

MEMORIAL CITY REDEVELOPMENT AUTHORITY

HOUSTON, TEXAS

FINANCIAL REPORT

JUNE 30, 2003

McCALL, GIBSON & COMPANY, PLLC
Certified Public Accountants

MEMORIAL CITY REDEVELOPMENT AUTHORITY

HOUSTON, TEXAS

FINANCIAL REPORT

JUNE 30, 2003

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS:	
COMBINED STATEMENTS	
GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS	8-9
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES	10-11
NOTES TO BASIC FINANCIAL STATEMENTS	12-19
OTHER SUPPLEMENTAL INFORMATION	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	21
BOARD OF DIRECTORS AND CONSULTANTS	22
MANAGEMENT LETTER	23-24

McCALL, GIBSON & COMPANY, PLLC

Certified Public Accountants

13831 Northwest Frwy.
Suite 610
Houston, Texas 77040-5216
(713) 462-0341
Fax (713) 462-2708
E-Mail: mccallgibson@mccallgibson.com

Member American
Institute of Certified
Public Accountants

Texas Society of
Certified Public
Accountants

Board of Directors
Memorial City Redevelopment Authority
Houston, Texas

Independent Auditor's Report

We have audited the accompanying basic financial statements of Memorial City Redevelopment Authority (the "Authority"), ***a component unit of the City of Houston, Texas*** as of and for the inception period ended June 30, 2003, 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 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 Authority as of June 30, 2003, and the results of its operations for the inception period 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 statement of revenues, expenditures, and changes in fund balance – budget and actual – general fund on page 21 are not a required part of the basic financial statements 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.

McCall, Gibson & Company, PLLC

McCall, Gibson & Company, PLLC
Certified Public Accountants

August 6, 2003

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Within this section of the Memorial City Redevelopment Authority's annual financial report, the Authority's management provides narrative discussion and analysis of the financial activities of the Authority for the inception period ended June 30, 2003.

The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. This discussion focuses on the Authority as a special purpose government.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$619,762 (net assets) for the inception period reported.
- The total net assets of \$619,762 is due to the Authority having received a significant amount of Tax Increments from the City of Houston, Texas without having incurred much cost to date. The Authority anticipates that with continued development in the area, that Tax Increment Revenues will be sufficient to cover operating costs and to reimburse any Developer in the Authority.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic 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 governmental funds balance sheet and the statement of net assets and (2) the statement of governmental fund revenues, expenditures, and changes in fund balance and the statement of activities. This report also includes other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The Authority's annual report includes two governmental-wide financial statements. These statements provide 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, 2003

Government-wide Financial Statements (Continued)

The first of the government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of 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 health of the Authority would extend to other non-financial factors.

The second government-wide statement is the Statement of Activities, which 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.

Both government-wide financial statements distinguish governmental activities of the Authority that are principally supported by tax increment revenues and bank loans.

The Authority's financial reporting includes the funds of the Authority (special purpose government).

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one kind of fund.

Governmental funds are reported in the fund financial statements and encompass essentially the same fund functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Other Information

Budgetary comparison statements are included as Required Supplementary Information ("RSI") for the General Fund.

Financial Analysis of the Authority as a Whole

The Authority implemented the new financial reporting model used in this report beginning with the inception period ended June 30, 2003. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The District's net assets had a balance of \$619,762 as of June 30, 2003. This balance has accumulated in the inception period of the Authority. The following table provides a summary of the District's net assets:

Summary of Net Assets

Current and Other Assets	\$ 678,936
TOTAL ASSETS	<u>\$ 678,936</u>
Current Liabilities	\$ 59,174
TOTAL LIABILITIES	<u>\$ 59,174</u>
NET ASSETS:	
Unrestricted	<u>\$ 619,762</u>
TOTAL NET ASSETS	<u><u>\$ 619,762</u></u>

Since this is the first year in which government-wide information is available, comparative data is not presented. However, comparative data will be accumulated and presented to assist analysis in future years. The following table provides a summary of the Authority's changes in net assets:

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

Financial Analysis of the Authority as a Whole (Continued)

Summary of Changes in Net Assets

	2003	Percent of Totals
Revenues:		
Tax Increment Revenue	\$ 672,175	99.00%
Interest Revenue	6,771	1.00
Total Revenues	\$ 678,946	100.00%
Expenses:		
Professional Services	\$ 23,781	40.18%
Direct Project Engineering	9,938	16.79
Administrative Costs	25,465	43.03
Total Expenses	\$ 59,184	100.00%
Excess of Revenues Over (Under)		
Expenditures (Change in Net Assets)	\$ 619,762	
Beginning Net Assets	_____	
Ending Net Assets	\$ 619,762	

Governmental Funds

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 \$619,762, all of which is unreserved.

