

MEMORIAL CITY REDEVELOPMENT AUTHORITY

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

McCALL, GIBSON & COMPANY, PLLC
Certified Public Accountants

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MEMORIAL CITY REDEVELOPMENT AUTHORITY

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

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Board of Directors
Memorial City Redevelopment Authority
City of Houston, Texas

Independent Auditor's Report

We have audited the accompanying basic financial statements of the governmental activities and the major fund of Memorial City Redevelopment Authority (the "Authority"), **a component unit of the City of Houston, Texas**, as of and for the year ended June 30, 2006, as listed in the preceding table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted within 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

In our opinion, the basic financial statements, referred to above, present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Authority as of June 30, 2006, 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 on pages 3 – 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 24 are not a required part of the basic financial statements but are 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information required by the City of Houston and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information, excluding any portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McCall, Gibson & Company, PLLC

McCall, Gibson & Company, PLLC
Certified Public Accountants

August 11, 2006

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

Our discussion and analysis of Memorial City Redevelopment Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- In the Statement of Net Assets, the Authority's assets exceeded its liabilities by \$947,012 (net assets) for the year ended June 30, 2006. This compares to the previous year when assets exceeded liabilities by \$1,359,409.
- The total net assets of \$947,012 are due to the Authority having received a significant amount of Tax Increments from the City of Houston without having incurred much cost to date. The Authority anticipates that with continued development in the area, the Tax Increment Revenues will be sufficient to cover operating costs and to reimburse any Developer within the Authority's boundaries.
- The Authority's governmental funds reported a total ending fund balance of \$947,012 this year. This compares to the prior year fund balance of \$1,359,409, showing an decrease of \$412,397 during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Assets and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance. This report also includes other supplemental information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Authority's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on page 9. The Statement of Net Assets is the Authority-wide statement of its financial position presenting information that includes all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall financial health of the Authority would extend to other non-financial factors.

The government-wide portion of Statement of Activities on page 11 reports how the Authority's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include 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 has one governmental fund types. The General Fund is the operating fund of the Authority and accounts for all resources of the Authority.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the Authority's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the Authority and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustment column, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in the Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives. During the current fiscal year, there was no adjustments needed between the fund financial statements and the government-wide financial statements; therefore, the reconciliations discussed above are not applicable.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

NOTES TO THE BASIC FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 12 to 22 in this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund and can be found on page 24.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$947,012 as of June 30, 2006.

The following table provides a summary of the changes in the Statement of Net Assets as of June 30, 2006 and June 30, 2005:

	<u>Summary of Changes in the Statement of Net Assets</u>		
	<u>2006</u>	<u>2005</u>	<u>Variance Positive (Negative)</u>
ASSETS:			
Current and Other Assets	\$ 999,892	\$ 1,369,289	\$ (369,397)
TOTAL ASSETS	<u>\$ 999,892</u>	<u>\$ 1,369,289</u>	<u>\$ (369,397)</u>
LIABILITIES:			
Current Liabilities	\$ 52,880	\$ 9,880	\$ (43,000)
TOTAL LIABILITIES	<u>\$ 52,880</u>	<u>\$ 9,880</u>	<u>\$ (43,000)</u>
NET ASSETS:			
Unrestricted	\$ 947,012	\$ 1,359,409	\$ (412,397)
TOTAL NET ASSETS	<u>\$ 947,012</u>	<u>\$ 1,359,409</u>	<u>\$ (412,397)</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the changes in the Statement of Activities for the fiscal years ending June 30, 2006 and June 30, 2005:

