

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
(AKA TIRZ 17 REDEVELOPMENT AUTHORITY)**

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
(AKA TIRZ 17 REDEVELOPMENT AUTHORITY)**

CITY OF HOUSTON, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	9
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	10
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	11
NOTES TO BASIC FINANCIAL STATEMENTS	12-25
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-ALL GOVERNMENTAL FUNDS	27
SUPPLEMENTARY INFORMATION REQUIRED BY CITY OF HOUSTON	
OPERATING EXPENDITURES	29
CAPITAL EXPENDITURES	30
PROJECT PLAN RECONCILIATION	31
OTHER SUPPLEMENTARY INFORMATION	
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEAR	33-35
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	36

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

7801 N. Capital of Texas Hwy.
Suite 350
Austin, Texas 78731-1169
(512) 418-2358
Fax: (512) 340-0604
www.mgsbpllc.com

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each 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, 2011, which collectively comprise the Authority's basic financial statements as listed in the preceding table of contents. These 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2011, 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.

Board of Directors
Memorial City Redevelopment Authority

The Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information required by the City of Houston, Texas and the other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information required by the City of Houston, Texas and the other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

September 27, 2011

MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Our discussion and analysis of Memorial City Redevelopment Authority's, aka TIRZ 17 Redevelopment Authority (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2011. 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 liabilities exceeded its assets by (\$4,843,863) (net assets) for the year ended June 30, 2011. This compares to the previous year when liabilities exceeded assets by (\$4,076,217). The Authority anticipates that with continued development in the area, the Tax Increment Revenues will be sufficient to cover operating costs, project costs and debt service of the Authority.
- The Authority's governmental funds reported a total ending fund balance of \$15,128,475 this year. This compares to the prior year fund balance of \$16,209,945, showing a decrease of \$1,081,470 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 Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Revenue, Expenditures, and Changes in Fund Balances. This report also includes other supplementary 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
FOR THE YEAR ENDED JUNE 30, 2011**

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 8. 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 the Statement of Activities on page 10 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 three governmental funds types. The General Fund is the operating fund of the Authority, the Debt Service Fund is used to account for the payment of interest and principal on the Authority's long-term debt, and the Capital Projects Fund accounts for capital project acquisition and or construction.

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 adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets on page 9 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 11 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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 through 25 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 all governmental funds and can be found on page 27.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, liabilities exceeded assets by (\$4,843,863) as of June 30, 2011.

The following table provides a summary of the changes in the Statement of Net Assets as of June 30, 2011 and June 30, 2010:

	<u>Summary of Changes in the Statement of Net Assets</u>		
	<u>2011</u>	<u>2010</u>	<u>Variance Positive (Negative)</u>
ASSETS:			
Current and Other Assets	\$ 16,849,903	\$ 17,438,238	\$ (588,335)
TOTAL ASSETS	<u>\$ 16,849,903</u>	<u>\$ 17,438,238</u>	<u>\$ (588,335)</u>
LIABILITIES:			
Current Liabilities	\$ 1,398,766	\$ 859,455	\$ (539,311)
Long-term Liabilities	20,295,000	20,655,000	360,000
TOTAL LIABILITIES	<u>\$ 21,693,766</u>	<u>\$ 21,514,455</u>	<u>\$ (179,311)</u>
NET ASSETS:			
Restricted	\$ 2,642,412	\$ 2,186,434	\$ 455,978
Unrestricted	(7,486,275)	(6,262,651)	(1,223,624)
TOTAL NET ASSETS	<u>\$ (4,843,863)</u>	<u>\$ (4,076,217)</u>	<u>\$ (767,646)</u>

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011 and June 30, 2010:

	Summary of Changes in the Statement of Activities		
	2011	2010	Variance Positive (Negative)
Revenues:			
Tax Increment	\$ 5,732,714	\$ 5,586,738	\$ 145,976
Interest and Others	38,277	54,913	(16,636)
Total revenues	\$ 5,770,991	\$ 5,641,651	\$ 129,340
Expenses:			
Professional Services	\$ 42,482	\$ 61,623	\$ 19,141
Contracted Services	145,279	169,279	24,000
Bond Interest	859,567	841,989	(17,578)
Other	55,450	33,242	(22,208)
Administration Fee	775,868	628,464	(147,404)
Issuance Cost and Fees	49,624	49,625	1
Capital Improvements	4,610,367	2,845,893	(1,764,474)
Total expenses	\$ 6,538,637	\$ 4,630,115	\$ (1,908,522)
Changes in Net Assets	\$ (767,646)	\$ 1,011,536	\$ (1,779,182)
Beginning Net Assets	(4,076,217)	(5,087,753)	1,011,536
Ending Net Assets	\$ (4,843,863)	\$ (4,076,217)	\$ (767,646)