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

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, c/o Knudson & Associates, 8588 Katy Freeway, Suite 441, Houston, Texas 77024.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET ASSETS
JUNE 30, 2003

	General Fund	Adjustments
ASSETS		
Cash, Note 3	\$ 400,048	\$
Tax Increments Receivable	278,888	
TOTAL ASSETS	\$ 678,936	\$ -0-
 LIABILITIES		
Accounts Payable	\$ 59,174	\$
TOTAL LIABILITIES	\$ 59,174	\$ -0-
 FUND BALANCES/NET ASSETS		
Unreserved, reported in General Fund	\$ 619,762	\$ (619,762)
TOTAL FUND BALANCE	\$ 619,762	\$ (619,762)
 TOTAL LIABILITIES AND FUND BALANCE	\$ 678,936	
 NET ASSETS		
Unrestricted		\$ 619,762
TOTAL NET ASSETS		\$ -0-

See Accompanying Notes to Basic Financial Statements.

Statement of
Net Assets

\$ 400,048

278,888

\$ 678,936

\$ 59,174

\$ 59,174

\$

\$

\$ 619,762

\$ 619,762

See Accompanying Notes to Basic Financial Statements.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE INCEPTION PERIOD ENDED JUNE 30, 2003

	General Fund
REVENUE:	
Tax Increment Revenue (Net of retention for Administrative Costs of \$27,653)	\$ 672,175
Interest Revenues	6,771
TOTAL REVENUE	\$ 678,946
EXPENDITURES:	
Current:	
Professional Services	\$ 23,781
Direct Project Engineering	9,938
Administrative Cost	25,465
TOTAL EXPENDITURES	\$ 59,184
EXCESS REVENUE OVER (UNDER) EXPENDITURES	\$ 619,762
CHANGES IN NET ASSETS	
FUND BALANCE/NET ASSETS – FROM INCEPTION AUGUST 12, 2002	-0-
FUND BALANCE/NET ASSETS – JUNE 30, 2003	\$ 619,762

See Accompanying Notes to Basic Financial Statements.

<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 672,175
	<u>6,771</u>
<u>\$ -0-</u>	<u>\$ 678,946</u>
\$	\$ 23,781
	9,938
	<u>25,465</u>
<u>\$</u>	<u>\$ 59,184</u>
\$ (619,762)	\$ -0-
619,762	619,762
	<u>-0-</u>
<u>\$ -0-</u>	<u>\$ 619,762</u>

See Accompanying Notes to Basic Financial Statements.

THIS PAGE INTENTIONALLY LEFT BLANK

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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 residential and commercial 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 seven members who are appointed by the mayor with the approval of City Council.

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.

Component Unit

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 FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been 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. Certain of the significant changes in the Statement include those on the following page.

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 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".

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 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.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

In the government-wide statement of net assets, 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.

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 type of governmental fund – the General Fund. This fund is the general operating fund of the Authority and accounts for all resources of the Authority.

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 presented 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. 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:

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

Basis of Accounting

The Authority uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues with 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. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

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.

Budgets

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.

Cash and Cash Equivalents

Cash as reflected in the financial statements includes checking and money market accounts.

Capital Assets

The accounting treatment of capital assets depends on whether the assets are reported in the government-wide or fund financial statements. Capital assets are not reported as assets in governmental funds but are reported as assets in the government-wide statement of net assets.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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.

NOTE 3. CASH AND INVESTMENTS

State 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 and (13) certain qualified governmental investment pools.

Under Texas law, 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: preservation and safety of principal, first, liquidity, second, and yield, 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 Authority.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3. CASH AND INVESTMENTS (Continued)

	<u>ASSETS AT COST</u>		<u>FAIR VALUE</u>
	<u>Cash and Cash</u>	<u>Investments</u>	<u>Combined</u>
	<u>Equivalents</u>		
<u>GENERAL FUND –</u>			
Demand Deposits, Money			
Market Deposit Accounts			
and Savings Accounts	<u>\$ 400,048</u>	<u>\$ -0-</u>	<u>\$ 400,048</u>

State statutes require that any cash balance in any fund shall to the extent not insured by the Federal Deposit Insurance Authority 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 municipalities in Texas, having an aggregate market value, exclusive of accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At the fiscal year end the carrying amount of the Authority's deposits was \$400,048 and the bank balance was \$393,552. Of the bank balance, \$100,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

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 Memorial City area.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

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 Authorities' budget is not approved by the thirtieth (30th) day before the date of a principal and interest payment on the Authorities' bonds or notes, the City shall pay from available funds sufficient monies to the Authorities to allow for meeting the Authorities' 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 for the Zone (See Note 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 FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5. TAX INCREMENTS (Continued)

Each participant is required to collect taxes on property located with 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 \$699,828 were collected from the City of Houston. \$27,653 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.

