

**UPTOWN DEVELOPMENT**

**AUTHORITY**

**FINANCIAL REPORT**

**JUNE 30, 2002**

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**C O N T E N T S**

<b><u>MANAGEMENT’S DISCUSSION AND ANALYSIS</u></b>	i-iii
<b><u>INDEPENDENT AUDITORS’ REPORT</u></b>	1
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Statement of Net Assets and Governmental Funds Balance Sheet	2
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances	3
Notes to Basic Financial Statements	4-12
<b><u>ADDITIONAL INFORMATION</u></b>	
Combining Balance Sheet – Debt Service Fund	13
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Debt Service Funds	14
Combining Balance Sheet – Capital Project Funds	15
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Capital Project Funds	16
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Budgetary Comparison Schedule – Non GAAP	17

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**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Year Ended June 30, 2002**

**Using this Annual Report**

Within this section of the Uptown Development Authority's annual report, the Authority's Board of Directors provides narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2002.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements. In accordance with required reporting standards, the Authority reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities that engage in a single governmental program, in this case the mobility of the Uptown Houston area. The financial statements of special-purpose governments typically combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

*Government-Wide Financial Statements*

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

The difference between the Authority's total assets and total liabilities is labeled as *net assets* and this difference is similar to the total owners' equity presented by a commercial enterprise. Although the purpose of the Authority is not to accumulate net assets, in general, as the amount increases, it may indicate that the financial position of the Authority is improving over time. Other factors that are not included in the financial statements, such as increased tax base in the Authority's boundaries, should also be considered in evaluating the condition of the Authority's overall financial position.

The purpose of the statement of activities is to present the revenues and expenses of the Authority. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established

**UPTOWN DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**For the Year Ended June 30, 2002**

criteria are satisfied and expenses are reported when incurred by the Authority. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

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

*Fund Financial Statements*

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the Authority rather than the Authority as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations. Fund financial statements are divided into two broad categories, governmental funds and fiduciary funds. The Authority has only governmental funds within its financial statements.

*Governmental Funds*

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

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

## **UPTOWN DEVELOPMENT AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

#### **For the Year Ended June 30, 2002**

Because the focus of the government-wide and fund financial statements are different, there may be significant differences between the totals presented in these financial statements. For this reason, there is an analysis at the bottom of the balance sheet that reconciles the total fund balances to the amount of net assets presented in the governmental activities column on the statement of net assets. Also, there is an analysis at the bottom of the statement of revenues, expenditures, and changes in fund balances that reconciles the total change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column in the statement of activities.

#### **Financial Analysis of the Authority as a Whole**

The government-wide financial statements for the fiscal year ended June 30, 2002 are the first financial statements presented under new governmental accounting standards. In future years, when prior-year information is available on a comparable basis, a comparative analysis of government-wide data will be presented.

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

As of year-end, the Authority had total assets of approximately \$9.9 million. Of this amount, \$9.4 million consisted of cash and cash equivalents. The balance consisted of unamortized discount on bonds.

Liabilities at June 30, 2002 totaled \$26.5 million. The balance consisted mainly of \$25 million in bonds payable.

Net assets at year-end were a negative \$16 million, which represented a decrease of approximately \$10 million from the previous year. The decrease was due to additional debt incurred being greater than the increment revenue.

Tax increments from the various taxing Authorities of \$2,678,249 represented substantially all the Authority's revenues during the year ended June 30, 2002.

Expenses totaled \$12,487,713. Construction on behalf of the City of Houston accounted for most of this amount. These amounts were not capitalized because the Authority will not retain title or maintenance responsibilities for the related improvements.

The financial statements indicate the Authority is poised to continue constructing the improvements anticipated during its creation.

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## **Independent Auditors' Report**

Board of Directors  
Uptown Development Authority  
Houston, Texas

We have audited the accompanying basic financial statements of Uptown Development Authority (the "Authority"), a component unit of the City of Houston, as of and for the year ended June 30, 2002, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audits 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Uptown Development Authority as of June 30, 2002, and the results of its operations for the year then ended, in conformity with accounting standards generally accepted in the United States of America.

The Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund, are not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Null-Lairson, A.C.*

Houston, Texas  
September 25, 2002

**UPTOWN DEVELOPMENT AUTHORITY**

**STATEMENT OF NET ASSETS AND GOVERNMENT FUND BALANCE**

**June 30, 2002**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b><u>Assets</u></b>						
Cash and temporary investments	\$ 2,216,165	\$ 2,658,231	\$ 4,554,244	\$ 9,428,640		9,428,640
Interfund receivable	783,351		8,000	791,351	(791,351)	
Unamortized discount					506,028	506,028
<b>Total Assets</b>	<u>\$ 2,999,516</u>	<u>\$ 2,658,231</u>	<u>\$ 4,562,244</u>	<u>\$10,219,991</u>	<u>\$ (285,323)</u>	<u>\$ 9,934,668</u>
<b><u>Liabilities</u></b>						
Accounts payable		\$	\$ 981,235	981,235		981,235
Retainage payable			166,212	166,212		166,212
Interfund payable		8,000	783,351	791,351	(791,351)	
Accrued interest payable					197,854	197,854
Bonds payable					25,000,000	25,000,000
<b>Total Liabilities</b>		<u>8,000</u>	<u>1,930,798</u>	<u>1,938,798</u>	<u>24,406,503</u>	<u>26,345,301</u>
<b>Fund Balances/Net Assets</b>						
<b>Reserved for:</b>						
Debt service		2,650,231		2,650,231	(2,650,231)	
Authorized construction			2,631,446	2,631,446	(2,631,446)	
<b>Unreserved, undesignated</b>	<u>2,999,516</u>			<u>2,999,516</u>	<u>(2,999,516)</u>	
<b>Total Fund Balances</b>	<u>2,999,516</u>	<u>2,650,231</u>	<u>2,631,446</u>	<u>8,281,193</u>	<u>(8,281,193)</u>	
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,999,516</u>	<u>\$ 2,658,231</u>	<u>\$ 4,562,244</u>	<u>\$10,219,991</u>		
<b>Net Assets</b>						
Restricted for debt service					2,650,231	2,650,231
Restricted for capital projects					2,631,446	2,631,446
Unrestricted					(21,692,310)	(21,692,310)
<b>Total Net Assets</b>					<u>\$(16,410,633)</u>	<u>\$ (16,410,633)</u>

See Notes to Financial Statements.

**UPTOWN DEVELOPMENT AUTHORITY**

**STATEMENT OF ACTIVITIES AND GOVERNMENT FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE**

For the Year Ended June 30, 2002

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>						
Tax increment	\$2,678,249	\$ -	\$	\$2,678,249		2,678,249
Interest on investments	20,800	31,531	76,013	128,344		128,344
Accrued interest received on bonds at date of sale		46,075		46,075		46,075
<b>Total Revenues</b>	<u>2,699,049</u>	<u>77,606</u>	<u>76,013</u>	<u>2,852,668</u>		<u>2,852,668</u>
<b>Expenditures/Expenses</b>						
<b>Current:</b>						
Contracted services	50,678			50,678		50,678
<b>Capital Outlay</b>	24,693		11,280,401	11,305,094	(11,305,094)	
Transfer to other government					11,305,094	11,305,094
<b>Debt Service:</b>						
Interest and fiscal charges		858,209	5,104	863,313	43,817	907,130
Discount amortization					24,811	24,811
<b>Total Expenditures/Expenses</b>	<u>75,371</u>	<u>858,209</u>	<u>11,285,505</u>	<u>12,219,085</u>	<u>68,628</u>	<u>12,287,713</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>2,623,678</u>	<u>(780,603)</u>	<u>(11,209,492)</u>	<u>(9,366,417)</u>	<u>(68,628)</u>	<u>(9,435,045)</u>
<b>Other Financing Sources (Uses)</b>						
Transfer to other government	(1,233,063)		(46,924)	(1,279,987)		(1,279,987)
Transfer from (to) other funds	648,164		(648,164)			
Bond proceeds		1,368,837	9,358,989	10,727,826	(10,727,826)	
<b>Total Other Financing Sources (Uses)</b>	<u>(584,899)</u>	<u>1,368,837</u>	<u>8,663,901</u>	<u>9,447,839</u>	<u>(10,727,826)</u>	<u>(1,279,987)</u>
<b>Excess (deficiency) of revenues and transfers over expenditures</b>	2,038,779	588,234	(2,545,591)	81,422		
<b>Change in Net Assets</b>					(10,796,454)	(10,715,032)
<b>Fund Balances/Net Assets</b>						
Beginning of year	960,737	2,061,997	5,177,037	8,199,771	(13,895,372)	(5,695,601)
End of year	<u>\$2,999,516</u>	<u>\$2,650,231</u>	<u>\$2,631,446</u>	<u>\$8,281,193</u>	<u>\$(24,691,826)</u>	<u>\$ (16,410,633)</u>

See Notes to Financial Statements.



