonds, All Series</b>											
<b>Year</b>	<b>2001A</b>		<b>2002A</b>		<b>2004A</b>		<b>2004C</b>		<b>2009A</b>		<b>Total</b>
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	405,000	390,538	300,000	311,159	335,000	376,577	75,000	84,726	-	2,873,567	5,151,567
2012	430,000	367,778	315,000	295,587	350,000	363,505	75,000	81,511	1,430,000	2,064,919	5,773,299
2013	450,000	343,578	330,000	278,853	360,000	348,945	80,000	78,070	1,475,000	2,021,321	5,765,766
2014	475,000	317,903	350,000	260,740	380,000	333,073	85,000	74,294	1,535,000	1,960,084	5,771,093
2015	505,000	290,210	370,000	241,115	395,000	315,873	90,000	70,180	1,605,000	1,893,220	5,775,598
2016	535,000	260,303	390,000	220,020	415,000	297,388	95,000	65,763	1,670,000	1,824,781	5,773,254
2017	570,000	227,688	415,000	196,650	435,000	277,351	95,000	61,155	1,745,000	1,749,931	5,772,775
2018	605,000	192,438	440,000	171,000	455,000	255,536	100,000	56,328	1,830,000	1,669,281	5,774,583
2019	640,000	154,688	465,000	143,850	480,000	232,161	105,000	51,203	1,920,000	1,575,681	5,767,583
2020	680,000	114,263	495,000	115,050	505,000	207,221	115,000	45,703	2,020,000	1,477,481	5,774,717
2021	725,000	70,781	525,000	84,450	530,000	180,500	120,000	39,738	2,120,000	1,377,311	5,772,780
2022	770,000	24,063	555,000	52,050	560,000	152,160	125,000	33,429	2,225,000	1,271,866	5,768,568
2023			590,000	17,700	590,000	121,744	130,000	26,765	2,340,000	1,157,741	4,973,950
2024					620,000	89,225	140,000	19,610	2,460,000	1,036,511	4,365,346
2025					655,000	54,959	145,000	12,058	2,590,000	905,794	4,362,811
2026					695,000	18,678	155,000	4,108	2,735,000	764,303	4,372,089
2027					-	-	-	-	2,885,000	611,463	3,496,463
2028					-	-	-	-	3,050,000	448,250	3,498,250
2029					-	-	-	-	3,220,000	275,825	3,495,825
2030									3,405,000	93,638	3,498,638
	<u>\$ 6,790,000</u>	<u>\$ 2,754,226</u>	<u>\$5,540,000</u>	<u>\$ 2,388,223</u>	<u>\$ 7,760,000</u>	<u>\$3,624,896</u>	<u>\$ 1,730,000</u>	<u>\$ 804,637</u>	<u>\$ 42,260,000</u>	<u>\$27,052,969</u>	<u>\$ 100,704,951</u>

<b>Affordable Housing Bonds, All Series</b>											
<b>Year</b>	<b>2001B</b>		<b>2002B</b>		<b>2004B</b>		<b>2004D</b>		Principal	Interest	<b>Total</b>
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2011	200,000	194,748	150,000	156,458	170,000	188,464	35,000	42,435			1,137,104
2012	215,000	183,435	160,000	148,608	175,000	181,883	40,000	40,825			1,144,750
2013	225,000	171,335	165,000	140,176	180,000	174,603	40,000	39,050			1,135,164
2014	240,000	158,428	175,000	131,120	190,000	166,666	40,000	37,220			1,138,434
2015	250,000	144,583	185,000	121,308	200,000	158,010	45,000	35,221			1,139,121
2016	265,000	129,773	195,000	110,760	205,000	148,769	45,000	33,073			1,132,374
2017	285,000	113,538	205,000	99,150	215,000	138,869	50,000	30,768			1,137,324
2018	300,000	95,988	220,000	86,400	230,000	127,959	50,000	28,293			1,138,639
2019	320,000	77,188	235,000	72,750	240,000	116,209	55,000	25,668			1,141,814
2020	340,000	56,975	250,000	58,200	255,000	103,674	55,000	22,918			1,141,767
2021	360,000	35,313	265,000	42,750	265,000	90,250	60,000	19,998			1,138,310
2022	385,000	12,031	280,000	26,400	280,000	76,080	65,000	16,779			1,141,290
2023			300,000	9,000	295,000	60,872	65,000	13,383			743,254
2024					310,000	44,613	70,000	9,805			434,418
2025					330,000	27,413	75,000	5,963			438,375
2026					345,000	9,272	75,000	1,988			431,259
2027					-	-	-	-			-
	<u>\$ 3,385,000</u>	<u>\$ 1,373,331</u>	<u>\$2,785,000</u>	<u>\$ 1,203,079</u>	<u>\$ 3,885,000</u>	<u>\$1,813,604</u>	<u>\$ 865,000</u>	<u>\$ 403,383</u>			<u>\$ 15,713,396</u>