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2006</u>	<u>2005</u>	<u>Variance Positive (Negative)</u>
Revenues			
Tax Increment Revenue	\$ 1,224,733	\$ 836,177	\$ 388,556
Interest Revenue	<u>22,862</u>	<u>17,619</u>	<u>5,243</u>
Total Revenues	<u>\$ 1,247,595</u>	<u>\$ 853,796</u>	<u>\$ 393,799</u>
Expenses:			
Professional Services	\$ 118,573	\$ 44,414	\$ (74,159)
Contracted Services	76,763	135,335	58,572
Loan Interest	2,109		(2,109)
Other	<u>12,794</u>	<u>7,654</u>	<u>(5,140)</u>
Total Expenses	<u>\$ 210,239</u>	<u>\$ 187,403</u>	<u>\$ (22,836)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 1,037,356</u>	<u>\$ 666,393</u>	<u>\$ 370,963</u>
Other Financing Sources (Uses) and Special Items			
Developer Reimbursement	\$ (1,199,700)	\$	\$ (1,199,700)
Transfer to City of Houston	<u>(250,053)</u>	<u>(75,501)</u>	<u>(174,552)</u>
Total Other Financing Sources (Uses) and Special Items	<u>\$ (1,449,753)</u>	<u>\$ (75,501)</u>	<u>\$ (1,374,252)</u>
Change in Net Assets	\$ (412,397)	\$ 590,892	\$ (1,003,289)
Beginning Net Assets	<u>1,359,409</u>	<u>768,517</u>	<u>590,892</u>
Ending Net Assets	<u>\$ 947,012</u>	<u>\$ 1,359,409</u>	<u>\$ (412,397)</u>

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MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUND

The Authority's only governmental fund is the General Fund. This fund is the operating fund of the Authority and is the source of the day-to-day operations. As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balance of \$947,012, a decrease of \$412,397 from the prior year. All of the General Fund fund balance is unreserved.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of the Authority did not amend the budget during the current fiscal year. Actual excess revenues were \$940,312 less than budgeted excess revenues due to several factors; including, tax increment revenue being significantly less than the amount budgeted, the developer reimbursement being more than budgeted and loan proceeds being less than budgeted, see page 24.

CAPITAL ASSETS

In the current fiscal year, the Authority transferred \$250,053 to the City of Houston related to capital expenditures. These capital expenditures are related to public works improvements. In accordance with Section VIII of the Tri-Party Agreement between the City of Houston, Reinvestment Zone Number Seventeen and the Authority, it states: "all utilities, drainage facilities, public street improvements, sidewalks and light fixtures shall be conveyed to the City." Therefore, any current year expenditures related to such improvements are not recorded as assets of the Authority.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Memorial City Redevelopment Authority's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Memorial City Redevelopment Authority, 820 South Gessner, Suite 1530, Houston, Texas 77024.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2006

	<u>General Fund</u>	<u>Adjustments</u>
ASSETS		
Cash, Note 3	\$ 998,412	\$
Investments, Note 3	<u>1,480</u>	<u></u>
TOTAL ASSETS	<u>\$ 999,892</u>	<u>\$ -0-</u>
LIABILITIES		
Accounts Payable	<u>\$ 52,880</u>	<u>\$</u>
TOTAL LIABILITIES	<u>\$ 52,880</u>	<u>\$ -0-</u>
FUND BALANCE		
Unreserved	<u>\$ 947,012</u>	<u>\$ (947,012)</u>
TOTAL FUND BALANCE	<u>\$ 947,012</u>	<u>\$ (947,012)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 999,892</u>	
NET ASSETS		
Unrestricted		<u>\$ 947,012</u>
TOTAL NET ASSETS		<u>\$ 947,012</u>

The accompanying notes to basic financial statements are an integral part of this report.

Statement of
Net Assets

\$ 998,412

1,480

\$ 999,892

\$ 52,880

\$ 52,880

\$ _____

\$ _____

\$ 947,012

\$ 947,012

The accompanying notes to basic financial
statements are an integral part of this report.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>
REVENUES	
Tax Increment Revenue (Net of retention for Administrative Costs of \$64,460), Note 6	\$ 1,224,733
Interest Revenues	<u>22,862</u>
TOTAL REVENUES	<u>\$ 1,247,595</u>
EXPENDITURES/EXPENSES	
Service Operations:	
Professional Services	\$ 118,573
Contracted Services	76,763
Insurance Cost	6,068
Other	6,726
Capital Improvements, Note 8	250,053
Debt Service:	
Loan Principal	235,000
Loan Interest	<u>2,109</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 695,292</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 552,303</u>
OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	
Developer Reimbursement, Note 9	\$ (1,199,700)
Loan Proceeds, Note 11	235,000
Transfer to City of Houston, Note 8	
TOTAL OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	<u>\$ (964,700)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	\$ (412,397)
CHANGES IN NET ASSETS	
FUND BALANCE/NET ASSETS – JULY 1, 2005	<u>1,359,409</u>
FUND BALANCE/NET ASSETS – JUNE 30, 2006	<u>\$ 947,012</u>

The accompanying notes to basic financial statements are an integral part of this report.