**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

**NOTE 1 - AUTHORITY CREATION AND RELATED INFORMATION**

Uptown Development Authority (the "Authority") of the City of Houston, Texas, (the "City") a not-for-profit local government corporation, was created under Chapter 431 of the Texas Transportation Code and the general laws of the State of Texas. The Authority was created to aid and assist the development of Uptown by minimizing traffic congestion and improving public safety through the financing of improvements to existing streets, a street grid network, improvements to intersections, a parking management program and a pedestrian network. The Authority is empowered to act on behalf of the City of Houston (the "City") with respect to administering Reinvestment Zone Number Sixteen, City of Houston, Texas (the "Zone"). The purpose of the Zone is to promote the development of Uptown.

Property within the Zone is located on Houston's near west side near the interchange of the IH-610 and US 59 freeways. The Authority is governed by a nine member Board of Directors, five of whom are appointed by the City.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

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

Additionally, as required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the Authority's financial reporting entity. Based on these considerations, no other entities, organizations or function have been included in the Authority's financial reporting entity.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

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

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

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

Generally Accepted Accounting Principles

The financial statements of the Authority have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In June 1999, the GASB approved Statement 34 Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This statement provides for significant changes in financial reporting and is scheduled for phased implementation based on the size of the government, starting with fiscal years ending 2002. The Authority is electing to implement the requirements of the statement for fiscal year 2001-02.

Basic Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the Authority has the following governmental funds: General Fund, Debt Service Fund and Capital Projects Fund.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

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

Basis Of Presentation

General Fund

The General Fund is used to account for all operations of the Authority. The principal source of revenue is provided by incremental property taxes assessed to and paid by property owners within the Authority. Expenditures include all costs associated with the Authority's operating activities.

Debt Service Fund

The Debt Service Fund consists of two debt service funds which are used to account for the payment of interest and principal on the Authority's general long-term debt. The primary source of revenue for debt service is property tax increment, increment pursuant to requirements of the Authority's bond resolutions.

Capital Projects Fund

The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of Authority projects. The Authority maintains two capital projects funds.

Measurement Focus And Basis Of Accounting

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

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

Governmental Funds are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This measurement focus concentrates on the fund's resources available for spending in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized as soon as they are both measurable and available.

**UPTOWN DEVELOPMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

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

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

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

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**UPTOWN DEVELOPMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

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

Annual Financial Plan (Non-Appropriated Budget) - The Board of Directors adopts an annual budget for the General Fund. The Budget must be submitted to the City of Houston for approval. The budget is reviewed by the Board throughout the year in controlling and enhancing the Authority's operating results. Encumbrance accounting is not used.

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

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

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

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

Net change in fund balances--total governmental funds	\$ 81,422
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report interest expenditures as paid while governmental activities report as interest expense on the accrual basis	(24,811)
Governmental funds do not record discount associated with bond proceeds. Governmental activities capitalize bond discount and amortize it over the life of the bonds.	(43,817)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases longterm liabilities in the Statement of Net Assets.	<u>(10,727,826)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (10,715,032)</u></u>

**NOTE 4 - CASH AND TEMPORARY INVESTMENTS**

The Authority held cash and cash equivalent at June 30, 2002, as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Totals
<b>CASH</b>				
Checking and money market accounts	\$ 2,216,165	\$ -	\$ 632,949	\$ 2,849,114
Funds held by trustee	2,658,231	2,658,231	3,921,295	6,579,526
<b>TOTAL</b>	<u>\$ 2,216,165</u>	<u>\$ 2,658,231</u>	<u>\$ 4,554,244</u>	<u>\$ 9,428,640</u>

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

**NOTE 4 - CASH AND TEMPORARY INVESTMENTS (continued)**

**Investment Policy**

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

State statutes require that all funds invested in depository institutions be covered by federal depository insurance and/or pledged collateral. The types of collateral to be pledged to secure Authority demand deposits and investments are stated in the Authority's Investment Policy. Balances in the Authority's demand accounts were entirely covered by federal depository insurance or securities pledged as collateral. It is the Authority's policy to hold all investments to maturity.