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUNDS

The Authority has three governmental funds, which are the General Fund, the Debt Service Fund, and the Capital Projects Fund. 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 balances totaling \$15,128,475, a decrease of \$1,081,470 from the prior year.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

The 2011 fiscal year budget prepared and approved by the Board of the Authority was not approved by the City Council of the City of Houston. Pursuant to the agreement between the Authority, the Zone and the City, if the City Council fails to approve the proposed budget of the Authority, the Authority will continue to operate on the budget for the previous fiscal year. In the current year, the Authority operated under the 2010 fiscal year end budget approved by City Council. Actual excess revenues were \$2,369,001 greater than budgeted excess revenues due to capital outlay being significantly less than budgeted. See the budget to actual comparisons on page 27.

CAPITAL ASSETS

In the current fiscal year, the Authority transferred \$4,610,367 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, City of Houston, Texas (the "zone") 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.

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had total bond debt payable of \$20,295,000. This debt is secured with future tax increment contract revenue. As of June 30, 2011, by agreement with the City of Houston, the Authority will not have notes and bonds outstanding that at any time will exceed \$25 million. The outstanding issues Series 2008 and Series 2009 bonds are not rated.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority'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 Gessner, Suite 1530, Houston, Texas 77024.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2011

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
ASSETS						
Cash	\$ 5,026,638	\$	\$ 2,462,573	\$ 7,489,211	\$	\$ 7,489,211
Investments	1,409,215	1,268,905	636,479	3,314,599		3,314,599
Tax Increment Receivable	5,431,496			5,431,496		5,431,496
Due From Other Funds	983,640	1,665,442		2,649,082	(2,649,082)	
Deferred Charges					614,597	614,597
TOTAL ASSETS	<u>\$ 12,850,989</u>	<u>\$ 2,934,347</u>	<u>\$ 3,099,052</u>	<u>\$ 18,884,388</u>	<u>\$ (2,034,485)</u>	<u>\$ 16,849,903</u>
LIABILITIES						
Accounts Payable	\$ 503,162	\$	\$ 498,815	\$ 1,001,977	\$ -	\$ 1,001,977
Retainage Payable			104,854	104,854		104,854
Accrued Interest Payable					291,935	291,935
Due To Other Funds	1,665,442		983,640	2,649,082	(2,649,082)	
Long-Term Liabilities:						
Due Within One Year					1,125,000	1,125,000
Due After One Year					19,170,000	19,170,000
TOTAL LIABILITIES	<u>\$ 2,168,604</u>	<u>\$ -</u>	<u>\$ 1,587,309</u>	<u>\$ 3,755,913</u>	<u>\$ 17,937,853</u>	<u>\$ 21,693,766</u>
FUND BALANCES						
Restricted	\$	\$ 2,934,347	\$ 1,511,743	\$ 4,446,090	\$ (4,446,090)	
Unassigned	10,682,385			10,682,385	(10,682,385)	
TOTAL FUND BALANCES	<u>\$ 10,682,385</u>	<u>\$ 2,934,347</u>	<u>\$ 1,511,743</u>	<u>\$ 15,128,475</u>	<u>\$ (15,128,475)</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,850,989</u>	<u>\$ 2,934,347</u>	<u>\$ 3,099,052</u>	<u>\$ 18,884,388</u>		
NET ASSETS:						
Restricted - Debt Service					\$ 2,642,412	\$ 2,642,412
Unrestricted					(7,486,275)	(7,486,275)
TOTAL NET ASSETS					<u>\$ (4,843,863)</u>	<u>\$ (4,843,863)</u>

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

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Governmental Funds	\$	15,128,475
--	----	------------

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

Other long-term assets are not available to pay for current expenditures and, therefore, are deferred in the funds.		614,597
---	--	---------

Some liabilities, are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.