<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 1,224,733
	22,862
<u>\$ -0-</u>	<u>\$ 1,247,595</u>
\$	\$ 118,573
	76,763
	6,068
	6,726
(250,053)	
(235,000)	
	<u>2,109</u>
<u>\$ (485,053)</u>	<u>\$ 210,239</u>
<u>\$ 485,053</u>	<u>\$ 1,037,356</u>
\$	\$ (1,199,700)
(235,000)	
<u>(250,053)</u>	<u>(250,053)</u>
<u>\$ (485,053)</u>	<u>\$ (1,449,753)</u>
\$ 412,397	\$
(412,397)	(412,397)
	<u>1,359,409</u>
<u>\$ -0-</u>	<u>\$ 947,012</u>

The accompanying notes to basic financial statements are an integral part of this report.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1. CREATION OF CORPORATION

The City of Houston, Texas (the "City") authorized the creation of the Memorial City Redevelopment Authority (the "Authority") by the Resolution No. 2002-0026 passed on August 14, 2002. The Authority was created and organized as a local government corporation pursuant to provisions of Subchapter D of Chapter 431 of the Texas Transportation Code and Chapter 394 of the Texas Local Government Code. The Authority is organized as a public non-profit corporation for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental function to promote the common good and general welfare of Reinvestment Zone Number Seventeen (the "Zone") and neighboring areas in the preparation and implementation of a project plan and a reinvestment zone financing plan for the zone; in the development of a policy to finance development and redevelopment of properties in the Memorial City area; and in the development and implementation of a redevelopment policy for the Memorial City area, including the acquisition of land for redevelopment purposes; in the development and implementation of a policy for improving vehicular and pedestrian circulation in the Memorial City area including the acquisition of street rights-of-way. The Authority may issue bonds with consent of City Council. The Authority is managed by a Board of Directors consisting of up to seven members who are appointed by the Mayor with the approval of City Council. The Authority held its first meeting on November 22, 2002.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

The Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The Authority was created as an instrumentality of the City of Houston (the "City"). The Authority does meet the criteria for inclusion as a component unit of the City. Copies of the financial statements for the City may be obtained from the City Secretary's office.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

The financial statements include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the Authority's governmental activities.

GASB Statement 34 established standards for external financial reporting for all state and local government entities, which includes a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Assets – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Authority as a whole. The Authority's Statement of Net Assets and Statement of Activities are

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

combined with the governmental fund financial statements. The Authority is viewed as a special purpose government and has the option of combining these financial statements.

The Statement of Net Assets is reported by adjusting the general fund to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Statement of Activities is reported by adjusting the general fund to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense in the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the Authority's fund financial statements are combined with the government-wide statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The Authority has only one major governmental fund type – the General Fund. This fund is the general operating fund of the Authority and accounts for all resources of the Authority.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenues reported in the governmental funds to be available if they are collectable within sixty (60) days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are reported as assets in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation is not recorded on items classified as construction in progress. Depreciation expense is reported in the government-wide Statement of Activities. Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets.

Budgeting

In compliance with the Tri-Party Agreement (See Note 4), the Authority's board members should annually adopt an unappropriated budget for the General Fund.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported, regardless of the timing of related cash flows. Fund equity is classified as net assets.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the balance sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the Authority has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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 expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the Authority, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the Authority's deposits was \$998,412 and the bank balance was \$1,003,571. Of the bank balance, \$101,473 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the Authority and held in a third party depository.