**NOTE 5 - REINVESTMENT ZONE NUMBER 16**

On December 15, 1999, the City, acting under provisions of Chapter 311, Texas Tax Code, created Reinvestment Zone Number 16, City of Houston, Texas (the "Zone") to promote development of the Uptown area. The Zone took effect January 1, 2000 and terminates December 31, 2029 or earlier if all outstanding debt has been paid in full. Ad valorem taxes on property located in the Zone are deposited into a "Tax Increment Fund" at the City of Houston. These funds will be used to repay bonds sold to fund improvements that will significantly enhance the values of taxable real property in the Zone. The City on behalf of the Zone, will pay the Authority by July 1<sup>st</sup> of each year, all monies in the Tax Increment Fund less administrative fees.

As required by statute, one-third of the tax increments are dedicated to provide affordable housing during the term of the Zone. Proceeds from the Series 2002B bonds in the amount of \$2,979,974 were transferred to the City for this purpose.

As of June 30, 2002, the Authority received \$2,678,249 in tax increments from the Zone.

**NOTE 6 - CHANGES IN GENERAL LONG -TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS**

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

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

**NOTE 6– CHANGES IN GENERAL LONG –TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS (continued)**

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

The following is a summary of general long-term debt transactions of the Authority for the year ended June 30, 2002:

Bonds payable, beginning balance		<u>\$ 14,055,000</u>
Bonds sold:		
Proceeds from sale	\$ 10,727,826	
Discount	<u>217,174</u>	<u>10,945,000</u>
Bonds payable, ending balance		<u>\$ 25,000,000</u>

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

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Interest Rates</u>	<u>Maturity Date, Serially, Beginning/Ending</u>	<u>Interest Payment Dates</u>	<u>Callable Dates*</u>
2001A	\$ 9,385,000	4.25 - 6.00%	September 1, 2002/2022	September 1 March 1/	2011
2001B	4,670,000	4.25 - 6.00%	September 1, 2002/2022	September 1 March 1/	2011
2002A	7,280,000	3.00-5.60%	September 1, 2003/2023	September 1 March 1/	2012
2002B	3,665,000	3.00-5.60%	September 1, 2003/2023	September 1 March 1/	2012
	<u>\$ 25,000,000</u>				

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



**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

**NOTE 6– CHANGES IN GENERAL LONG –TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS (continued)**

The debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 405,000	\$ 1,277,250	\$ 1,682,250
2004	755,000	1,352,864	2,107,864
2005	790,000	1,321,374	2,111,374
2006	825,000	1,285,426	2,110,426
2007	865,000	1,245,849	2,110,849
Thereafter	21,360,000	11,184,831	32,544,831
Totals	<u>\$ 25,000,000</u>	<u>\$ 17,667,594</u>	<u>\$ 42,667,594</u>

The bond resolution stipulates the Authority will establish separate reserve funds for the infrastructure improvement facilities Tax Increment Contract Revenue Bonds and the affordable housing Tax Increment Contract Revenue Bonds. Each reserve fund will be maintained in an amount equal to the lesser of (A) 1.25 times the average annual debt service, (B) maximum annual debt service or (C) 10% of the stated principal amount of the bonds or 10% of the issue price of the bonds if the bonds were issued with more than a minimum amount of original issue discount. The Authority has the right, subject to compliance with certain conditions, to issue additional Tax Increment Contract Revenue Bonds.

**NOTE 7 – CONTRACTS**

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

**Tri Party Agreement**

In 1999 the City, the Zone and the Authority approved an agreement setting forth the duties and responsibilities of each party with respect to the Zone. The Authority agrees to manage the affairs and activities of the Zone. It also has the authority to acquire land and to issue bonds, notes or other obligations. The Authority is required to use all monies received from the Zone to 1) pay principal and interest on any obligations and 2) pay administrative costs. The City and the Zone are required to establish a Tax Increment Fund and deposit into it appropriate tax increment revenues. No later than July 1<sup>st</sup> of each year, they must remit these funds to the Authority.

