



TOWN CENTER IMPROVEMENT DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
December 31, 2006



*A Special Purpose District
Located in The Woodlands, Montgomery County, Texas*

**Prepared by:
Finance & Administration Department**

Electronic version available at www.town-center.com

**Town Center Improvement District
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2006**

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INTRODUCTORY SECTION



May 30, 2007

To the Chairman, Members of the Board, Residents and the Taxpayers of Town Center Improvement District:

The Finance Department is pleased to submit the Comprehensive Annual Financial Report for the Town Center Improvement District ("District"), The Woodlands, Texas, for the fiscal year ended December 31, 2006. This report is published to provide the Board of Directors, District staff, our taxpayers, our residents, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the District government.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements.

Null-Lairson, P.C., an independent audit firm, has issued an unqualified ("clean") opinion on Town Center Improvement District's financial statements for the year ended December 31, 2006. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. This discussion and analysis is intended to serve as an introduction to the Town Center Improvement District's basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

2006 At-A-Glance

From governance issues and major urban construction projects to the creation of The Woodlands Convention and Visitors Bureau and the continued endeavor of making Town Center and The Woodlands a destination for business and leisure, 2006 proved to be a historic year for the District. The District received numerous accolades and faced many new challenges.

The following is a year-end glimpse of the regional initiatives, financial highlights, and accomplishments from the past year:

- The Board received the historic announcement of the proposed regional partnership to address future governance between the City of Houston and The Woodlands;
- The Board approved negotiations of the maintenance, use, and operation of The Woodlands Waterway™ to include conditions for future conveyance of the asset;
- With continued residential development and a growing residential population, the District had a record voter turnout for its election of public officials;
- Created the Cultural Arts Task Force to identify cultural facility needs in Town Center;
- Celebrated the grand opening of Town Green Park, the first park in the District and the 100th park in The Woodlands;



- Unveiled development plans and held the groundbreaking for Waterway Square, a one acre public plaza along The Woodlands Waterway™;
- Created Economic Development Zone No. 4 in cooperation with The Woodlands Fire Department to help fund the construction of a new fire station and state-of-the-art training center in the College Park service area of the District;
- Created The Woodlands Convention and Visitors Bureau to establish a sense of destination and provide cooperative opportunities for advertising and marketing programs for the region;
- The Texas State Senate recognized and honored retiring Board members, Bruce Withers and Roger Galatas, by official proclamation for their meritorious service as founding members and dedication to their role in the creation of the District;
- Board of Directors visited Savannah, Georgia in an effort to educate, familiarize, and research successful urban developments across the region to enhance their capacities as decision makers and urban planners;
- Kicked off a regional public relations and advertising campaign and began international marketing research on the Latin American markets;
- Board of Directors adopted the 2020 Visioning plan to identify strategies and public policies to help facilitate long-term growth and success;
- Board of Directors continued discussion for equitable funding of public safety services using "Unit Cost Model Analysis" developed by District staff;
- Standard & Poor's upgraded the District's underlying 2001 Bond Issue rating to A-;
- The District applied for and was awarded a federal transportation grant for trolley services by the Houston-Galveston Area Council amounting to \$583,200 in matching funds over a three-year period;
- Awarded the Certificate of Achievement for Excellence in Financial Reporting from the GFOA for the District's first-ever CAFR presentation, and;
- Committed \$100,000 payable over the next five years to the Greater Houston Partnership's Opportunity Houston program for efforts to attract businesses to the Houston region on a global scale.

Profile of the District

Town Center Improvement District (the "District") of Montgomery County, Texas, a special district and political subdivision of the State of Texas, was created and established by Senate Bill No. 1373 passed by the 73rd Texas Legislature, Regular Session, 1993 (the "District Act"). The District was created to promote, develop, encourage and maintain employment, commerce, economic development and the public welfare in the Town Center area of The Woodlands in Montgomery County, Texas. Its primary activities include economic development, promotion of the local business community, public safety, and the creation of jobs within the District and surrounding areas.



The District is located in the southeastern part of Texas, 27 miles north of downtown Houston and serves as the town center for The Woodlands area, which is considered to be one of the best selling communities in the state based on new home sales. The District currently occupies approximately 1,000 acres and serves a population of



approximately 85,000. The Town Center Improvement District is primarily funded by a one cent sales and use tax approved by voters on November 2, 1993. Furthermore, an additional sales and use tax may be levied in parts of the District including within designated economic development zones in increments of not less than one-eighth of one percent as established under Section 11c of the District Act amended by Senate Bill 1807. On September 1, 1997, the District began the assessment of a hotel occupancy tax of seven percent of the price paid for a hotel room, in accordance with the District Act as amended by Senate Bill 26.

Town Center Improvement District operates under the governance of a board of directors (Board) form of government, which officially organized on August 18, 1993. Policy-making and legislative authority are vested in a governing Board consisting of the Chairman and ten other directors, all elected or appointed on a non-partisan basis.

Currently, five of the District's Board members are elected by the community and six are filled through appointments. Each of the following entities appoints one Board member: the City of Oak Ridge North, the City of Shenandoah, Montgomery County Precinct 3, The Woodlands Association, Inc., The Woodlands Commercial Owners Association, Inc., and The Woodlands Community Association, Inc. All eleven Board members serve staggered terms of four years, with the elections for the five positions being held in May of even numbered years. Officers of the Board are nominated by the Committee on Governance & Nominations and then elected by the Board for one year terms.

As provided in our legislation, the District provides a full range of services, including:

- contracting public safety, police, fire, private security, and courtesy patrol protection within District boundaries;
- economic development within the community by playing a pivotal role in business relocation, business retention, new industry, and job creation;
- business promotion which entails the promotion of area retailers and hotels, destination marketing efforts throughout the region and internationally, visitor guide publications, web site development/maintenance, annual reports, newsletters, and advertising;
- community events and festivals, such as art festivals, Fourth of July firework displays, a seasonal ice rink, Taste of the Town, and other holiday events;
- capital improvements for the community which include parking garages, signage programs, wayfinding sign systems, highway beautification, public art and sculptures, fountains, parks, and plazas; and finally,
- transportation, including shuttle services.

Additionally, four economic development zones have been created within the boundaries of the District. The Zones collect the maximum allowable one percent sales tax each, which funds specific improvements and capital projects as defined in the project plan when each Zone was created. The Board of each Zone is appointed by the Board of Town Center Improvement District and is composed of the same members as the Board of Town Center Improvement District. All of the services funded by the Town Center Improvement District and three of the economic development zones are included in the District's financial statements for the year ended December 31, 2006. Economic Development Zone No. 4 was created in December 2006 and was in the



organizational stages of development at the close of the fiscal year. Additional information on each of the separate economic development zones, which are reported as component units can be found in the notes to the financial statements.

Developments on Governance

In December 2006, the City of Houston and The Woodlands made a historic announcement of a proposed regional participation agreement (RPA). The two parties will jointly seek enabling legislation in the upcoming regular session of the Texas Legislature whereby The Woodlands would be released from Houston's extra-territorial jurisdiction (ETJ) in return for a \$45 million financial commitment over a thirty year period for City sponsored public works projects and programs in the region. Under the proposed legislation the District's boundaries will be expanded to include all the unincorporated areas of The Woodlands that fall within the ETJ of Houston. Furthermore, the District's Board of Directors will be reorganized to a seven-member fully elected, governing body. The execution of the RPA is contingent on the passage of the District's enabling legislation amendments by the Texas Legislature and a community-based confirmation election on the proposal which would be held in November 2007. Only after the two foregoing conditions are met will the agreement and any changes in local governance be pursued; should legislation not pass or the confirmation election fail, the District will return to the current status quo and continue to provide the services currently under its legislative scope. On February 28, 2007, the District's Board of Directors formally adopted Resolution 002-07 endorsing and supporting legislation to authorize a regional participation agreement with the City of Houston and to enable Town Center Improvement District of Montgomery County, Texas to enter into and perform such an agreement.

Local economy

Major businesses located within the District's boundaries or in close proximity include hospitals, hotels, resorts and conference centers, corporate headquarters, as well as shopping, entertainment, and other business centers. These businesses have a significant economic presence in the area by providing employment to approximately 40,000 people.