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
*June 30, 2010*

***Note Payable to Harris County***

In January 2003, the Authority executed an agreement with Harris County (the “County”) which required the Authority to reimburse the County \$1,738,191 for costs related to the Westpark Tollway. The amount was due to the County upon completion of construction and a review of project costs by the County Auditor. In March 2007 the Authority executed a note payable with the County for payment of the amount due. An initial payment of \$350,000 was made upon execution of the note. The note bears interest at the rate of six and one-half percent (6.5%).

Annual debt service requirements to maturity are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	294,516	39,531	334,047
2012	313,659	20,388	334,047
	<u>\$ 608,175</u>	<u>\$ 59,919</u>	<u>\$ 668,094</u>



**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2010**

**Note 5 - Long Term Liabilities (Continued)**

**Bank Promissory Note**

In April 2007, the Authority negotiated a loan agreement (the “Note”) with Bank of America in order to provide financing for infrastructure improvements. The Note matures December 31, 2009 or upon issuance of infrastructure bonds by the Authority, whichever occurs first. Under the terms of the Note, the Authority may borrow up to \$25,000,000, with an initial commitment by the Authority of \$5,000,000. The Note bears interest at the 65% of daily LIBOR rate. As of June 30, 2010, the Authority has retired that debt of \$25,000,000.

**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, 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 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, 2010, the Authority received \$17,546,600 in tax increment revenues as follows:

	<b>City of Houston</b>	<b>Houston ISD</b>	<b>Total</b>
Total tax increments	\$ 12,489,361	\$ 8,573,186	\$ 21,062,547
Retainage for administrative costs	(624,468)	(25,000)	(649,468)
Set-aside for educational facilities		(2,866,479)	(2,866,479)
Net received	<u>\$11,864,893</u>	<u>\$ 5,681,707</u>	<u>\$17,546,600</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)**  
**June 30, 2010**

**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, 2010, the Authority remitted \$455,216 to the District. This amount consisted of \$100,008 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; 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 10 - Commitments**

At year-end, the Authority had commitments outstanding in the form of contracts of approximately \$9 million for construction projects.

**Note 11 - Subsequent Events**

Management has evaluated subsequent events through October 20, 2010, which is the date the financial statements were available to be issued.

## **Other Supplementary Information**

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**UPTOWN DEVELOPMENT AUTHORITY**