The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Assets at June 30, 2006, as listed below:

GENERAL FUND	\$ <u>998,412</u>
TOTAL CASH SHOWN ON STATEMENT OF NET ASSETS	\$ <u>998,412</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas statute, the Authority is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all Authority funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the Authority's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. Authority's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest Authority funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the Authority and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (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, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds insured, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain 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's adopted investment policy allows it to invest in any of the above listed investments, except items 3, 4, 5, 6, 8, 9, 10, 11, 12 and 14.

The Authority invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Lehman Brothers and Federated Investors manage the daily operations of the pool under a contract with the Comptroller.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

As of June 30, 2006, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 1,480	\$ 1,480	\$ -0-	\$ -0-	\$ -0-

Credit Risk. Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2006, the Authority's investment in TexPool, an external investment pool, was rated AAA by Standard & Poor's.

Interest Rate Risk. Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the Authority, unless there has been a significant change in value.

NOTE 4. TRI-PARTY AGREEMENT

On November 22, 2002 the Authority and on December 11, 2002 the City of Houston, Texas in accordance with Ordinance No. 2002-1145 executed a Tri-Party agreement between the City of Houston, Texas, Tax Increment Reinvestment Zone No. Seventeen and the Authority. The Tri-Party Agreement states in detail the scope of services to be provided to the Zone by the Authority. The services include management and administrative service for the Zone, as requested by the Zone Board, services with respect to the Project Plan and Reinvestment Zone Financing Plan (the "Plan"), including enlarging the zone and amendments to the project plan and financing plan, and services with respect to the special tax rolls pertaining to the Zone, including analysis and coordination with taxing units. The Authority is also required to assist the Zone Board in establishing a program to increase the level of safety with the Zone, preparing development plans, establishing a marketing and public relations program, planning and design and construction of infrastructure improvements and land acquisition in the Memorial City area.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4. TRI-PARTY AGREEMENT (Continued)

The Tri-Party Agreement also provides for the Authority to issue bonds and notes, enter into obligations with developers or builders, and enter into contracts with consultants, to be repaid from Contract Tax Increments. All bonds must be approved by City Council of the City of Houston and the Director of the Department of Planning of the City of Houston must approve all development agreements.

This Agreement shall end upon termination of the Zone.

Pursuant to the Agreement, the City and the Zone have agreed to pay the Authority not later than the first business day of each July in which a current approved budget is in effect for the Authority, all monies available in the Tax Increment Fund, less (a) certain tax increments constituting educational facilities project costs to be paid to the Spring Branch Independent School District (if any), and (b) a reserve of up to five percent of the monies then available in the Tax Increment Fund for administrative costs of the City. Currently, no monies are owed or are being paid to the Spring Branch Independent School District. Notwithstanding the above, in the event the Authority's budget is not approved by the thirtieth (30th) day before the date of a principal and interest payment on the Authority's bonds or notes, the City shall pay from available funds sufficient monies to the Authority to allow for meeting the Authority's debt service obligations.

NOTE 5. TAX INCREMENTS

The City of Houston, Texas has agreed to deposit their tax increments into the Tax Increment Fund established by the Zone (See Notes 6).

The amount of a Participant's tax increment for a year is the amount of property taxes levied and collected by the Participant for that year on the Captured Appraised Value of real property taxable by the Participant and located in the Zone. The Captured Appraised Value of real property taxable by a Participant for a year is the total appraised value of all real property taxable by the Participant and located in the Zone for that year less the Tax Increment Base, which is the total appraised value of all real property taxable by the Participant and located in the Zone on January 1 of the year in which the Zone was designated as such under the Tax Increment Financing Act (the "TIF Act"). In the event property is annexed into the Zone by ordinance of the City, the Tax Increment Base for annexed property is the value of all real property taxable by a Participant and located in the annexed area on January 1 of the year of annexation. No Participant is required to deposit tax increments derived from property annexed into the Zone unless the Participant has agreed to do so.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5. TAX INCREMENTS (Continued)

Each participant is required to collect taxes on property located within the Zone in the same manner as other taxes are collected. The Participant is required to pay into the tax increment fund the collected tax increments by no later than the 90th day after the delinquency date for the Participant's property taxes.