Bonds payable		(20,295,000)
Accrued interest on bonds payable		<u>(291,935)</u>

Total Net Assets - Governmental Activities	\$	<u><u>(4,843,863)</u></u>
--	----	---------------------------

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

MEMORIAL CITY REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
REVENUES						
Tax Increment	\$ 5,732,714	\$	\$	\$ 5,732,714	\$	\$ 5,732,714
Interest and Other	18,622	2,854	16,801	38,277		38,277
TOTAL REVENUES	\$ 5,751,336	\$ 2,854	\$ 16,801	\$ 5,770,991	\$	\$ 5,770,991
EXPENDITURES/EXPENSES						
Service Operations:						
Professional Services	\$ 42,482	\$	\$	\$ 42,482		\$ 42,482
Contracted Services	145,279			145,279		145,279
Insurance Cost	1,849			1,849		1,849
Other	44,476		9,125	53,601		53,601
Administration Fees	775,868			775,868		775,868
Capital Improvement, Note 7			4,610,367	4,610,367		4,610,367
Debt service:						
Principal		360,000		360,000	(360,000)	
Interest		857,515		857,515	2,052	859,567
Issuance Cost and Fees		5,500		5,500	44,124	49,624
TOTAL EXPENDITURES/EXPENSES	\$ 1,009,954	\$ 1,223,015	\$ 4,619,492	\$ 6,852,461	\$ (313,824)	\$ 6,538,637
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	\$ 4,741,382	\$ (1,220,161)	\$ (4,602,691)	\$ (1,081,470)	\$ 313,824	\$ (767,646)
OTHER FINANCING SOURCES (USES)						
Transfers In	\$	\$ 1,678,191	\$	\$ 1,678,191	\$ (1,678,191)	\$
Transfers Out	(1,678,191)			(1,678,191)	1,678,191	
TOTAL OTHER FINANCING	\$ (1,678,191)	\$ 1,678,191	\$	\$	\$	\$
SOURCES (USES)	\$ (1,678,191)	\$ 1,678,191	\$	\$	\$	\$
NET CHANGE IN FUND BALANCES	\$ 3,063,191	\$ 458,030	\$ (4,602,691)	\$ (1,081,470)	\$ 1,081,470	
CHANGE IN NET ASSETS					(767,646)	(767,646)
FUND BALANCES/NET ASSETS -						
JULY 1, 2010	7,619,194	2,476,317	6,114,434	16,209,945	(20,286,162)	(4,076,217)
FUND BALANCES/NET ASSETS -						
JUNE 30, 2011	\$ 10,682,385	\$ 2,934,347	\$ 1,511,743	\$ 15,128,475	\$ (19,972,338)	\$ (4,843,863)

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

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances - Governmental Funds	\$ (1,081,470)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report repayment of long-term debt principal as an expenditure. In contrast, the Statement of Net Assets treats such repayments as a reduction in long-term liabilities.	360,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Accrued interest not reflected in Governmental funds	(2,052)
Amortization of bond issuance cost	(44,124)
	(46,176)
Change in Net Assets - Governmental Activities	\$ (767,646)

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

THIS PAGE INTENTIONALLY LEFT BLANK

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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 Net 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 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, debt service fund, and capital projects 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, debt service fund, and capital projects 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.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 three major governmental funds – the General Fund, Debt Service Fund, and Capital Projects Fund. The General Fund is the general operating fund of the Authority and accounts for all resources of the Authority not accounted for in another fund. The principal source of revenue is tax increment collections and expenditures are primarily for operations. The Debt Service Fund is used to account for the payment of interest and principal on the Authority's long-term debt. The Capital Projects Fund is used to account for the proceeds of tax increment debt and the corresponding expenditures primarily consisting of construction projects.

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.

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.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

During the current fiscal year, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Types*, which requires the classification of fund balances in governmental funds using the following hierarchy:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally required. The Authority's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and tax increment receipts in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Authority has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Cash

The Authority's cash consist of amounts in demand deposits.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist of amounts in the Texas Local Government Investment Pool (TexPool) and TexSTAR. TexPool is a local government investment pool created on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity, and yield consistent with the Public Funds Investment Act. TexSTAR offers cities, counties, school districts, and other public entities an investment option that provides security, liquidity, and efficiency for the management of public funds.