MEMORIAL CITY REDEVELOPMENT AUTHORITY

SUPPLEMENTAL INFORMATION

JUNE 30, 2003

MEMORIAL CITY REDEVELOPMENT AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE INCEPTION PERIOD ENDED JUNE 30, 2003

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUE:			
Tax Increment Revenue	\$ 442,828	\$ 672,175	\$ 229,347
Interest Revenues		6,771	6,771
TOTAL REVENUE	<u>\$ 442,828</u>	<u>\$ 678,946</u>	<u>\$ 236,118</u>
EXPENDITURES:			
Professional Services	\$	\$ 23,781	\$ (23,781)
Direct Project Engineering		9,938	(9,938)
Maintenance and Operations	88,220		88,220
Administrative Expenditures		25,465	(25,465)
Capital Expenditures	<u>605,833</u>		<u>605,833</u>
TOTAL EXPENDITURES	<u>\$ 694,053</u>	<u>\$ 59,184</u>	<u>\$ 634,869</u>
EXCESS REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (251,225)</u>	<u>\$ 619,762</u>	<u>\$ 870,987</u>
OTHER FINANCING SOURCES (USES)			
Intefund Transfer	\$ (22,141)	\$	\$ 22,141
Bond Proceeds	<u>694,053</u>		<u>(694,053)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 671,912</u>	<u>\$ -0-</u>	<u>\$ (671,912)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 420,687</u>	<u>\$ 619,762</u>	<u>\$ 199,075</u>
FUND BALANCE – FROM INCEPTION AUGUST 12, 2002	<u>-0-</u>	<u>-0-</u>	
FUND BALANCE - JUNE 30, 2003	<u>\$ 420,687</u>	<u>\$ 619,762</u>	<u>\$ 199,075</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2003

Authority Mailing Address - Memorial City Redevelopment Authority
c/o Knudson & Associates
8588 Katy Freeway, Suite 441
Houston, TX 77024

Authority Telephone No. - (713) 463-8200

Position Board Members

1 Charles S. Turet, Jr.

2 Ron Height

3 Vacant

4 Robert M. Bryant

5 Terry S. Cheng

6 Vacant

7 Vacant

Zone Administrator

Knudson & Associates
8588 Katy Freeway, Suite 441
Houston, TX 77024

McCALL, GIBSON & COMPANY, PLLC
Certified Public Accountants

13831 Northwest Frwy.
Suite 610
Houston, Texas 77040-5216
(713) 462-0341
Fax (713) 462-2708
E-Mail: mccallgibson@mccallgibson.com

*Member American
Institute of Certified
Public Accountants*

*Texas Society of
Certified Public
Accountants*

August 6, 2003

Board of Directors
Memorial City Redevelopment Authority
Houston, Texas

Members of the Board:

In planning and performing the audit of the basic financial statements of Memorial City Redevelopment Authority, a component unit of the City of Houston, Texas, for the inception period ended June 30, 2003, we considered the internal control structure in order to determine the auditing procedures implemented for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a material weakness under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by the Authority in the normal course of performing its assigned functions.

We noted no matters involving the internal control structure and its operation that we consider to be a material weakness as defined above. We would like to communicate to you the following observations and/or suggestions:

Insurance Coverage

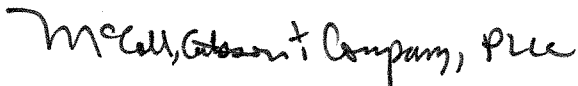
Section 5.6 of the Authority's by-laws allows the Authority to purchase and maintain insurance, at its expense, to protect itself and any person who is serving as a Director, officer, employee or agent of the Authority or is or was serving at the request of Authority. We recommend that the Authority continue to maintain the Directors and Officers liability policy and we recommend that the Authority purchase bonds on the consultants of the Authority.

Public Funds Investment Act

Effective September 1, 1995, the Public Funds Investment Act, Chapter 2256, Government Code was amended. Included in the amended statute is a requirement for the Authority's auditor to perform a compliance audit of the Authority's compliance with its adopted investment policy. Based upon our test of compliance we acknowledge that the Authority is not required to have an investment policy due to the fact that Authority monies are only in money market accounts.

This management letter is intended solely for the information and use of the Board of Directors of Memorial City Redevelopment Authority and the City Council of the City of Houston, Texas. We appreciate the courtesy and assistance extended by the Board of Directors and the Authority's consultants during the course of our examination. If you have any questions concerning the matters presented herein or need assistance in implementing any of these, please contact us.

Sincerely,

A handwritten signature in black ink that reads "McCall, Gibson & Company, PLLC". The signature is written in a cursive, slightly slanted style.

McCall, Gibson & Company, PLLC
Certified Public Accountants