NOTE 6. CITY OF HOUSTON TAX INCREMENTS

Pursuant to City Ordinance No. 1999-759, the City and the Zone have established the Tax Increment Fund, a separate fund in the City Treasury into which tax increments have and will be deposited.

During the current fiscal year, tax increments of \$1,289,193 were collected from the City of Houston. \$64,460 was withheld to cover administrative costs.

NOTE 7. PUBLIC IMPROVEMENT DEVELOPMENT CONTRACT

On November 22, 2002, the Authority approved a Public Improvement Development Contract with the City of Houston, Texas (the "City"). The Authority shall attempt to obtain all of the property necessary to construct the projects described in the Zone's Project Plan either by purchase, donation or dedication. The Authority shall also provide plans and specifications for the construction of the projects. The Authority, and its consultants, agents and employees will be deemed to be acting as agents of the City and title to the property acquired by the Authority shall be in the City with no liens or beneficial interests retained by the Authority. Should the Authority be unable to acquire the property required for the project by donation, uncompensated dedication or purchase by the Authority, the City can exercise its power of eminent domain to acquire the property for the project. The term of this agreement is seven (7) years and can be extended by mutual agreement of the parties.

NOTE 8. TRANSFER TO THE CITY OF HOUSTON

During the current fiscal year, the Authority recorded a transfer of \$250,053 to the City of Houston. This transfer is related to capital improvements made by the Authority to City of Houston facilities. The Authority finances these facilities for the benefit of the City. Any capital assets the Authority purchases related to public improvements and facilities have been conveyed to the City of Houston. Therefore, the Authority has no capital assets as of June 30, 2006.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8. TRANSFER TO THE CITY OF HOUSTON (Continued)

During the current fiscal year, capital improvements expenditures were as follows:

Engineering – Gessner Widening Project	\$ 176,941
Engineering – Bunker Hill	10,154
Engineering – Drainage	25,933
Emergency – East/West Mobility	<u>37,025</u>
Total Capital Improvements	<u>\$ 250,053</u>

NOTE 9. DEVELOPER REIMBURSEMENT

On December 12, 2003, the Board of Directors approved an agreed-upon procedures report detailing certain reimbursable costs of the Authority to a Developer within the Zone's boundary. The report reflects a total of reimbursable cost, excluding interest, of \$1,063,939. The costs advanced by the Developer were for the original creation cost and administration costs of the Zone and the Authority and were advanced in accordance with a Resolution of the Zone Board generally agreeing to consider the reimbursement of actually accrued creation and administration costs. A written reimbursement agreement was approved during the current fiscal year to include the amount of costs incurred and interest on the amount advanced on behalf of the Authority. During the current fiscal year, the Authority paid the Developer \$1,199,700 in accordance with this agreement.

The breakdown of the costs reimbursed to the Developer are as follows:

Creation Costs	\$ 373,904
Operation Costs	465,800
Drainage Study Costs	86,905
Traffic Study Costs	137,330
Developer Interest	<u>135,761</u>
TOTAL COSTS	<u>\$ 1,199,700</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 10. ADMINISTRATIVE SERVICES AGREEMENT- HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1

On January 3, 2005, the Authority entered into an agreement with the Harris County Municipal Management District No. 1 (the "District") for administrative services. The services the District may provide includes, among other things the following: executive director services, general administrative support, project management and development, consultant management, and other services as may be deemed necessary by the Authority Board in the course of its various projects. Pursuant to this agreement, the District will designate a District employee as the "Executive Director" of the Authority. The Authority will pay to the District an Annual Fee, in monthly installments, equal to fifty percent of the annual expense of administrative salaries and benefits and office operating costs of the District. During the current fiscal year, the Authority paid \$61,842 in accordance with this agreement.

Costs incurred related to this agreement have been recorded as Contracted Services.

The term of the agreement is until termination of the Tax Increment Reinvestment Zone No. 17. Either party may terminate the agreement upon sixty days written notice to the other party with or without cause.