Due to and from other funds

Interfund receivable and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are recorded as "due from other funds" and "due to other funds" in the fund financial statements.

Prepaid Items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

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. As of June 30, 2011, the Authority has no capital assets.

Debt Service

Tax increment contract revenue is pledged for debt service on bond obligations.

Bond Issuance Costs

In governmental fund types, bond issuance costs are recognized in the current period and are deferred and amortized in the Government-Wide Statement of Activities.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with the Tri-Party Agreement (See Note 4), the Authority's board members adopted an unappropriated budget for the combined governmental funds of the Authority for the fiscal year ending June 30, 2011. The budget was submitted to the City for approval; however, City Council did not approve the submitted budget. Pursuant to the Tri-Party Agreement, if City Council fails to approve the proposed budget, the Authority continues to operate on the last budget approved by City Council. During the current fiscal year, the Authority operated under the 2010 budget that was approved by City Council.

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 June 30, 2011, none of the Authority's bank balances were exposed to custodial credit risk. The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Assets at June 30, 2011, as listed below:

		Cash
General Fund	\$	5,026,638
Capital Projects Fund		2,462,573
Total Deposits	\$	7,489,211

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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, 5, 6, 8, 9, 10, 12 and 14.

For fiscal year 2011, the Authority invested in the Texas Local Government Investment Pool ("TexPool") and the Texas Short Term Asset Reserve Program ("TexSTAR").

TexPool has been organized in conformity with the Interlocal Cooperation Act and is overseen by the Comptroller of Public Accounts (the "Comptroller"). The Comptroller is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the "Trust Company"), which is authorized to operate TexPool. Pursuant to the TexPool Participation

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. ("Federated"), under an agreement with the Comptroller, acting on behalf of the Trust Company. The Comptroller maintains oversight of the services provided to TexPool by Federated. State Street Bank serves as custodian to TexPool. The primary objectives of TexPool are preservation and safety of principal, liquidity and yield. TexPool will only invest in investments that authorized under both the Public Funds Investment Act and the TexPool Investment Policy.

TexSTAR has been organized in conformity with the Interlocal Cooperation Act and is administered by J.P. Morgan Investment Management, Inc. ("JPMIM") and First Southwest Asset Management, Inc. ("FSAM"). JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting, and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co. The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participant's needs, diversification to avoid unreasonable or avoidable risks, and yield. TexSTAR will only invest in investments that are authorized under both the Public Funds Investment Act and the current TexSTAR Investment Policy.

As of June 30, 2011, 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	\$ 2,045,694	\$ 2,045,694	\$	\$	\$
TexSTAR	1,268,905	\$ 1,268,905			
Total	<u>\$ 3,314,599</u>	<u>\$ 3,314,599</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011, the Authority's investments in both TexPool and TexSTAR were rated 'AAAm' by Standard & Poor's. The 'AAAm' rating indicates an extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. 'AAAm' is the highest principal stability rating assigned by Standard & Poor's. The weighted average maturities for TexPool and TexSTAR are 45 and 47 days, respectively.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority considers the investments in TexPool and TexSTAR to have maturities 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.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

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.

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 Finance Department 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

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4. TRI-PARTY AGREEMENT (Continued)

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.

The Tri-Party Agreement allows the City to recover the costs of municipal services pursuant to the Agreement among the City, the Authority, and the TIRZ. During the current fiscal year, the authority paid \$490,000 pursuant to this Agreement.

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 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.

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 \$5,732,714 were collected by the trustee from the City of Houston of which \$285,868 was withheld to cover administrative costs. These amounts were transferred to the Authority subsequent to year end.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. TRANSFER TO THE CITY OF HOUSTON

During the current fiscal year, the Authority recorded capital improvements in the amount of \$4,610,367 for assets transferred to the City. This transfer is related to capital improvements made by the Authority to City 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, 2011. See page 30 for information on current year capital improvement expenditures.