**UPTOWN DEVELOPMENT AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2002**

**NOTE 7 – CONTRACTS (continued)**

**Agreement with Harris County Improvement District No. 1**

The Authority and the Harris County Improvement District No. 1 (the “District”) have entered into an agreement whereby the District provides administrative and management services to the Zone and the Authority. The agreement also provides for reimbursing the District for certain costs incurred during the creation of the Zone and the Authority. During the period ended, the Authority reimbursed the District a total of \$1,159,233. This amount consisted of \$158,107 for operating administrative costs and \$98,321 for project management.

**NOTE 8 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage and no settlements.

**ADDITIONAL INFORMATION**

**UPTOWN DEVELOPMENT AUTHORITY**

**COMBINING BALANCE SHEET - DEBT SERVICE FUNDS**

**June 30, 2002**

	<b><u>Infrastructure Improvement Facilities</u></b>	<b><u>Affordable Housing Facilities</u></b>	<b><u>Totals</u></b>
<b><u>Assets and Other Debits</u></b>			
<b><u>Assets</u></b>			
Cash and temporary investments	\$ <u>1,769,765</u>	\$ <u>888,466</u>	\$ <u>2,658,231</u>
<b>Total Assets and Other Debits</b>	<b><u>\$ 1,769,765</u></b>	<b><u>\$ 888,466</u></b>	<b><u>\$ 2,658,231</u></b>
<b><u>Liabilities, Equity, and Other Credits</u></b>			
<b><u>Liabilities</u></b>			
Interfund payable	\$ <u>5,333</u>	\$ <u>2,667</u>	\$ <u>8,000</u>
<b>Total Liabilities</b>	<b><u>5,333</u></b>	<b><u>2,667</u></b>	<b><u>8,000</u></b>
<b><u>Equity and Other Credits</u></b>			
<b>Fund Balance</b>			
Reserved for debt service	<u>1,764,432</u>	<u>885,799</u>	<u>2,650,231</u>
<b>Total Equity and Other Credits</b>	<b><u>1,764,432</u></b>	<b><u>885,799</u></b>	<b><u>2,650,231</u></b>
<b>Total Liabilities, Equity, and Other Credits</b>	<b><u>\$ 1,769,765</u></b>	<b><u>\$ 888,466</u></b>	<b><u>\$ 2,658,231</u></b>

See accompanying auditors' report.

**UPTOWN DEVELOPMENT AUTHORITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - DEBT SERVICE FUNDS**

**For the Year Ended June 30, 2002**

	<b><u>Infrastructure Improvement Facilities</u></b>	<b><u>Affordable Housing Facilities</u></b>	<b><u>Totals</u></b>
<b><u>Revenues</u></b>			
Interest on investments	\$ 21,035	\$ 10,496	\$ 31,531
Accrued interest received on bonds at date of sale	<u>30,649</u>	<u>15,426</u>	<u>46,075</u>
<b>Total Revenues</b>	<u>51,684</u>	<u>25,922</u>	<u>77,606</u>
<b><u>Expenditures</u></b>			
<b>Debt Service:</b>			
Interest and fees	<u>573,016</u>	<u>285,193</u>	<u>858,209</u>
<b>Total Expenditures</b>	<u>573,016</u>	<u>285,193</u>	<u>858,209</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(521,332)</u>	<u>(259,271)</u>	<u>(780,603)</u>
<b>Other Financing Sources (Uses)</b>			
Bond proceeds	<u>909,980</u>	<u>458,857</u>	<u>1,368,837</u>
<b>Excess Sources (Uses)</b>	388,648	199,586	588,234
<b>Fund Balances - Beginning</b>	<u>1,375,784</u>	<u>686,213</u>	<u>2,061,997</u>
<b>Fund Balances - Ending</b>	<u>\$ 1,764,432</u>	<u>\$ 885,799</u>	<u>\$ 2,650,231</u>

See accompanying auditors' report.