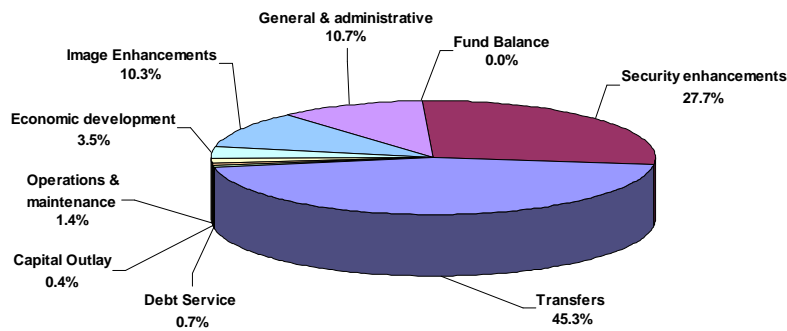
Because of its location in a region with a varied economic base, unemployment is relatively stable. During the past thirteen years, the County's unemployment rate has decreased from 5.2% in 1993 to a relatively low rate of 3.3% as of December 2006. Unemployment is expected to remain stable or possibly decrease further in the near term as projections estimate 15,000 new employment opportunities over the next several years.

As a result of the development and construction projects undertaken over the past decade, the occupancy rate for this central business district has increased from relatively none (1993) to its current level of approximately 900 businesses, with no significant decline anticipated in the foreseeable future. Major factors driving the local economy include nearly three million square feet of retail space, eight full service hotels offering more than 1,400 rooms for guests, and 195,000 square feet of convention and exhibit hall space in the District built Convention Center. Additional projects under construction will certainly boost the number of residential, business, and retail centers in the near future.



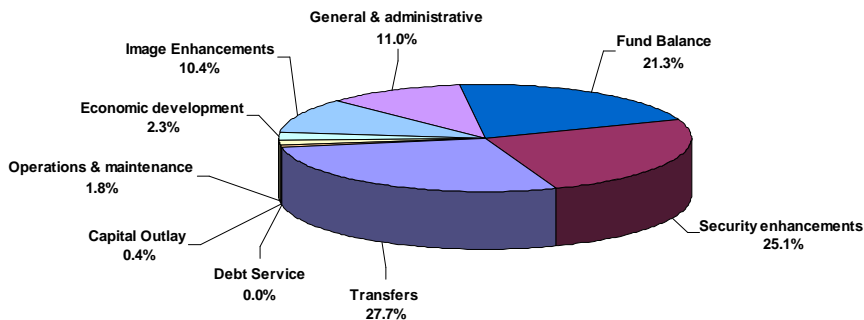
The initial focus of the District was on public safety and therefore as a result, expenses in the General Fund for public safety services as a percentage of revenue have remained relatively consistent, at 28% for fiscal year 2000 and 25% for fiscal year 2006. Funding these public safety efforts to help increase public safety visibility as well as response times, have been pivotal to the crime rate in the District being almost half of the national average. The District's CAP Index rating of 55 indicates the risk of crime in the District compared to the benchmark average score of 100. A score of 400 means the risk is four times the average and a score of 50 means the risk is half the average. A history of the District's crime rate index is provided in the statistical section of this report.

2005 GENERAL FUND
expenses as a percentage of revenues



As revenues continue to grow, general and administrative expenses as a percentage of revenue for the General Fund have also been controlled at 14% for fiscal year 2001 and 11% for fiscal year 2006, allowing the District to increase its financial contributions to other programs areas including marketing and image enhancements, operations and transportation, and economic development. As a result, the Town Center Improvement District continues to evolve into a popular regional destination for group business, as well as an overnight destination for leisure travel.

2006 GENERAL FUND
expenses as a percentage of revenues





Long-term financial planning & Initiatives

The Visioning 2020 plan adopted by the Board has come to life with several capital projects being approved and scheduled for construction or currently under construction. In making 2006 a historic year for the District, the Board of Directors also authorized the future execution of a maintenance, use, and operations agreement between the District and The Woodlands Development Company, L.P. which will grant the District an easement to exercise powers and authority within the area of The Woodlands Waterway™ as necessary to perform its tasks under the management agreement. The agreement will provide for conditions related to the future conveyance of the property and eventual transfer of ownership to the District. This agreement was neither executed nor effective as of this report date. Also during the year, the Cultural Arts Task Force completed preliminary research and a needs assessment study for possible cultural arts venues suitable for the area. The committee proposed a possible venue for a satellite location of the Houston Museum of Natural Science. Cost analysis and feasibility studies on the proposed project are underway. In addition, the District continues to research external revenue streams by means of transportation grants and community partnerships in order to supplement current tax-based revenue sources and program revenues currently available to the District.

Relevant financial policies

The District does not adopt annual appropriated budgets for its funds. The Board of Directors, however, does adopt annual financial plans for the General Fund. The plans are reviewed by management and the Board throughout the year in controlling and enhancing the District's operational results. The Board generally considers the District's final annual actual operating results for all funds representative of the District's annual financial plans for that year. The annual budget serves as the foundation for Town Center Improvement District's financial planning and control of operating funds as set forth in the District's 2020 Visioning document.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Town Center Improvement District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2005. This was the first year that the District's accounting staff prepared and submitted a CAFR for this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We wish to express our utmost appreciation to all District employees throughout the organization, especially those who were instrumental in the timely and successful completion of this report. We



would also like to acknowledge members of the Board for their dedicated service, support, and the many long hours spent representing the District.

Respectfully submitted,

A handwritten signature in black ink, appearing to be "BAP", written over a horizontal line.

Brian A. Pate, CPA
Vice President of Finance and Administration

A handwritten signature in black ink, appearing to be "Frank W. Robinson", written over a horizontal line.

Frank W. Robinson
President

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town Center Improvement District, Texas

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

December 31, 2005

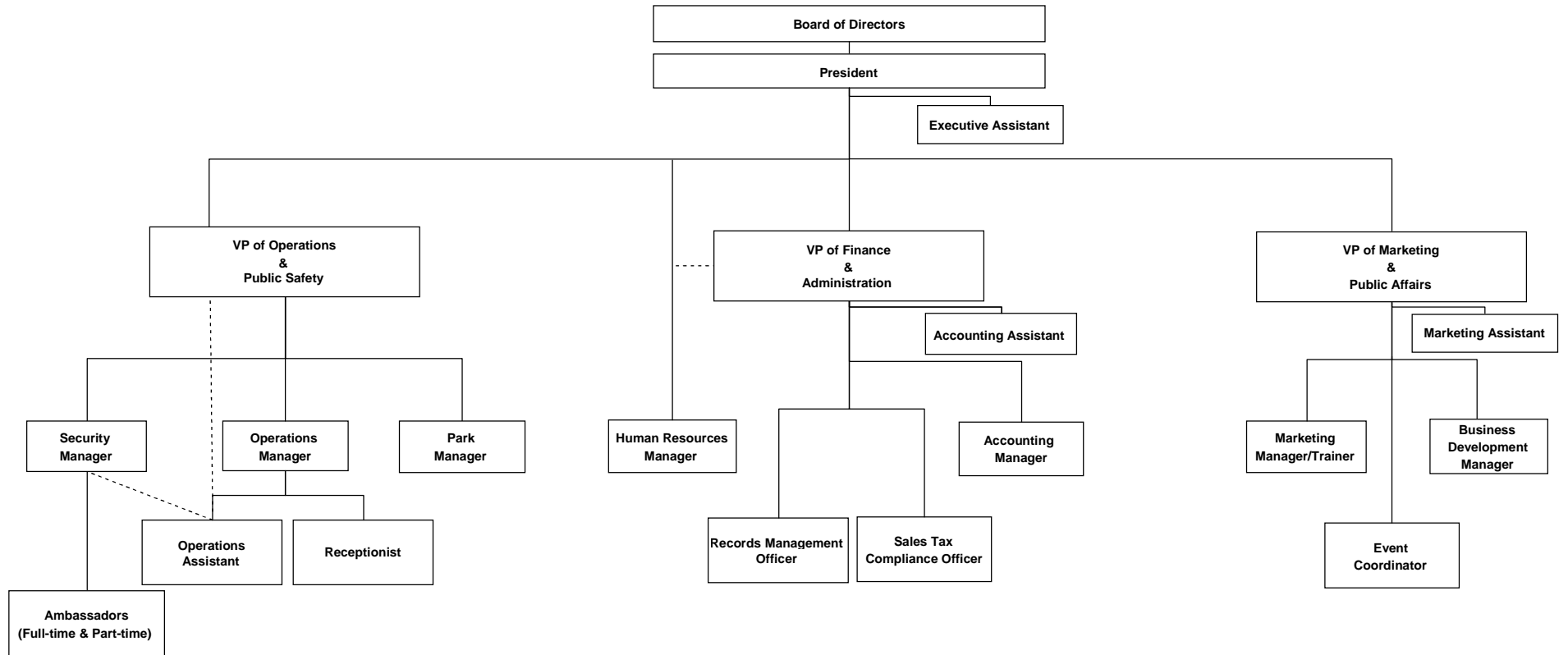
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