NOTE 8. ADMINISTRATIVE SERVICES AGREEMENT - HARRIS COUNTY MUNICIPAL MANAGEMENT DISTRICT NO. 1

On January 3, 2005, and as amended on October 7, 2008, 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 \$130,892 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 9. LONG-TERM DEBT

On April 30, 2009, the Authority issued \$11,000,000 of Tax Increment Contract Revenue Bonds, Series 2009. The bond interest rate is a variable rate, currently at 3.6206%. The bonds were issued in order to acquire and/or construct major capital projects. Future tax increment contract revenue will secure this debt obligation. Provisions of the bonds issuance include a trust agreement with Wells Fargo, N.A. the paying agent, which requires the Authority to deposit a reserve of \$1,000,000 into a 2009 Bonds Debt Service Reserve Fund, which shall be held in trust by the Trustee and held solely for the benefit of the Owners of the Series 2009 Bonds. Fifty percent of the Reserve Requirement, \$500,000, was funded from the proceeds of the Series 2009 Bonds and the remaining fifty percent of the Reserve requirement, was funded by the Authority on June 28, 2010.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9. LONG-TERM DEBT (Continued)

During the year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Balance July 1, 2010	Additions	(Reductions)	Balance June 30, 2011	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
Tax Increment Contract Bonds	\$ 20,655,000	\$	\$ (360,000)	\$ 20,295,000	\$ 1,125,000
Deferred amount for issuance discount	658,721		(44,124)	614,597	
Bonds payable, end of year	<u>\$ 21,313,721</u>	<u>\$</u>	<u>\$ (404,124)</u>	<u>\$ 20,909,597</u>	<u>\$ 1,125,000</u>

The terms of the current debt obligations are as follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Governmental Activities:				
Tax Increment Contract Bonds				
Tax Increment Contract Bonds, Series 2008	\$ 10,000,000	9/1/27	4.45%	\$ 9,295,000
Tax Increment Contract Bonds, Series 2009	11,000,000	9/1/24	Variable, Currently 3.6206%	<u>11,000,000</u>
Total General Obligation Bonds				<u>\$ 20,295,000</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9. LONG-TERM DEBT (Continued)

The annual requirements to amortize governmental activity tax increment contract revenue bonds at June 30, 2011 are as follows:

Tax Increment Contract Revenue Bonds			
Governmental Activities			
Fiscal Year	Principal	Interest	Total
2012	\$ 1,125,000	\$ 789,974	\$ 1,914,974
2013	1,140,000	745,798	1,885,798
2014	1,160,000	700,843	1,860,843
2015	1,180,000	654,999	1,834,999
2016	1,200,000	608,265	1,808,265
2017	1,220,000	560,639	1,780,639
2018	1,240,000	512,124	1,752,124
2019	1,260,000	462,721	1,722,721
2020	1,285,000	412,314	1,697,314
2021	1,360,000	359,891	1,719,891
2022	1,385,000	305,450	1,690,450
2023	1,460,000	248,991	1,708,991
2024	1,485,000	190,514	1,675,514
2025	1,615,000	129,004	1,744,004
2026	695,000	81,546	776,546
2027	725,000	49,951	774,951
2028	760,000	16,910	776,910
	\$ 20,295,000	\$ 6,829,934	\$ 27,124,934

See pages 33 and 34 for debt service schedules on each bond series outstanding as of June 30, 2011.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10. INTERFUND TRANSACTIONS

At year end, interfund receivables and payables were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	\$ 983,640	Capital Projects Disbursements paid by the General Fund
Debt Service Fund	General Fund	1,665,442	Debt Service tax increment revenue owed by General Fund
		<u>\$ 2,649,082</u>	

For the fiscal year ended June 30, 2011. Operating transfers are summarized as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	<u>\$ 1,678,191</u>	Tax increment revenue for debt service

NOTE 11. CONSTRUCTION COMMITMENTS

The Authority commitments related to construction projects at June 30, 2011 are as follows:

<u>Project</u>	<u>Total Commitment</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
Kimberly near Beltway 8 Drainage Improvements	\$ 3,077,690	\$ 2,097,086	\$ 980,604
Total	<u>\$ 3,077,690</u>	<u>\$ 2,097,086</u>	<u>\$ 980,604</u>