NOTE 11. PROMISSORY NOTE AGREEMENT

On November 1, 2005, the Authority entered into a promissory note agreement with the Amegy Bank in the amount of \$1,000,000. The Authority agrees to pay interest at the lesser of (a) the maximum rate of nonusurious interest permitted by applicable law or (b) the prime rate of lender minus three-fourths percent. During the current fiscal year, the Authority borrowed \$235,000 in relation to this agreement. The Authority, upon receipt of their current year tax increment revenue from the City of Houston, repaid the \$235,000 previously borrowed. As of June 30, 2006, there was no outstanding amount due on the note. The Authority also recorded loan interest in the amount of \$2,109 in relation to this agreement. Any further borrowing from this note will be due and payable on the earlier of (a) November 1, 2006 or (b) the date the Authority closes on the issuance of any debt, including any bonds.

Current year activity related to the promissory note was as follows:

	<u>Balance at July 1, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at June 30, 2006</u>
Promissory Note- Amegy Bank	<u>\$ -0-</u>	<u>\$ 235,000</u>	<u>\$ 235,000</u>	<u>\$ -0-</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2006

MEMORIAL CITY REDEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund		
	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Tax Increment Revenue	\$ 1,812,507	\$ 1,224,733	\$ (587,774)
Interest Revenues	<u>35,000</u>	<u>22,862</u>	<u>(12,138)</u>
TOTAL REVENUES	<u>\$ 1,847,507</u>	<u>\$ 1,247,595</u>	<u>\$ (599,912)</u>
EXPENDITURES			
Maintenance and Operations	\$ 169,592	\$ 208,130	\$ (38,538)
Capital Outlay	650,000	250,053	399,947
Debt Service:			
Loan Principal		235,000	(235,000)
Loan Interest		<u>2,109</u>	<u>(2,109)</u>
TOTAL EXPENDITURES	<u>\$ 819,592</u>	<u>\$ 695,292</u>	<u>\$ 124,300</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 1,027,915</u>	<u>\$ 552,303</u>	<u>\$ (475,612)</u>
OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS			
Developer Reimbursement	\$ (1,100,000)	\$ (1,199,700)	\$ (99,700)
Loan Proceeds	<u>600,000</u>	<u>235,000</u>	<u>(365,000)</u>
TOTAL OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	<u>\$ (500,000)</u>	<u>\$ (964,700)</u>	<u>\$ (464,700)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES) AND SPECIAL ITEMS	\$ 527,915	\$ (412,397)	\$ (940,312)
FUND BALANCE - JULY 1, 2005	<u>1,359,409</u>	<u>1,359,409</u>	
FUND BALANCE – JUNE 30, 2006	<u>\$ 1,887,324</u>	<u>\$ 947,012</u>	<u>\$ (940,312)</u>

See accompanying independent auditor's report.

MEMORIAL CITY REDEVELOPMENT AUTHORITY

SUPPLEMENTAL INFORMATION

REQUIRED BY CITY OF HOUSTON

JUNE 30, 2006

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
OPERATING EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

Category	Vendor	Budget
ADMINISTRATION AND OVERHEAD		
Administration Consultant	Harris County Municipal Management District No. 1	\$ 61,750
Office Expenses		11,442
Insurance	Aquasurance	4,150
Accounting	ETI Accounting Services	7,800
Auditor	McCall, Gibson & Company, PLLC	6,150
Property Account Consultant	Equi-Tax	4,800
Bond Trustee	N/A	
Financial Advisor	N/A	
SUBTOTAL		<u>\$ 96,092</u>
PROGRAM AND PROJECT CONSULTANTS		
Legal-General Counsel	Allen Boone Humphries Robinson LLP Walter P. Moore and Lockwood, Andrews & Newman	\$ 52,500
Engineering-General Consultation		21,000
Construction Audit	McCall, Gibson & Company, PLLC	
SUBTOTAL		<u>\$ 73,500</u>
TOTAL MANAGEMENT CONSULTING SERVICES		<u>\$ 169,592</u>

See accompanying independent auditor's report.