TOWN CENTER IMPROVEMENT DISTRICT ORGANIZATIONAL CHART



**TOWN CENTER IMPROVEMENT DISTRICT
APPOINTED AND ELECTED OFFICIALS
For the Year Ended December 31, 2006**

APPOINTED
Chairman (Appointed by the WCOA) Dr. Edmund W. Robb III (first elected by the Board as Chairman, May 18, 2005) <i>Term expires: 1st Sat. May 2010</i>
Treasurer/Assistant Secretary (Appointed by City of Oak Ridge North) Mr. Fred R. O'Connor, Mayor of Oak Ridge North (first elected by the Board as Treasurer/Asst Secretary, May 18, 2005) <i>Term expires: 1st Sat. May 2008</i>
Secretary (Appointed by the TWA) Mr. Lloyd W. Matthews (first elected by the Board as Secretary, July 28, 2004) <i>Term expires: 1st Sat. May 2010</i>
Director (Appointed by Montgomery County Precinct 3) Ms. Nelda Luce Blair <i>Term expires: 1st Sat. May 2008</i>
Director (Appointed by the WCA) Ms. Peggy S. Hausman <i>Term expires: 1st Sat. May 2008</i>
Director (Appointed by City of Shenandoah) Mr. Ken Smith <i>Term expires: 1st Sat. May 2008</i>
ELECTED
Vice-Chairman (Elected) Ms. Vicki D. Richmond (first elected by the Board as Vice-Chairman, May 18, 2005) <i>Term expires: 1st Sat. May 2010</i>
Director (Elected) Mr. Robert C. Kinnear <i>Term expires: 1st Sat. May 2008</i>
Director (Elected) Ms. Kemba D. DeGroot <i>Term expires: 1st Sat. May 2010</i>
Director (Elected) Mr. Alex Sutton III <i>Term expires: 1st Sat. May 2010</i>
Director (Elected) Mr. Les R. Tarrance, Sr. <i>Term expires: 1st Sat. May 2010</i>



FINANCIAL SECTION

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Independent Auditors' Report

Board of Directors
Town Center Improvement District
The Woodlands, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Town Center Improvement District, ("District") as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Town Center Improvement District as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Null-Lairson, P.C.

Houston, Texas
May 16, 2007

Management's Discussion and Analysis

As management of the Town Center Improvement District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The District has only governmental activities in these statements.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors that are not included in the financial statements, such as an increase in our retail tax base or an expansion of the District's boundaries, should be considered in evaluating the condition of the District's overall financial position.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected sales tax).

The government-wide financial statements can be found on pages 27-28 of this report.

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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. As of December 31, 2006, all funds of the District were considered governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Projects Fund, the Debt Service Fund, and the Special Revenue Fund, all of which are considered to be major funds. The Special Revenue Fund is comprised of three individual funds for which separate data is provided in the form of project statements following the statistical section of this report.

The District adopts an annual financial plan for the General Fund. The financial plan is reviewed by management and the District's Executive Committee monthly and used in monitoring District operations throughout the year. Final actual operating results for the year for all funds are considered by the Board as the annual financial plan.

The basic governmental fund financial statements can be found on pages 29-32 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-54 of this report.

Other Information

The project statements referred to earlier in connection with the Special Revenue Fund are presented immediately following the statistical section and can be found on pages 77-78 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, net assets were a negative \$15.3 million as of December 31, 2006. The principal reason for the deficit is that the District has retained all debt associated with building the leased Convention Center and did not record the historical cost associated with the leased Convention Center in accordance with capital lease accounting requirements of generally accepted accounting principles. The District incurred this long-term debt in 2001 when the bonds were issued.

At year end, the District had total assets of approximately \$33.8 million. Of this amount, approximately \$18.4 million consisted of cash and temporary investments, approximately \$5.1 million represented receivables, and \$10.3 million represented capital assets net of \$759,168 in accumulated depreciation. The remaining balance of the assets consists of various prepaid expenses. Total liabilities were approximately \$49.2 million as of year end. Of this amount, approximately \$47.7 million consisted of debt and accrued interest associated with our outstanding bonds, of which \$1.3 million is payable within the next year. The remaining balance of the liabilities consists of accounts payable and accrued expenses. A schedule of net assets, at December 31, 2006, follows:

**TOWN CENTER IMPROVEMENT DISTRICT
SCHEDULE OF NET ASSETS
DECEMBER 31, 2006**

		Governmental Activities	
		2006	2005
Current and other assets		\$ 23,489,162	\$ 21,437,262
Capital assets		10,346,178	5,843,824
	Total Assets	33,835,340	27,281,086
Other liabilities		2,807,640	1,484,189
Long-term liabilities outstanding		46,360,000	48,925,000
	Total Liabilities	49,167,640	50,409,189
Net Assets			
Invested in capital assets, net of related debt		6,675,173	2,154,135
Restricted		4,437,813	1,163,663
Unrestricted		(26,445,286)	(26,445,901)
	Total Net Assets	\$ (15,332,300)	\$ (23,128,103)

The \$7.8 million change in total net assets, from \$(23.1) million in 2005 to \$(15.3) million in 2006 relates to a \$4.5 million increase in capital assets for Town Green Park, a \$2.1 million increase in cash and temporary investment balances retained as current year revenues exceeded expenses that remained relatively flat year over year from \$11.41 in 2005 to \$11.36 in 2006, and a reduction in long-term liabilities of \$1.2 million related to the principal payment on our outstanding debt. As a result, for the fiscal year ended December 31, 2006 the District's overall financial position has improved as the deficit in total net assets has decreased. A schedule of the changes in net assets, at December 31, 2006, is presented on the following page.

**TOWN CENTER IMPROVEMENT DISTRICT
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Activities	
	2006	2005
Revenues		
General Revenues		
Sales taxes	\$ 12,002,873	\$ 10,336,875
Hotel occupancy taxes	3,273,005	2,568,060
Unrestricted investment earnings	973,171	661,421
Miscellaneous income	10,935	60,137
Program Revenues		
Image enhancements	388,894	378,143
Capital Contributions	2,505,000	-
Total Revenues	19,153,878	14,004,636
Expenses		
General Expenses		
General and administrative	2,860,142	2,693,038
Interest on long-term debt	2,480,262	2,544,774
Program Expenses		
Security enhancements	3,816,320	3,982,691
Image enhancements	1,584,088	1,484,622
Economic development	350,586	506,998
Operations & maintenance	266,677	197,178
Total Expenses	11,358,075	11,409,300
Excess/(Deficiency)	7,795,803	2,595,336
Gain on land sale	-	300,000
Increase in Net Assets	7,795,803	2,895,336
Net Assets - Beginning	(23,128,103)	(26,023,440)
Net Assets - Ending	\$ (15,332,300)	\$ (23,128,103)

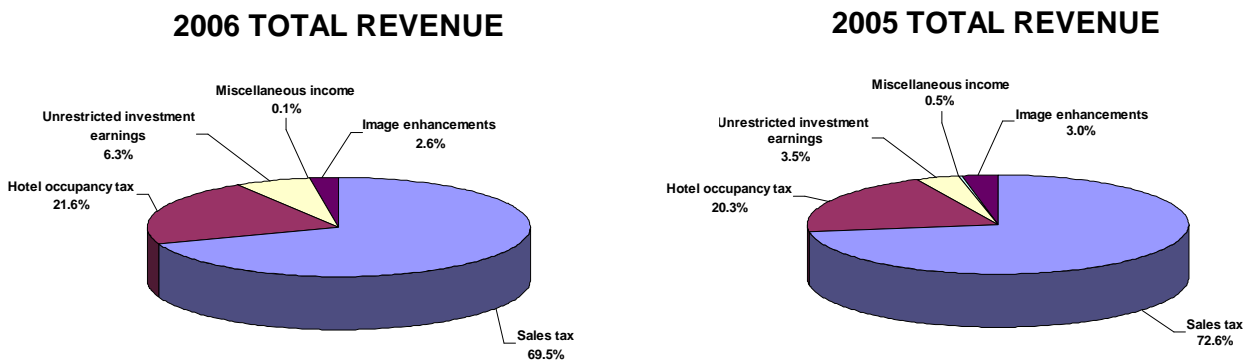
Governmental Funds Financial Analysis

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of approximately \$21.1 million, representing an increase of \$2 million over the prior year. The increase is primarily due to investment earnings along with a record year for both sales and hotel occupancy tax revenue collections, an increase of \$1.7 million and \$704 thousand respectively with expenditures year over year remaining relatively flat.



Approximately \$6.5 million of the \$21.1 million total constitutes unreserved, undesignated fund balances in which \$10 million in the General Fund is available for spending at the government's discretion and a negative \$3.5 million in the Special Revenue Fund represents future incremental sales tax revenue collections for the repayment of Town Green Park construction costs to the General Fund. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to fund 1) authorized projects of approximately \$6.5 million; 2) debt service of approximately \$4.4 million; or, 3) represents long-term receivables of \$3.7 million.