*Combined Funds - Schedule of Revenues, Expenditures, and*

*Changes in Fund Balances-All Governmental Funds*

*Budget to Actual - Unaudited*

*For the Year Ended June 30, 2010*

	<b>Original And Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive / (Negative)</b>
<b>Revenues</b>			
Contract tax increment	\$ 22,743,728	\$ 17,546,600	\$ (5,197,128)
Investment earnings	68,563	100,859	32,296
Other	11,217,200	2,046,299	(9,170,901)
<b>Total revenues</b>	<b>34,029,491</b>	<b>19,693,758</b>	<b>(14,335,733)</b>
<b>Expenditures</b>			
<b>Current:</b>			
General government	551,000	529,234	21,766
<b>Debt Service:</b>			
Principal	1,595,000	1,871,540	(276,540)
Interest and other charges	2,020,397	2,913,712	(893,315)
Capital Outlay	35,590,291	21,254,821	14,335,470
<b>Total Expenditures</b>	<b>39,756,688</b>	<b>26,569,307</b>	<b>13,187,381</b>
Excess (deficiency) of revenues over expenditures	(5,727,197)	(6,875,549)	(1,148,352)
<b>Other Financing Sources (Uses)</b>			
Proceeds from long-term debt	13,353,131	17,117,650	3,764,519
Transfers out	(10,002,095)	(5,693,484)	4,308,611
<b>Total other financing sources (uses)</b>	<b>3,351,036</b>	<b>11,424,166</b>	<b>8,073,130</b>
Net Change in fund balance	(2,376,161)	4,548,617	6,924,778
<b>Fund balances - beginning of year</b>	<b>13,742,252</b>	<b>11,288,130</b>	<b>(2,454,122)</b>
<b>Fund balances - End of Year</b>	<b>\$ 11,366,091</b>	<b>\$ 15,836,747</b>	<b>\$ 4,470,656</b>

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED**  
*For the Year Ended June 30, 2010*

**TIRZ #16 Uptown Development Authority**

**FY10 OPERATING EXPENSES**

<i>Category</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>TIRZ ADMINISTRATION AND OVERHEAD</b>				
Administration (salary and benefits)	HCID No. 1	\$ 45,000	\$ 45,000	\$
Administration Consultant				
Office Expenses	HCID No. 1	10,000	10,008	
Insurance	Highpoint Insurance	21,000	24,897	
Accounting	HCID No. 1	15,000	15,000	
Auditor	Null- Lairson	12,000	15,650	
Property Account Consultant				
COH Municipal Charge		390,000	390,000	
Bond Trustee				
Financial Advisor		3,500		
<b>Subtotal</b>		<b>\$ 496,500</b>	<b>\$ 500,555</b>	<b>\$ 4,055</b>
<b>PROGRAM AND PROJECT CONSULTANTS</b>				
	Allen Boone			
Legal	Humphries	33,500	23,576	
In-House Legal Counsel		15,000	15,000	
Architect Consultants				
Engineering Consultants				
Project Management Consultants				
Construction Audits		6,000		
Other Professional Services				
<b>Subtotal</b>		<b>\$ 54,500</b>	<b>\$ 38,576</b>	<b>\$ (15,924)</b>
<b>Total Management Consulting Services</b>		<b>\$ 551,000</b>	<b>\$ 539,131</b>	<b>\$ (11,869)</b>

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>Project 1: San Felipe Phase 2,3 - Sage to IH610</b>		\$ 8,000,000	\$	\$
Engineering Services	Lockwood, Andrews, Newnam Gunda Kirst Kosmoski Lina T Ramey		53,377 10,662	
Architectural Services				
Construction Management	Cobb, Fendley, Assoc.		751,747	
Project Management	HCID No. 1		111,614	
Construction Costs	Texas Sterling Teamwork Tyco Electrical M&M Buried Cable CenterPoint/ATT/etal Utilities  Environmental Design		8,743,988 12,000 46,719 13,000  148,246	
Program Financing			512,007	
Other Professional Services	John Horton Consulting SWA Group		24,823 127,769	
<b>Subtotal</b>		<b>\$ 8,000,000</b>	<b>\$ 10,555,951</b>	<b>\$ 2,555,951</b>
<b>Project 2: Rice Sage Phase II</b>		-		
Engineering Services				
Architectural Services				
Construction Management				
Project Management				
Construction Costs	Texas Sterling Construction LP			
Program Financing				
Other Professional Services				
<b>Subtotal</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Project 3: West Alabama Phase II Reconstruction</b>		-		
Engineering Services				
Architectural Services				
Construction Management				
Project Management				
Construction Costs				
Program Financing				
Other Professional Services				
<b>Subtotal</b>		<b>\$ -</b>	<b>\$</b>	<b>\$ -</b>