NOTE 12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority participates along with 2,696 other entities in the Texas Municipal League's Intergovernmental Risk Pool. The Pool purchases commercial insurance at group rates for participants in the Pool. The Authority has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

MEMORIAL CITY REDEVELOPMENT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2011

MEMORIAL CITY REDEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
– BUDGET AND ACTUAL – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Tax Increment	\$ 6,247,764	\$ 5,732,714	\$ (515,050)
Interest and Other	64,813	38,277	(26,536)
TOTAL REVENUES	\$ 6,312,577	\$ 5,770,991	\$ (541,586)
EXPENDITURES/EXPENSES			
Maintenance and Operations	\$ 330,574	\$ 243,211	\$ 87,363
Capital Outlay	7,319,873	4,610,367	2,709,506
Municipal Services	350,000	490,000	(140,000)
Administration Fees	312,388	285,868	26,520
Debt Service:			
Principal	345,000	360,000	(15,000)
Interest	585,213	857,515	(272,302)
Other Debt Items	520,000	5,500	514,500
TOTAL EXPENDITURES	\$ 9,763,048	\$ 6,852,461	\$ 2,910,587
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (3,450,471)	\$ (1,081,470)	\$ (2,369,001)
OTHER FINANCING SOURCES (USES)			
Proceeds from Bond Issuance	\$ 14,000,000	\$	\$ (14,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 14,000,000	\$	\$ (14,000,000)
NET CHANGE IN FUND BALANCE	\$ 10,549,529	\$ (1,081,470)	\$ (11,630,999)
FUND BALANCE - JULY 1, 2010	16,209,945	16,209,945	
FUND BALANCE - JUNE 30, 2011	\$ 26,759,474	\$ 15,128,475	\$ (11,630,999)

Note: The budget presented is the 2010 fiscal year end budget in accordance with the terms of the Tri-Party Agreement. The Authority's 2011 fiscal year end budget was not approved by City Council.

THIS PAGE INTENTIONALLY LEFT BLANK

MEMORIAL CITY REDEVELOPMENT AUTHORITY

SUPPLEMENTARY INFORMATION

REQUIRED BY CITY OF HOUSTON

JUNE 30, 2011

MEMORIAL CITY REDEVELOPMENT AUTHORITY
OPERATING EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011

<i>Category</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditures</i>	<i>Variance Positive (Negative)</i>
ADMINISTRATION AND OVERHEAD				
	Harris County Municipal Management			
Administration Salaries and Benefits	District No. 1	\$ 240,000	\$ 130,892	\$ 109,108
Administrative Operating				
Office Expenses	Various	15,000	53,600	(38,600)
Property Account Counsultant	Equi-tax, Inc.	5,200	4,800	400
Accounting/Audit				
Accounting	ETI Accounting Services	10,503	9,588	915
	McGrath & Co. PLLC &			
Auditor	McCall Gibson Swedlund Barfoot PLLC	16,500	23,250	(6,750)
Insurance	Texas Municipal League	3,000	1,849	1,151
Other		500		500
Subtotal		\$ 290,703	\$ 223,979	\$ 66,724
PROGRAM AND PROJECT CONSULTANTS				
Construction Audit		\$ 7,000	\$	\$ 7,000
Legal-General Counsel	Allen Boone Humphries Robinson, LLP	17,213	19,232	(2,019)
Engineering Consultants	Lockwood Andrews & Newman, Inc.	15,658		15,658
Subtotal		\$ 39,871	\$ 19,232	\$ 20,639
TOTAL MANAGEMENT CONSULTING SERVICES		\$ 330,574	\$ 243,211	\$ 87,363
City Administration Fees	City of Houston	\$ 312,388	\$ 285,868	\$ 26,520
Municipal Services Fess	City of Houston	\$ 350,000	\$ 490,000	\$ (140,000)
DEBT SERVICE				
Principal		\$ 345,000	\$ 360,000	\$ (15,000)
Interest		585,213	857,515	(272,302)
Other Debt Service		520,000	5,500	514,500
Subtotal		\$ 1,450,213	\$ 1,223,015	\$ 227,198
Total Operating Expenditures		\$ 2,443,175	\$ 2,242,094	\$ 201,081