The General Fund is the chief operating fund of the District. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the District's General Fund increased by approximately \$3.2 million during the current fiscal year. The increase is primarily due to 1) a reduction in operating transfers of \$2.3 million as the current year does not include the one-time transfers for capital projects related to Town Green Park and Waterway Square that were recorded in the prior year; 2) record sales and hotel occupancy tax revenue collections as mentioned above; and 3) higher earnings on District investments due to a rising interest rate environment.

The designated fund balance in the Capital Projects Fund of \$5.3 million decreased \$1.8 million during the current fiscal year. This decrease primarily relates to transfers out for Town Green Park construction, see Interfund Transfer detail in Note 9. Additional information on this fund and project balances can also be found in Notes 7 and 8.

The Debt Service Fund has a total fund balance of approximately \$4.4 million, all of which is reserved for the payment of debt service. The increase of \$2.4 million over the prior year relates to unspent hotel occupancy tax transfers to the Debt Service Fund for future debt service requirements.

For the current fiscal year, the Special Revenue Fund includes all Economic Development Zone activity. The decrease in fund balance and the resulting deficit is primarily due to the \$3.7 million Town Green Park liability assumed by Economic Development Zone No. 2. This liability will be repaid from future incremental sales tax revenue collections generated by this Zone in accordance with the approved financing plan. Offsetting this amount is Economic Development Zone No. 3's cash balance of \$1 million representing sales tax revenue collections to-date which will be used to fund construction draw payments for the Waterway Square project. Cash balances for each Zone are typically distributed throughout the year in accordance with each Zone's financing plan as approved by the Board.

Debt Administration

At the end of the current fiscal year, the District had total debt outstanding of approximately \$47.7 million. Additional information on the District's long-term debt can be found in the footnotes to the financial statements on pages 49-51.

Based on the issuance of the Municipal Bond Guaranty Insurance Policy issued in respect to the bonds, Moody's Investors Services (Moody's) provided ratings on the District issued and outstanding bonds of "Aaa" with an underlying rating of "Baa2" and Standard & Poor's (S&P) provided a "AAA" rating.

During 2006, Standard & Poor's (S&P) upgraded the rating of the District's bond issue from an underlying rating of BBB+ to A-.

Economic Factors

The District is primarily funded by a 1% sales and use tax, which was approved by the voters of the District on November 2, 1993. Furthermore, an additional 1% sales and use tax may be levied in parts of the District including within designated Economic Development Zones in increments of not less than one-eighth of one percent as established by the District under Section 11c of the District Act as amended by Senate Bill 1807.

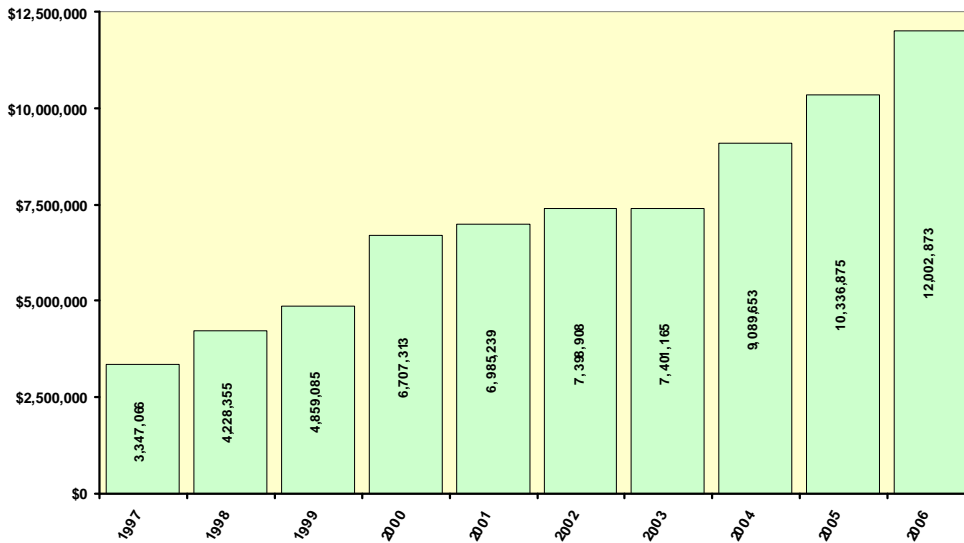
As stated earlier, the District's sales tax is levied at an aggregate rate of 1% (1/2 of 1% is pledged to the Bonds) on all taxable transactions within the District. A majority of sales tax revenues are derived from the nearly 3 million square feet of retail space, including the 1.35 million square foot Woodlands Mall, Market Street retail and the newly constructed 5-screen movie theater at Market Street, the 17,000-seat Cynthia Woods Mitchell Pavilion, a 17-screen movie theater located near The Woodlands Mall, and other surrounding retail establishments in the District.

The District has four Economic Development Zones which assess an additional 1% incremental sales tax for specific projects. Town Center Economic Development Zone No. 1 is responsible for providing financial assistance in the redevelopment, rehabilitation, expansion and enlargement of The Cynthia Woods Mitchell Pavilion by the Center for the Performing Arts at The Woodlands; Economic Development Zone No. 2 includes a 34 acre project which encompasses 480,000 square feet of mixed retail and office space located in and around Market Street; Economic Development Zone No. 3 is the south mall expansion project which added 150,000 additional square feet of mixed retail and restaurant space; and, Economic Development Zone No. 4 encompasses the College Park Shopping Center and 25 acres of land yet to be developed which will fund the construction of a new fire station for the College Park service area and a state-of-the-art fire training center.

Retail

The Woodlands Mall, surrounding retail establishments and restaurants are synonymous with shopping, dining and entertainment. With continued tenant build-outs in The Woodlands Mall and Economic Developments Zones No. 2 and 3, which have added approximately 630,000 square feet of mixed retail and office space and such tenants as HEB The Woodlands Market, Borders Books and Music, The Cheesecake Factory and P.F. Chang’s China Bistro, sales tax collected for 2006 was up \$1.7 million or 16.1%.

SALES TAX COLLECTIONS
10 year historical trend



In 2006, construction continued on new office/retail buildings offering over 400,000 square feet of mixed use retail and office space near The Waterway within the District. Additional residential and retail development continues along The Woodlands Waterway™, a 1.25-mile linear park and transportation corridor located within the District.

Hotels

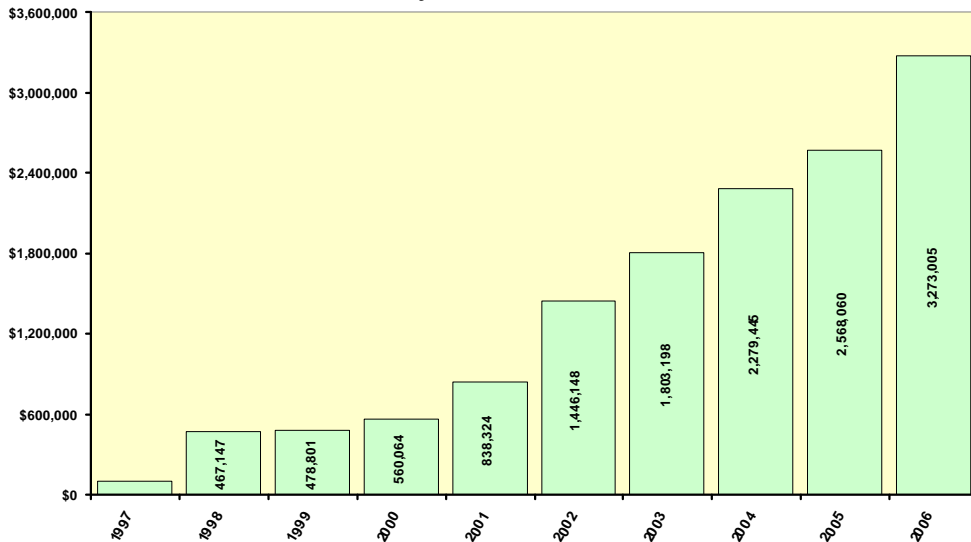
Effective September 1, 1997, following the amendment of the District Act by Senate Bill 26, the District began the assessment of a hotel occupancy tax of 7% of the price paid for a hotel room. There

are now eight first quality, full service hotels offering more than 1,400 rooms for guests within the District.

Total room revenue for hotels located in the District increased 23.2% over the prior year. Furthermore, the occupancy rate increased by 6.0% and the RevPAR (revenue per available room) increased approximately \$18.69 to an average rate of \$100.36. As a result, hotel occupancy tax revenue increased \$705 thousand or 27.5% in 2006.