<u>Actual Expenditure</u>	<u>Variance Positive (Negative)</u>
\$ 61,842	\$ (92)
8,651	2,791
6,068	(1,918)
8,196	(396)
6,250	(100)
4,800	
<hr/>	<hr/>
<u>\$ 95,807</u>	<u>\$ 285</u>
\$ 47,115	\$ 5,385
60,008	(39,008)
<u>5,200</u>	<u>(5,200)</u>
<u>\$ 112,323</u>	<u>\$ (38,823)</u>
<u>\$ 208,130</u>	<u>\$ (38,538)</u>

See accompanying independent auditor's report.

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
CAPITAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

Category	Vendor	Budget
Project 1: Gessner Widening Project		
Engineering Services and Construction	Walter P. Moore and Lockwood, Andrews & Newman	\$ <u>400,000</u>
Project 2: Bunker Hill		
Engineering Services and Construction	Lockwood, Andrews & Newman	\$ <u>100,000</u>
Project 3: Consulting/Engineering Fees		
Engineering Services – Drainage	Lockwood, Andrews & Newman	\$ 75,000
Engineering Services – East/West Mobility	Lockwood, Andrews & Newman	<u>75,000</u>
SUBTOTAL		\$ <u>150,000</u>
TOTAL CAPITAL EXPENDITURES		\$ <u>650,000</u>

See accompanying independent auditor's report.

<u>Actual Expenditure</u>	<u>Variance Positive (Negative)</u>
\$ <u>176,941</u>	\$ <u>223,059</u>
\$ <u>10,154</u>	\$ <u>89,846</u>
\$ 25,933 <u>37,025</u>	\$ 49,067 <u>37,975</u>
\$ <u>62,958</u>	\$ <u>87,042</u>
<u>\$ 250,053</u>	<u>\$ 399,947</u>

See accompanying independent auditor's report.

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MEMORIAL CITY REDEVELOPMENT AUTHORITY
PROJECT PLAN RECONCILIATION
AS OF THE YEAR ENDED JUNE 30, 2006

	Project Plan Estimated Amount *	Cumulative Expenditures as of the Fiscal Year Ended 2006**	Variance Positive (Negative)
Non-Education Project Costs			
Utility System Improvements	\$ 32,125,200	\$	\$ 32,125,200
Roadway Improvements	45,829,681	459,667	45,370,014
Traffic Signal Improvements	2,100,000		2,100,000
NTP, Noise/Safety Walls, Engineering Study	5,500,000	252,849	5,247,151
Park Improvements and Landscaping	11,889,119		11,889,119
Other Costs	<u>556,000</u>	<u>1,555,370</u>	<u>(999,370)</u>
Total Non-Educational Project Costs	<u>\$ 98,000,000</u>	<u>\$ 2,267,886</u>	<u>\$ 95,732,114</u>

* The Project Plan was approved on July 27, 1999. The Project Plan includes estimated costs for the various approved projects. The Project Plan provides for education project costs if the Spring Branch Independent School District (SBISD) participates in the Zone. At this time, SBISD is not participating in the Zone.

** Includes current year activity related to developer reimbursement in the amount of \$1,199,700, see Note 9.

See accompanying independent auditor's report.

MEMORIAL CITY REDEVELOPMENT AUTHORITY

OTHER SUPPLEMENTAL INFORMATION

JUNE 30, 2006

MEMORIAL CITY REDEVELOPMENT AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2006

Authority Mailing Address - Memorial City Redevelopment Authority
820 South Gessner, Suite 1530
Houston, TX 77024

Authority Telephone Number- 713-984-8737

<u>Board Members</u>	<u>Position</u>
Charles Turet - Chairperson	1
Ken Arnold	2
Sofia Fonseca	3
Mark Anawaty	4
Terry S. Cheng	5
Floy Evans	6
Vacant	7

Zone Administrator

Harris County Municipal Management District No. 1
c/o Robert Fiederlein, Executive Director
820 South Gessner, Suite 1530
Houston, TX 77024

See accompanying independent auditor's report.