MEMORIAL CITY REDEVELOPMENT AUTHORITY
CAPITAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011

<i>Project</i>	<i>Vendor</i>	<i>Budget</i>	<i>Actual Expenditures</i>	<i>Variance Positive (Negative)</i>
T-1701: Gessner Widening				
Engineering/Design Services	Lockwood, Andrews & Newman	\$	\$ 2,454	\$ (2,454)
Project T-1702: Bunker Hill				
Engineering Services and Construction	Lockwood, Andrews & Newman, TCB, Inc, and Conrad Construction Company, LTD.	654,099	182,553	471,546
Project T-1709: Improvement to Lumpkin from I-10 to Westview				
Engineering/Design Services	Lockwood, Andrews & Newman	322,750	233,914	88,836
Projects T-1712 and T-1713: Bunker Hill S. Drainage and Mobility Improvements				
Engineering/Design Services	Lockwood, Andrews & Newman	179,000		179,000
Project T-1713: Memorial near Beltway 8 Drainage Improvement				
Engineering/Design Services	Lockwood, Andrews & Newman	1,923,200	23,497	1,899,703
Projects T-1715: Barryknoll East Drainage Improvements				
Engineering/Design Services	Lockwood, Andrews & Newman	30,000	180,936	(150,936)
Projects T-1717 and T-1721: Town and Country West Drainage and Mobility Improvements				
Engineering/Design Services	Lockwood, Andrews & Newman	778,000	315,941	462,059
Project T-1718: Kimberly near Beltway 8 Drainage Improvements				
Engineering Services and Construction	Lockwood, Andrews & Newman and Triple B Services	1,646,824	2,969,819	(1,322,995)
Project T-1722: Town and Country Blvd at Queensbury Signalization				
Construction Services	CenterPoint Energy and Embark Tree and Landscape Service	215,000		215,000
Project T-1724: Gessner at Barryknoll Intersection Improvements				
Engineering/Design Services	Lockwood, Andrews & Newman	255,000		255,000
Project T-1725: Park and Green Space Improvements				
Engineering/Design Services	Lockwood, Andrews & Newman; Kudela and Weinheimer and Boyer Inc.	503,000	41,780	461,220
Project T-1727: N.Gessner Area Thoroughfare Improvement Project				
Engineering/Design Services	Lockwood, Andrews & Newman and Klotz Associates	608,000	6,744	601,256
Project T-1728: Westview and Lumpkin enhanced sidewalk/bus stop/park				
Engineering/Design Services	Lockwood, Andrews & Newman	205,000	485	204,515
Project T-1726: West Bough Roadway Improvements				
Engineering/Design Services	Lockwood, Andrews & Newman		20,858	(20,858)
Project T-1731A: Drainage Remediation Project				
Engineering/Design Services	Lockwood, Andrews & Newman		28,807	(28,807)
Project: Regional Drainage	- 30 -		602,579	(602,579)
Total Capital Expenditures		<u>\$ 7,319,873</u>	<u>\$ 4,610,367</u>	<u>\$ 2,709,506</u>

MEMORIAL CITY REDEVELOPMENT AUTHORITY
PROJECT PLAN RECONCILIATION
AS OF THE YEAR ENDED JUNE 30, 2011

	<i>Project Plan Estimated Amount*</i>	<i>Cumulative Expenditures as of the Fiscal Year Ended 2011</i>	<i>Variance Positive (Negative)</i>
	<u> </u>	<u> </u>	<u> </u>
Capital Projects:			
Utility System Improvements	\$ 32,125,200	\$ 6,471,969	\$ 25,653,231
Roadway Improvements	45,829,681	17,834,401	27,995,280
Traffic Signal Improvements	2,100,000	1,549	2,098,451
NTP, Noise, Safety Walls, Engineering Study	5,500,000	253,334	5,246,666
Park Improvements and Landscaping	<u>11,889,119</u>	<u>235,508</u>	<u>11,653,611</u>
Total Capital Projects Costs	\$ 97,444,000	\$ 24,796,761	\$ 72,647,239
Educational Facilities	99,819,796		99,819,796
Financing Costs	100,000,000		100,000,000
Creation and Administration Costs	<u>556,000</u>	<u>4,522,162</u>	<u>(3,966,162)</u>
Total Project Plan	<u>\$ 297,819,796</u>	<u>\$ 29,318,923</u>	<u>\$ 268,500,873</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.