The Woodlands Waterway Marriott Hotel and the District built Convention Center continue to experience success and look for this momentum to continue into 2007 and beyond. During 2006, over 90,000 rooms were occupied and the hotel continues to see growth in room revenue and food and beverage revenue. The hotel ranks in the top 10% for the chain on banquet food quality. Achieving the AAA 4-star rating, The Woodlands Waterway Marriott Hotel and Convention Center has become a primary location for convention and group business in the region.

HOTEL TAX COLLECTIONS *10 year historical trend*



Capital Assets

In 2006, the District held the grand opening of Town Green Park, a 2.6 acre green space located in the District. As of December 31, 2006, the District had capitalized over \$6.1 million for park assets which includes \$2.5 million of donated land and design/development services related to the project and \$3.6 million in approved construction costs. During 2006, a reimbursement agreement between the District and Economic Development Zone No. 2 was executed for this project. A corresponding receivable has been established in the General Fund with a corresponding liability recorded by Economic Development Zone No. 2 to account for the repayment of costs associated with this project. The repayment will be funded from collections of the incremental one percent sales tax within Economic Development Zone No. 2, in accordance with the Board approved financing plan. This interfund activity has been removed from the government-wide financials.

With Town Green Park completed, construction began on Waterway Square in the Fall of 2006. The District and The Woodlands Development Company held a groundbreaking to unveil plans and kick-

off construction of Waterway Square, a one-acre civic plaza for Town Center and The Woodlands, slated for completion in late 2007. This “center piece” of The Woodlands Waterway™ will include unique water features, outdoor seating for dining and relaxation, and will be surrounded by office buildings along with retail and entertainment venues. In 2005, the District’s Board of Directors approved a \$4.3 million contribution for this project with The Woodlands Development Company funding the remainder of a \$6.3 million partnership. As of December 31, 2006, construction draw payments for the District had not begun on this project and no capital assets were recorded.

In addition, the District’s Board of Directors also designated funds in the Capital Projects Fund to cover the cost associated with implementing the Waterway public safety surveillance camera project and expansion of storage space at the District-owned Convention Center. Additional information on these projects can be found in Note 7.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the Town Center Improvement District’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 10001 Woodloch Forest Dr., Suite 600, The Woodlands, Texas 77380.

BASIC FINANCIAL STATEMENTS

**TOWN CENTER IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 18,385,747
Receivables	5,073,729
Prepaid expenses	29,686
Capital assets not being depreciated:	
Construction in Progress	9,000
Sculpture & Art	133,286
Land	2,585,714
Capital assets, net of \$759,168 in accumulated depreciation:	
Parks	4,292,132
Pavilion Parking Garage	2,867,366
Vehicles, Furniture & Equipment	237,078
Signage	164,806
Leasehold improvements	56,796
Total Assets	<u>33,835,340</u>
LIABILITIES	
Accrued expenses	674,295
Accrued interest payable	813,887
Capital leases - due within one year	9,458
Bonds - due within one year	1,310,000
Noncurrent liabilities:	
Bonds - due in more than one year	<u>46,360,000</u>
Total Liabilities	<u>49,167,640</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,675,173
Restricted for debt service	4,437,813
Unrestricted	<u>(26,445,286)</u>
Total Net Assets	<u><u>\$ (15,332,300)</u></u>

**TOWN CENTER IMPROVEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense)/ Revenue and Changes in Net Assets</u>
		<u>Operating Contributions</u>	<u>Capital Contributions</u>	<u>Total Governmental Activities</u>
Governmental activities				
Security enhancements	\$ 3,816,320	\$ -	\$ -	(3,816,320)
Image enhancements	1,584,088	388,894	-	(1,195,195)
Economic development	350,586	-	-	(350,586)
Operations & maintenance	266,677	-	2,505,000	2,238,323
General and administrative	2,860,142	-	-	(2,860,142)
Interest on long-term debt	2,480,262	-	-	(2,480,262)
Total governmental activities	\$ 11,358,075	\$ 388,894	\$ 2,505,000	(8,464,182)

General Revenues:

Taxes:	
Sales taxes	12,002,873
Hotel occupancy taxes	3,273,005
Unrestricted investment earnings	973,171
Miscellaneous	10,935
Total General Revenues	16,259,984
Change in Net Assets	7,795,803
Net Assets - Beginning	(23,128,103)
Net Assets - Ending	\$ (15,332,300)

See Notes to Financial Statements.

**TOWN CENTER IMPROVEMENT DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 12,976,196	\$ -	\$ 4,400,986	\$ 1,008,565	\$ 18,385,747
Sales tax receivable	2,517,005	-	-	278,856	2,795,861
Hotel occupancy tax receivable	203,757	-	-	-	203,757
Other receivables	157,218	-	36,918	-	194,136
Due from other funds	-	5,341,991	-	-	5,341,991
Prepaid expenditures	29,686	-	-	-	29,686
Town Green Park receivable	3,715,575	-	-	-	3,715,575
Total Assets	<u>\$ 19,599,437</u>	<u>\$ 5,341,991</u>	<u>\$ 4,437,904</u>	<u>\$ 1,287,421</u>	<u>\$ 30,666,754</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 5,341,991	\$ -	\$ -	\$ -	\$ 5,341,991
Other accrued expenditures	501,450	-	91	8,456	509,997
Town Green Park liability	-	-	-	3,715,575	3,715,575
Total Liabilities	<u>5,843,441</u>	<u>-</u>	<u>91</u>	<u>3,724,031</u>	<u>9,567,563</u>
Fund balances:					
Reserved for:					
Debt service	-	-	4,437,813	-	4,437,813
Long-term receivables	3,715,575	-	-	-	3,715,575
Unreserved, designated - reported in:					
Capital Projects	-	5,341,991	-	-	5,341,991
Special Revenue Fund	-	-	-	1,129,335	1,129,335
Unreserved, undesignated - reported in:					
General Fund	10,040,421	-	-	-	10,040,421
Special Revenue Fund	-	-	-	(3,565,945)	(3,565,945)
Total Fund Balances	<u>13,755,996</u>	<u>5,341,991</u>	<u>4,437,813</u>	<u>(2,436,610)</u>	<u>21,099,190</u>
Total Liabilities and Fund Balances	<u>\$ 19,599,437</u>	<u>\$ 5,341,991</u>	<u>\$ 4,437,904</u>	<u>\$ 1,287,421</u>	<u>\$ 30,666,754</u>

See Notes to Financial Statements.

TOWN CENTER IMPROVEMENT DISTRICT

***Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
December 31, 2006***

Total fund balance, governmental funds \$ 21,099,190

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets 10,346,177

Convention Center lease receivable is not available to pay current period expenditures and is, therefore, not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Assets 1,879,976

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

Bonds payable	(47,670,000)
Capital lease payable	(9,458)
Accrued interest payable - bonds	(813,887)
Accrued rent on office space	(146,721)
Compensated absences	(17,576)

Net Assets of Governmental Activities in the Statement of Net Assets \$ (15,332,300)

See Notes to Financial Statements.

**TOWN CENTER IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES					
Sales tax	\$ 10,543,800	\$ -	\$ -	\$ 1,459,073	\$ 12,002,873
Hotel occupancy tax	3,273,005	-	-	-	3,273,005
Image enhancements	388,894	-	-	-	388,894
Investment earnings	963,171	1,194	180,587	52,108	1,197,060
Miscellaneous	11,651	-	-	-	11,651
Total Revenues	<u>15,180,520</u>	<u>1,194</u>	<u>180,587</u>	<u>1,511,181</u>	<u>16,873,483</u>
EXPENDITURES					
Current:					
Security enhancements	3,816,702	-	-	-	3,816,702
Image enhancements	1,583,192	-	-	-	1,583,192
Economic development	350,586	-	-	-	350,586
Operations & maintenance	266,611	-	-	-	266,611
General and administrative	1,668,845	-	31	4,445	1,673,320
Capital outlay	58,784	33,520	-	5,597,028	5,689,332
Debt Service:					
Principal	5,415	-	1,255,000	-	1,260,415
Interest and fiscal charges	218	-	2,499,236	223,889	2,723,343
Total Expenditures	<u>7,750,353</u>	<u>33,520</u>	<u>3,754,267</u>	<u>5,825,362</u>	<u>17,363,502</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>7,430,167</u>	<u>(32,326)</u>	<u>(3,573,680)</u>	<u>(4,314,181)</u>	<u>(490,019)</u>
OTHER FINANCING SOURCES/(USES)					
Transfers in/(out)	(4,218,060)	(1,796,691)	6,014,751	-	-
Proceeds from Capital Leases	14,873	-	-	-	14,873
Developer Contributions	-	-	-	2,505,000	2,505,000
Total Other Financing Sources/(Uses)	<u>(4,203,186)</u>	<u>(1,796,691)</u>	<u>6,014,751</u>	<u>2,505,000</u>	<u>2,519,873</u>
Net Change in Fund Balances	<u>3,226,981</u>	<u>(1,829,017)</u>	<u>2,441,071</u>	<u>(1,809,181)</u>	<u>2,029,854</u>
Fund Balances - Beginning of Year	10,529,015	7,171,008	1,996,742	(627,429)	19,069,336
Fund Balances - End of Year	<u>\$ 13,755,996</u>	<u>\$ 5,341,991</u>	<u>\$ 4,437,813</u>	<u>\$ (2,436,610)</u>	<u>\$ 21,099,190</u>

See Notes to Financial Statements.