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>Project 4: Advance Traveler Information System</b>				
Engineering Services		\$ 120,000	\$	\$
Architectural Services				
Construction Management	Walter P Moore		22,220	
Construction Costs	Transcore		49,135	
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
<b>Subtotal</b>		<b>\$ 120,000</b>	<b>\$ 71,355</b>	<b>\$ (48,645)</b>
<b>Project 5: Area Intersection and Signalization</b>				
		2,039,250		
Engineering Services	Gerry DeCamp		11,550	
	Walter P Moore		-	
	Gunda		138,592	
	Lina T. Ramey		390,459	
	TSC Engineering			
Architectural Services				
Construction Management	Gunda			
Construction Costs	Kenmor Electric			
	Teamwork			
	Construction			
	Traffic Systems			
	Construction		8,677	
	HCID No. 1/ Structural			
	Steel			
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
<b>Subtotal</b>		<b>\$ 2,039,250</b>	<b>\$ 549,277</b>	<b>\$ (1,489,973)</b>
<b>Project 6: Construction related Traffic Management and Communication</b>				
Engineering Services				
Architectural Services				
Construction Management				
Construction Costs				
Other Professional Services	HCID No. 1		200,000	
<b>Subtotal</b>		<b>\$</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>



**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>Project 7: Right of Way</b>		\$ 2,000,000	\$	\$
Engineering Services			,	
Architectural Services				
Construction Management				
Construction Costs (ROW costs)	San Felipe Project		1,082,893	
Program Financing				
Other Professional Services	Andrews Kurth		304,044	
	Fulbright & Jaworski		761	
	Lina T. Ramey & Assoc(surveying)		33,853	
	Integra Realty			
	Resources		5,000	
	Lewis Realty			
	HCID No. 1's Staff			
	Counsel		15,000	
<b>Subtotal</b>		<b>\$ 2,000,000</b>	<b>\$ 1,441,550</b>	<b>\$ (558,450)</b>
<b>Project 8: Transit Corridor</b>		334,047		
Engineering Services			,	
Architectural Services				
Construction Management				
Construction Costs			334,047	
Other Professional Services				
<b>Subtotal</b>		<b>\$ 334,047</b>	<b>\$ 334,047</b>	<b>\$ -</b>
<b>Project 9: South Post Oak lane Reconstruction</b>		500,000		
Engineering Services	Walter P Moore SWA Group			
Architectural Services				
Construction Management	Cobb Fendley			
Construction Costs	SER Construction		19,142	
	Traffic Systems			
	Utilities			
Project Management	HCID No. 1			
Program Financing				\$ 107,599
Other Professional Services				
<b>Subtotal</b>		<b>\$ 500,000</b>	<b>\$ 19,142</b>	<b>\$ (480,858)</b>

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>Project 10: Ambassador Way</b>		\$ -	\$	\$
Engineering Services	Walter P Moore SWA Group			
Architectural Services				
Construction Management	Cobb Fendley			
Construction Costs	SER Construction Traffic Systems Utilities			
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
	Vinson & Elkins			
<b>Subtotal</b>		\$ -	\$ -	\$ -
<b>Project 11: Guilford Reconstruction</b>		1,200,000		
Engineering/Design Services	Lina T Ramey SWA Group		98,723	
Architectural Services				
Construction Management	Cobb Fendley			
Construction Costs	SER Construction Traffic Systems Utilities			
Project Management	HCID No. 1			
Program Financing				
Other Professional Services				
<b>Subtotal</b>		\$ 1,200,000	\$ 98,723	\$ (1,101,277)
<b>Project 12: Secondary Roadways (Woodway)</b>		200,000		
Planning / Engineering Services	Walter P Moore TSC Engineering SWA Group TCB/AECOM Gunda		11,195 26,287 50,000 123,588	
Architectural Services				
	Cobb Fendley			
Construction Management	Associates			
Construction Costs	Texas Sterling			
Program Financing				
Other Professional Services				
<b>Subtotal</b>		\$ 200,000	\$ 211,070	\$ 11,070