**UPTOWN DEVELOPMENT AUTHORITY**

**COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS**

**June 30, 2002**

	<b><u>Infrastructure Improvement Facilities</u></b>	<b><u>Affordable Housing Facilities</u></b>	<b><u>Totals</u></b>
<b><u>Assets and Other Debits</u></b>			
<b><u>Assets</u></b>			
Cash and temporary investments	\$ 4,506,916	\$ 47,328	\$ 4,554,244
Interfund receivable	5,333	2,667	8,000
<b>Total Assets and Other Debits</b>	<b>\$ 4,512,249</b>	<b>\$ 49,995</b>	<b>\$ 4,562,244</b>
<b><u>Liabilities, Equity, and Other Credits</u></b>			
<b><u>Liabilities</u></b>			
Accounts payable	\$ 981,235	\$	\$ 981,235
Retainage payable	166,212		166,212
Interfund payable	783,351		783,351
<b>Total Liabilities</b>	<b>1,930,798</b>		<b>1,930,798</b>
<b><u>Equity and Other Credits</u></b>			
<b><u>Fund Balance</u></b>			
Reserved for capital projects	2,581,451	49,995	2,631,446
<b>Total Equity and Other Credits</b>	<b>2,581,451</b>	<b>49,995</b>	<b>2,631,446</b>
<b>Total Liabilities, Equity, and Other Credits</b>	<b>\$ 4,512,249</b>	<b>\$ 49,995</b>	<b>\$ 4,562,244</b>

See accompanying auditors' report.

**UPTOWN DEVELOPMENT AUTHORITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - CAPITAL PROJECTS FUNDS**

**For the Year Ended June 30, 2002**

	<b><u>Infrastructure Improvement Facilities</u></b>	<b><u>Affordable Housing Facilities</u></b>	<b><u>Totals</u></b>
<b><u>Revenues</u></b>			
Interest on investments	\$ 75,645	\$ 368	\$ 76,013
<b>Total Revenues</b>	<b>75,645</b>	<b>368</b>	<b>76,013</b>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
Other			
<b>Capital outlay</b>	8,205,968	3,074,433	11,280,401
<b>Debt Service:</b>			
Interest and fiscal charges	5,104		5,104
<b>Total Expenditures</b>	<b>8,211,072</b>	<b>3,074,433</b>	<b>11,285,505</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(8,135,427)</b>	<b>(3,074,065)</b>	<b>(11,209,492)</b>
<b>Other Financing Sources (Uses)</b>			
Transfer to other government	(46,924)		(46,924)
Transfer to other funds	(620,677)	(27,487)	(648,164)
Bond proceeds	6,225,565	3,133,424	9,358,989
<b>Total Other Financing Sources (Uses)</b>	<b>5,557,964</b>	<b>3,105,937</b>	<b>8,663,901</b>
<b>Excess Sources (Uses)</b>	<b>(2,577,463)</b>	<b>31,872</b>	<b>(2,545,591)</b>
<b>Fund Balances - Beginning</b>	<b>5,158,914</b>	<b>18,123</b>	<b>5,177,037</b>
<b>Fund Balances - Ending</b>	<b>\$ 2,581,451</b>	<b>\$ 49,995</b>	<b>\$ 2,631,446</b>

See accompanying auditors' report.

**UPTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - NON GAAP**

**Year Ended June 30, 2002**

	<b><u>Original and Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Favorable (Unfavorable)</u></b>
<b><u>Revenues</u></b>			
Tax increment	\$ 4,237,086	\$ 2,678,249	\$ (1,558,837)
Capitalized interest - trustee	858,209	1,368,837	510,628
Interest on investments	125,000	174,419	49,419
Utility reimbursement	650,000		(650,000)
Net bond proceeds	8,756,000	9,358,989	602,989
Note proceeds	4,500,000		(4,500,000)
<b>Total Revenues</b>	<b><u>19,126,295</u></b>	<b><u>13,580,494</u></b>	<b><u>(5,545,801)</u></b>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
Transfers	4,717,696	1,330,665	3,387,031
Mobility program	200,000	200,000	
Westheimer Corridor study reimbursement	25,000	25,000	
Capital projects	19,231,340	11,080,094	8,151,246
Debt service	858,209	863,313	(5,104)
<b>Total Expenditures</b>	<b><u>25,032,245</u></b>	<b><u>13,499,072</u></b>	<b><u>11,533,173</u></b>
<b>Revenues Over (Under) Expenditures</b>	<b><u>(5,905,950)</u></b>	<b><u>81,422</u></b>	<b><u>5,987,372</u></b>
<b>Fund Balances - Ending</b>	<b><u>\$ (5,905,950)</u></b>	<b><u>\$ 81,422</u></b>	<b><u>\$ 5,987,372</u></b>

See accompanying auditors' report.