TOWN CENTER IMPROVEMENT DISTRICT

***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006***

Net change in fund balances - total governmental funds: \$ 2,029,854

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay expenditures exceeded depreciation.

Capital outlay - capitalized	2,187,926
Depreciation	(201,445)
Additional depreciation - loss on disposal of capital assets	(4,001)
Capital contributions	2,505,000

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenue is reported in the Statement of Activities when earned.

Capital lease receivable	(716)
--------------------------	-------

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats the issuance of debt as a liability. Governmental funds report bond principal payments as expenditures. In contrast, the Statement of Activities treats such expenditures as a reduction of long-term liabilities. This is the amount by which proceeds exceeded repayments, issuance costs and deferred amounts:

Principal repayment - bonds	1,255,000
Principal repayment - capital lease	5,415

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These are as follows:

Accrued rent not reflected on governmental funds	9,143
Compensated absences	(9,564)
Accrued interest - bonds	19,192

Change in net assets of governmental activities \$ 7,795,803

See Notes to Financial Statements.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with generally accepted accounting principles. The following is a summary of the most significant policies.

A. Reporting Entity

As an independent political subdivision of the State of Texas, the District is considered a primary government for financial reporting purposes; its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting entity.

The Town Center Economic Development Zone No. 1, the Town Center Economic Development Zone No. 2, and the Town Center Economic Development Zone No. 3 have been included in the District's financial reporting entity as blended component units.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by accounting principles generally accepted within the United States of America. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under accounting principles generally accepted within the United States of America include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of Town Center Improvement District (the primary government) and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data for these units would be combined with the data of the District.

The District's primary activities include managing and financing improvement projects and/or services benefiting the Town Center area. These activities currently include security enhancements and business promotions for the Town Center and surrounding areas as well as general and administrative services.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The District is economically dependent on sales and use taxes and hotel occupancy taxes collected in the Town Center area. A significant downturn in retail sales and/or hotel occupancy tax could impact the District's ability to meet operating expenses.

Blended Component Units

Created in September of 2000, Town Center Economic Development Zone No. 1 is responsible for providing financial assistance in the redevelopment, rehabilitation, expansion and enlargement of The Cynthia Woods Mitchell Pavilion by the Center for the Performing Arts at The Woodlands. The members of Town Center Economic Development Zone No. 1 governing board are appointed by the Board of Town Center Improvement District and are composed of the Board of Town Center Improvement District.

In November of 2002, Town Center Economic Development Zone No. 2 was established to further the public purpose of the promotion and stimulation of business, commercial, and economic activity in the District and the State of Texas. The members of Town Center Economic Development Zone No. 2 governing body are appointed by the Board of Town Center Improvement District and are comprised of the Board of Town Center Improvement District.

In July of 2003, Town Center Economic Development Zone No. 3 was established to further the development and diversification of the economy, expansion of transportation and commerce, and promotion and stimulation of business, commercial and economic activity in the District and the State of Texas. The members of Town Center Economic Development Zone No. 3 governing body are appointed by the Board of Town Center Improvement District and are comprised of the Board of Town Center Improvement District.

In December of 2006, Town Center Economic Development Zone No. 4 was established to provide assistance for the construction of a new fire station and state-of-the-art training center in the College Park service area of the District. The members of Town Center Economic Development Zone No. 4 governing body are appointed by the Board of Town Center Improvement District and are comprised of the Board of Town Center Improvement District. As of December 31, 2006, the entity was in the organizational stages of development and had no financial transactions. The foregoing financial statements do not include this entity.

New Component Unit

In March of 2006, the creation of The Woodlands Convention and Visitors Bureau, a 501(c)6 organization was approved by the District's Board of Directors. As of December 31, 2006, the entity was in the organizational stages of development and had no financial transactions. The foregoing financial statements do not include this entity.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

Separately issued audited financial statements are not issued for the component units. Unaudited financial statements may be obtained, by written request, from the District's finance department.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information about the District as a whole. For the most part, the effect of interfund activity has been removed from these statements. The governmental activities are supported primarily by tax revenues, and the District has no business-type activities that rely, to a significant extent, on fees and charges for services.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and liabilities associated with the operations of these activities are included on the Statement of Net Assets.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include sales and use tax and hotel occupancy tax. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the government-wide presentation.

The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction projects and other capital asset acquisitions.

The **Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on the bonded debt of the District. The primary source of revenue for debt service is hotel occupancy tax and one-half of collected sales and use tax.

The **Special Revenue Fund** is used to account for the proceeds from specific revenue sources that are designated for special purposes. The Special Revenue Fund includes approved projects funded through Town Center Economic Development Zone No. 1, Town Center Economic Development Zone No. 2, and Town Center Economic Development Zone No. 3. Each Zone was established to further the promotion and stimulation of business, commercial and economic activity in the Zone as well as the District.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Annual Financial Plan (Non-Appropriated Budget)

The District does not adopt annual appropriated budgets for its funds. The Board of Directors, however, does adopt annual financial plans for the General Fund. The plans are reviewed by management and the Board throughout the year in controlling and enhancing the District's operating results. The Board generally considers the District's final annual actual operating results for all funds representative of the District's annual financial plans for that year. Encumbrance accounting is not used.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, balances in privately managed public funds investment pools ("TexPool") and sweep accounts.

F. Investments

The District's cash and investments are reported at fair value based on quoted market prices at year end.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method of accounting.

H. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the appropriate fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. All assets (donated and purchased) are recorded at cost or at the estimated fair value at the date of acquisition or donation. Capital assets and improvements are capitalized as constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at the government-wide level. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available.

At this time, the District does not own or maintain infrastructure assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. The District capitalizes additions/transfers of sound system equipment, computer equipment, and wayfinding signs as systems, regardless of each individual component's value in relation to the capitalization threshold. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and resulting gain or loss is included in the results of operations.

The District's Board of Directors has adopted a capitalization policy for reporting capital assets which exceed \$5,000 in cost and have a useful life greater than one year. The straight-line method of depreciation is applied over the following estimated useful life for the type of assets. A table of useful lives follows on the next page.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (continued)

Asset Description	Estimated Useful Life
Office Equipment	5 to 10 years
Vehicles	5 to 15 years
Tenant Improvements	Lease term
Buildings & Garages	20 to 40 years
Machinery & Equipment	5 to 20 years
Signage & Visual Improvements	7 to 20 years
Parks - Land Improvements	20 to 30 years
Infrastructure	20 to 50 years
Land	n/a
Construction in Progress	n/a

I. Use of Estimates

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

J. Interfund Transactions

Interfund Receivables and Payables

During the course of routine operations, transactions occur between individual funds. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

Transactions Between Funds

Transactions between funds that would be treated as revenues and expenditures if they involved organizations external to the District are accounted for as revenues, and expenditures in the applicable funds.

Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly attributable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of the expenditures in the fund that is reimbursed. Other legally authorized transfers are treated as operating or residual equity transfers and are included in the results of operations of the governmental funds.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Compensated Absences

Annual vacation and sick time are granted to regular full-time employees. The District maintains a policy allowing employees to be compensated for unused vacation time upon leaving the employment of the District. However, any unused vacation time lapses at the end of each fiscal year, unless exception to this policy is approved in writing by the President of the District. Employees are allowed to carry over unused sick time from one fiscal year to the next, up to a maximum of 90 days. However, all accrued and earned sick leave is forfeited upon leaving the employment of the District. At December 31, 2006, the District recorded compensated absences of \$17,576 in accrued liabilities on the government-wide financial statements.

L. Fund Equity

Reserved equity balances represent those portions of fund balance not appropriable for expenditures and which are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated fund balances represent available balances for the District's future use.