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>Project 13: Area Pedestrian Improvements</b>				
		\$ 19,146,994	\$	\$
Engineering Services	Kirst Kosmoski		22,935	
	Lina T Ramey		315,262	
Architectural Services	SWA Group		1,222,011	
Construction Management	SWA Group			
	Cobb Fendley		414,444	
	Gunda		113,640	
Construction Costs	Kenmor Electric		5,784,081	
	Trio Electric		67,671	
Project Management	HCID No. 1		111,614	
Program Financing			512,007	
Other Professional Services	Goodman		56,650	
			37,711	
<b>Subtotal</b>		<b>\$ 19,146,994</b>	<b>\$ 8,658,026</b>	<b>\$ (10,488,968)</b>
<b>Project 14: Post Oak Boulevard Reconstruction</b>				
		1,000,000		
Engineering Services	TCB / AECOM		17,340	
Architectural Services				
Construction Management				
Construction Costs				
Other Professional Services				
<b>Subtotal</b>		<b>\$ 1,000,000</b>	<b>\$ 17,340</b>	<b>\$ (982,660)</b>
<b>Project 15: Garrettson Reconstruction</b>				
		-		
Engineering Services	TSC Engineering Services			
Architectural Services				
Construction Management	Cobb Fendley & Associates			
Construction Costs	Texas Sterling Construction LP		132,419	
Project Management	HCID No. 1			
Program Financing				
Other Professional Services	SWA Group			
<b>Subtotal</b>		<b>\$ -</b>	<b>\$ 132,419</b>	<b>\$ 132,419</b>

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditure</i>	<i>Variance</i>
<b>Project 16: North and South</b>				
<b>Wynden</b>				
Engineering Services	Walter P Moore Kirst Kosmoski	\$ 600,000	\$	\$
Architectural Services				
Construction Management				
Construction Costs	Texas Sterling		152,624	
Other Professional Services	SWA Group		-	
<b>Subtotal</b>		<b>\$ 600,000</b>	<b>\$ 152,624</b>	<b>\$ (447,376)</b>
<b>Project 17: Water Wall Acquisition and Operation</b>				
Engineering /Design Services	SWA Group Comm Arts	450,000	39,289 32,181	
Architectural Services				
Construction Management				
Construction Costs/ Purchase			-	
Maintenance/Operation			242,615	
Other Professional Services				
<b>Subtotal</b>		<b>\$ 450,000</b>	<b>\$ 314,085</b>	<b>\$ (135,915)</b>
<b>Total Capital Expenditures</b>		<b>\$ 35,590,291</b>	<b>\$ 22,755,610</b>	<b>\$ (12,834,681)</b>

**UPTOWN DEVELOPMENT AUTHORITY**  
**OPERATING EXPENSES, CAPITAL EXPENDITURES AND PROJECT PLAN RECONCILIATION -**  
**UNAUDITED (Continued)**  
**For the Year Ended June 30, 2010**

**PROJECT PLAN RECONCILIATION**

	<i>Project Plan Amount</i>	<i>Expenditures to FY10</i>	<i>Variance</i>
<b>Non-Education Projects</b>			
<b>Improve Existing Streets</b>	\$ 67,000,000	\$ 62,467,885	\$ 4,532,116
<b>Create Street Grid Network</b>	\$ 38,500,000	\$ 13,333,566	\$ 25,166,434
<b>Improve Intersections</b>	\$ 26,000,000	\$ 7,740,460	\$ 18,259,540
<b>Parking Management Program</b>	\$ 50,000,000	\$	\$ 50,000,000
<b>Pedestrian Network</b>	\$ 53,000,000	\$ 10,042,220	\$ 42,957,780
<b>Parks</b>	\$ 8,500,000	\$ 8,959,393	\$ (459,393)
<b>Education Projects</b>	\$ 129,000,000	\$ 17,296,189	\$ 111,703,811
<b>Affordable Housing</b>	\$ 270,000,000	\$ 53,963,909	\$ 216,036,091
<b>Zone Administration / Operations</b>	\$ 6,750,000	\$ 2,944,965	\$ 3,805,035