THIS PAGE INTENTIONALLY LEFT BLANK

MEMORIAL CITY REDEVELOPMENT AUTHORITY

OTHER SUPPLEMENTARY INFORMATION

JUNE 30, 2011

MEMORIAL CITY REDEVELOPMENT AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
AS OF THE YEAR ENDED JUNE 30, 2011

TAX INCREMENT CONTRACT
REVENUE BONDS
SERIES - 2008

Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1/ March 1	Total
2012	\$ 375,000	\$ 405,284	\$ 780,284
2013	390,000	388,263	778,263
2014	410,000	370,462	780,462
2015	430,000	351,773	781,773
2016	450,000	332,193	782,193
2017	470,000	311,722	781,722
2018	490,000	290,362	780,362
2019	510,000	268,113	778,113
2020	535,000	244,861	779,861
2021	560,000	220,498	780,498
2022	585,000	195,021	780,021
2023	610,000	168,432	778,432
2024	635,000	140,731	775,731
2025	665,000	111,806	776,806
2026	695,000	81,546	776,546
2027	725,000	49,951	774,951
2028	760,000	16,910	776,910
TOTAL	\$ 9,295,000	\$ 3,947,928	\$ 13,242,928

MEMORIAL CITY REDEVELOPMENT AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
AS OF THE YEAR ENDED JUNE 30, 2011

TAX INCREMENT CONTRACT
REVENUE BONDS
SERIES - 2009

Due During Fiscal Years Ending June 30	Principal Due September 1	Interest Due September 1/ March 1*	Total
2012	\$ 750,000	\$ 384,690	\$ 1,134,690
2013	750,000	357,535	1,107,535
2014	750,000	330,381	1,080,381
2015	750,000	303,226	1,053,226
2016	750,000	276,072	1,026,072
2017	750,000	248,917	998,917
2018	750,000	221,762	971,762
2019	750,000	194,608	944,608
2020	750,000	167,453	917,453
2021	800,000	139,393	939,393
2022	800,000	110,429	910,429
2023	850,000	80,559	930,559
2024	850,000	49,783	899,783
2025	950,000	17,198	967,198
2026			
2027			
2028			
TOTAL	\$ 11,000,000	\$ 2,882,006	\$ 13,882,006

*Bonds are variable interest rate bonds. Interest payments are based on variable interest rate of 3.6206% as of June 30, 2011.

MEMORIAL CITY REDEVELOPMENT AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
AS OF THE YEAR ENDED JUNE 30, 2011

ANNUAL REQUIRMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2012	\$ 1,125,000	\$ 789,974	\$ 1,914,974
2013	1,140,000	745,798	1,885,798
2014	1,160,000	700,843	1,860,843
2015	1,180,000	654,999	1,834,999
2016	1,200,000	608,265	1,808,265
2017	1,220,000	560,639	1,780,639
2018	1,240,000	512,124	1,752,124
2019	1,260,000	462,721	1,722,721
2020	1,285,000	412,314	1,697,314
2021	1,360,000	359,891	1,719,891
2022	1,385,000	305,450	1,690,450
2023	1,460,000	248,991	1,708,991
2024	1,485,000	190,514	1,675,514
2025	1,615,000	129,004	1,744,004
2026	695,000	81,546	776,546
2027	725,000	49,951	774,951
2028	760,000	16,910	776,910
TOTAL	\$ 20,295,000	\$ 6,829,934	\$ 27,124,934

THIS PAGE INTENTIONALLY LEFT BLANK

**MEMORIAL CITY REDEVELOPMENT AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2011**

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

Authority Telephone Number - 713-984-8737

Board Members	Position
Charles S. Turet – Chairperson	1
Ken Arnold, P.E. – Vice Chairperson	2
Dan Moody III - Assistant Secretary	3
Ann Givens – Secretary	4
Dr. Zachary R. Hodges – Assistant Vice Chairperson	5
Brad Freels – Assistant Vice Chairperson	6
Glenn E. Airola – Assistant Vice Chairperson	7

Executive Director

Memorial City Redevelopment Authority
c/o Pat Walters, Executive Director
820 Gessner, Suite 1530
Houston, TX 77024