NOTE 2 – DEFICIT FUND EQUITY

The Special Revenue Fund has a deficit fund balance of \$2.4 million as of December 31, 2006. In accordance with the project and financing plan adopted by the Board for Town Center Economic Development Zone No. 2, this deficit relates specifically to the cost of construction for Town Green Park including certain related legal fees and project costs recorded by the Zone. The District transferred funds to the Capital Projects Fund for the park's construction draw payments which began in 2005 and were completed in 2006. The capital outlay expenditures and related interfund liability to the General Fund are recorded in the Special Revenue Fund. The current financing plan for the Zone allows for the repayment of up to \$4.3 million in approved project costs of which \$3.7 million have currently been expended.

The related General Fund receivable and interest income, and Special Revenue Fund liability and interest expense for Town Green Park expenditures are recorded in the fund financial statements only. The related interfund activity has been eliminated from the government-wide financials.

NOTE 3 – DEPOSITS AND INVESTMENTS

The District's cash and investments are reported at fair value. The District's cash and investment accounts are classified as either cash and cash equivalents or investments. The cash and cash equivalents include cash on hand, demand deposits with financial institutions, money market mutual funds, certificates of deposit, and short-term investments in private-managed public funds investment pool accounts such as TexPool, and sweep accounts.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Authorized investments under the District's investment policy include:

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- Direct obligations of the State of Texas or its agencies and instrumentalities;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas, or the United States or any of their respective agencies and instrumentalities;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;
- Certificates of deposit issued by a state or national bank domiciled in the State of Texas, that are properly guaranteed, insured, or secured;
- Fully collateralized repurchase agreements meeting the Investment Act requirements;
- Certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States;
- Banker's acceptances which meet Investment Act requirements;
- Commercial paper with a stated maturity of 270 days or fewer from the date of issuance which meets the Investment Act requirements;
- Certain no-load money market mutual funds;
- Investment pools which meet the Investment Act requirements; and,
- Guaranteed investment contracts which meet the Investment Act requirements.

Deposits and Custodial Credit Risk

State statutes require that all the District's deposits in financial institutions be fully collateralized by depository insurance or by U.S. government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. Furthermore, the District's internal written investment policy further restricts the value of such collateral to not less than 110% of the principal amount of the uninsured deposit. As of December 31, 2006, of the total bank balances for the District and each blended component unit including certificates of deposits, the Federal Depository Insurance Corporation (FDIC) covered the first \$100,000. The remaining balances were properly collateralized in accordance with the State, as well as, each entity's applicable internal investment policy.

Sweep Account

The District's operating account balance is swept daily into an AIM liquid assets investment fund which seeks to provide as high a level of current income as is consistent with the preservation of capital and liquidity. The fund seeks to preserve a daily net asset value of \$1.00 per share. Credit risk is not considered for AIM investments because they are not evidenced by securities that exist in physical or book entry form. AIM Advisors, Inc. serves as the fund's investment advisor and is responsible for its day-to-day management. The fund maintains a weighted average maturity of 90 days or less and invests in compliance with Rule 2a7 under the Investment Company Act of 1940, as amended and is an authorized investment under Section 2256.016 of the Public Funds Investment Act.

**TOWN CENTER IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006**

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

TexPool

The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, the Texas Local Government Investment Pool. TexPool operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

As of December 31, 2006 the District had deposits and investments with the following maturities and credit quality:

Type	Fair Value	Weighted Average Maturity Days	Credit Risk
Certificates of Deposit	\$4,060,330	25	Green Three Star
TexPool	\$7,683,343	1	AAAm
AIM Sweep Account	\$1,409,479	1	AAAm
Total	\$13,153,152		

Interest Rate Risk

In accordance with the investment policy, the District manages its exposure to any decline in fair values by limiting the maturity of each investment to a period no longer than ninety (90) days. Additional authorization is required for periods exceeding ninety (90) days; however, in no event shall the maturity of any individual investment owned by the District exceed two (2) years, unless otherwise specifically stated in the investment policy.

Credit Risk

In accordance with State law, the District’s investment policy restricts investments to authorized instruments with stated maturities (if any). As of December 31, 2006, checking and time deposits at Woodforest National Bank (a privately-held bank) and Amegy Bank (Moody’s rated A2) represented 18% of the District’s cash balances. Certificates of deposit held at Encore Bank (Veribanc credit rating, green three star) represented 22%; while TexPool (S&P rated, AAAm) and AIM investments (S&P, rated AAAm) represented 42% and 8%, respectfully. Additionally, the District’s debt service reserve which is restricted by the terms of the Bond Resolution, represents approximately 10% of the District’s cash balances and is held by Bayerische Hypo-und Vereins Bank AG, rated A-1 by S&P.

NOTE 4 - HOTEL OCCUPANCY TAX

The District Act (as amended by Senate Bill 26) provides for the assessment of a hotel occupancy tax of up to 7% of the price paid for a hotel room. By Board order, the District has imposed the maximum 7% tax, effective September 1, 1997 (for fiscal period 1997-98 and thereafter). As provided by the District Act, the District is generally required to use the proceeds of the hotel occupancy tax for costs related to advertising and promoting tourism and costs related to business development and commerce, including financing and operating improvement projects for conventions, trade shows and

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 - HOTEL OCCUPANCY TAX (continued)

similar events. The District collected \$3,273,005 from the levy of this tax for the fiscal year ended December 31, 2006.

NOTE 5 - SALES AND USE TAX

On November 2, 1993, the voters of the District authorized the District's Board of Directors to levy and collect a one percent sales and use tax within the District, subject to the applicable provisions of the Texas Tax Code. The District relies on this tax for the funding of substantially all of its programs, functions and services.

As provided by the District Act, the District must comply with requirements relating to periodic use of defined portions of the sales and use tax proceeds for mitigation of the impact of development within the District on adjacent areas. The District collected \$10,543,800 in the General Fund from the levy of this sales and use tax for the fiscal year ended December 31, 2006.

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets, for the year ended December 31, 2006, follows:

Governmental Activities	Balance Beginning of Year	Additions	Retirements/ Transfers	Balance End of Year
Nondepreciable Assets:				
Construction in Progress	\$ 1,527,711	\$ 9,000	\$ (1,527,711)	\$ 9,000
Sculpture & Art	-	49,700	83,586	133,286
Land	835,714	1,750,000	-	2,585,714
Total Nondepreciable Assets	\$ 2,363,425	\$ 1,808,700	\$ (1,444,125)	\$ 2,728,000
Depreciable Assets:				
Parks	\$ -	\$ 2,869,275	\$ 1,444,125	\$ 4,313,400
Pavilion Parking Garage	3,100,813	-	-	3,100,813
Vehicles, Furniture & Equipment	429,046	29,824	(8,946)	449,924
Signage	433,197	-	-	433,197
Leasehold improvements	80,011	-	-	80,011
Total Depreciable Assets	\$ 4,043,067	\$ 2,899,099	\$ 1,435,179	\$ 8,377,345
Total Assets	\$ 6,406,492	\$ 4,707,799	\$ (8,946)	\$ 11,105,345
Less Accumulated Depreciation for:				
Parks	\$ -	\$ 21,268	\$ -	\$ 21,268
Pavilion Parking Garage	155,167	78,280	-	233,447
Vehicles, Furniture & Equipment	158,283	59,508	(4,945)	212,846
Signage	234,004	34,387	-	268,391
Leasehold improvements	15,214	8,001	-	23,215
Total Accumulated Depreciation	562,668	201,445	(4,945)	759,168
Capital Assets, net of depreciation	<u>\$ 5,843,824</u>	<u>\$ 4,506,354</u>	<u>\$ (4,001)</u>	<u>\$ 10,346,177</u>

Depreciation expense of \$205,446 for the year which includes \$4,001 related to a loss on the disposal of capital assets was charged to general and administrative expenses in the District's governmental activities.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 7 – CAPITAL PROJECTS & COMMITMENTS

As of December 31, 2006 the District had the following commitments:

<u>Project</u>	<u>Amount Authorized</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Town Green Park	\$ 4,336,823	\$ (3,691,686)	\$ 645,137
Waterway Square	4,343,164	-	4,343,164
Public Safety Surveillance Camera Project	355,000	(9,000)	346,000
Convention Center Expansion	130,000	-	130,000
Total Outstanding	\$ 9,164,987	\$ (3,700,686)	\$ 5,464,301

Town Green Park

As of December 31, 2006, the District had substantially completed construction projects for Town Green Park and the With Hope Sculpture located within the park totaling \$3,691,686. However, in accordance with the development agreement with the developer and the reimbursement agreement with Town Center Economic Development Zone No. 2, \$645,137 remains available for additional project components. This amount is expected to be fully utilized in 2007.

Waterway Square

In September 2006, the District executed a development agreement with The Woodlands Land Development Company for the construction of a one-acre public plaza centrally located within the District. The District's contribution for the project will not exceed \$4,343,164. As of December 31, 2006, construction draw payments had not yet begun on this project. Project completion is expected in 2007.

Public Safety Surveillance Camera Project

In December 2006, the District's Board of Directors approved the execution of a service agreement with WaveMedia to provide a system of cameras and internet connectivity along The Woodlands Waterway™ with the purpose of enhancing public safety measures currently provided by the District. As of December 31, 2006, transfers to the Capital Projects Fund in the amount of \$355,000 had been approved of which \$9,000 in consulting and project start-up costs have been spent-to-date.

Convention Center Expansion

In December 2006, under the Convention Center Project Lease with The Woodlands Hotel L.P. (lessee) the District's Board of Director's approved a transfer to the Capital Projects Fund for the lessee's request for reimbursement of construction costs not to exceed \$130,000 related to a permanent storage facility addition to the Convention Center. As of December 31, 2006, the anticipated completion date of the addition was April 2007 and no requests for reimbursements had been received.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES

As of December 31, 2006, interfund balances include:

**Capital Projects Fund Balances
As of December 31, 2006**

Projects	<u>Balance</u>
Waterway Square - Construction	\$ 4,343,164
Public Safety Surveillance System	346,000
I-45 Beautification Project Phase II	200,000
Convention Center Expansion	130,000
Office Equipment & Furnishings	101,000
Waterway Square - Park Furnishings	41,772
Fire Department Equipment	19,707
Wayfinding Signs	14,000
Ambassador Equipment	12,022
Patrol Vehicles	10,827
Town Green Park - Construction	-
	<u>\$ 5,218,491</u>
Capital Reserves	
Town Green Park - Capital Reserve	100,000
Parking Gargage - Capital Reserve	23,500
	<u>\$ 123,500</u>
Total	<u>\$ 5,341,991</u>

The outstanding balances between funds result mainly from each project's time lag between the period in which funds are designated and the period in which projects are completed. All balances are subject to collection in the subsequent year.

NOTE 9 – INTERFUND TRANSFERS

As of December 31, 2006, interfund transfers included:

Transfer out:	Transfer in:				Total
	General Fund	Capital Projects Fund	Debt Service Fund	Special Revenue Fund	
General Fund	\$ -	\$ 392,772	\$ 5,945,301	\$ -	\$ 6,338,073
Capital Projects Fund			69,450	2,120,014	2,189,464
Debt Service Fund			-		-
Special Revenue Fund	2,120,014				2,120,014
Total	\$ 2,120,014	\$ 392,772	\$ 6,014,751	\$ 2,120,014	\$ 10,647,551
Transfers in	\$ 2,120,014	\$ 392,772	\$ 6,014,751	\$ 2,120,014	\$ 10,647,551
Transfer out	6,338,073	2,189,464	-	2,120,014	10,647,551
Transfers in/(out)	\$ (4,218,059)	\$ (1,796,692)	\$ 6,014,751	\$ -	\$ -

Descriptions of these transfers follow on the next page.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 9 – INTERFUND TRANSFERS (continued)

Transfers from the General Fund to the Capital Projects Fund of \$393 thousand include Board approved transfers for: Town Green Park capital reserve (\$100,000); Convention Center expansion (\$130,000); Office Equipment & Furnishings (\$156,772); and, Town Center parking garage capital reserve (\$6,000).

Transfers from the General Fund to the Debt Service Fund of \$5.9 million include \$3.2 million in hotel occupancy tax and \$2.7 million in pledged sales tax used to service debt in accordance with the Bond Resolution.

Transfers from the Capital Projects Fund to the Debt Service Fund of \$69 thousand represent the transfer of unspent Convention Center bond proceeds to the Debt Service Fund to repay related debt obligations.

Transfers from the Special Revenue Fund to the General Fund of \$2.1 million represent the amount of construction draw payments made by the District for Town Green Park construction during 2006.

NOTE 10 – ECONOMIC DEVELOPMENT ZONE PROJECTS

Future sales tax revenue collections for each Zone have been pledged for specific purposes. The terms and obligations of repayment to third-party developers (net revenue payments) and the District (priority payments) for each Zone are outlined below.

A. Town Center Economic Development Zone No. 1

Town Center Economic Development Zone No. 1 project costs include the redevelopment, rehabilitation, expansion and enlargement of The Cynthia Woods Mitchell Pavilion by the Center for the Performing Arts at The Woodlands.

In accordance with the approved financing plan, a one-percent incremental sales tax along with any interest earnings, less any administrative costs and expenses are pledged to the payment of project costs as identified in the project plan until: 1) October 1, 2020; or 2) the aggregate amount of payments for project costs equals \$1,350,000, whichever occurs first.

Payments to the developer are recorded as capital outlay in the Special Revenue Fund. As of December 31, 2006, aggregate net revenue payments to the Cynthia Woods Mitchell Pavilion, excluding a one-time capital grant of \$250,000, were \$582,267.

B. Town Center Economic Development Zone No. 2

Town Center Economic Development Zone No. 2 project costs include public enhancements to the mixed-use development located at Market Street within the boundaries of District. Approved reimbursable public enhancement costs of \$10,600,000 include among other items, improvements to parking facilities, public art and architectural elements, public restrooms, and public plazas.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 10 – ECONOMIC DEVELOPMENT ZONE PROJECTS (continued)

B. Town Center Economic Development Zone No. 2 (continued)

In accordance with the approved financing plan, the Zone has a term effective for fiscal year 2005 not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax along with any interest earnings are pledged to the payment of project costs as identified in the financing plan as follows: 1) the first \$200,000 of annual collections are reimbursed to the District as a priority payment and applied to Town Green project costs not to exceed \$4,336,823 plus interest; and 2) annual collections in excess of the priority payment are reimbursed to the developer and applied to public enhancement costs not to exceed \$10,600,000 plus interest. During the 24th annual period or fiscal year 2028, the District's priority payment for subsequent annual periods will be recalculated to fully amortize the outstanding unpaid project costs for the remaining six payments.

Payments to the developer are recorded as capital outlay in the Special Revenue Fund. As of December 31, 2006, aggregate net revenue payments including interest to Kimco Woodlands, L.P. were \$1,242,814.

C. Town Center Economic Development Zone No. 3

Town Center Economic Development Zone No. 3 project costs include public enhancements to the mixed-use development located at The Woodlands Mall expansion within the boundaries of the District. Approved reimbursable public enhancement costs of \$7,499,111 include among other items, costs for utility relocations, landscaping, signage, paving and sidewalks, lighting improvements, and related engineering, surveying, and other soft costs.

In accordance with the approved financing plan, the Zone has a term effective for fiscal year 2004 not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax along with any interest earnings are pledged to the payment of project costs as identified in the financing plan as follows: 1) the first \$350,000 of annual collections are reimbursed to the District as a priority payment and applied to Waterway Square project costs not to exceed \$4,343,164 plus interest; and 2) annual collections in excess of the priority payment are reimbursed to the developer and applied to public enhancement costs not to exceed \$7,499,111 plus interest.

Payments to the developer are recorded as capital outlay in the Special Revenue Fund. As of December 31, 2006, aggregate net revenue payments including interest to General Growth Properties, Inc. were \$364,553.

D. Town Center Economic Development Zone No. 4

Town Center Economic Development Zone No. 4 project costs include construction of a new fire station and state-of-the-art training center in the College Park service area of the District by The Woodlands Fire Department.

**TOWN CENTER IMPROVEMENT DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006**

NOTE 10 – ECONOMIC DEVELOPMENT ZONE PROJECTS (continued)

D. Town Center Economic Development Zone No. 4 (continued)

In accordance with the approved financing plan, the Zone has an initial term effective for fiscal year 2007 not to exceed nineteen years. The assessed one-percent incremental sales tax along with any interest earnings are pledged to the payment of project costs as identified in the financing plan until: 1) December 31, 2025; or 2) the aggregate amount of payments applied to project costs equals \$11,670,000 plus interest, whichever occurs first.

Payments to the fire department are recorded as capital outlay in the Special Revenue Fund. As of December 31, 2006, no interest or net revenue payments have been made to The Woodlands Fire Department.

NOTE 11 – LONG-TERM LEASES

Hotel/Convention Center

On March 31, 2003, the District entered into a long-term lease (“Convention Center Lease”) with The Woodlands Hotel, L.P. Under the terms of the Convention Center Lease, The Woodlands Hotel, L.P. will lease the Hotel/Convention Center, Sky Bridge and a portion of the adjacent parking garage (500 spaces) for a term of 99 years. These facilities were constructed by the District with the proceeds of bonds.

The District is treating the Convention Center Lease as a capital lease based on the lease terms and the requirements of generally accepted accounting principles. The related capital assets are restricted under the terms of Convention Center Lease and as such the historical cost associated with the leased assets including the land has not been recorded by the District. In 2005, the District entered into a purchase and sale agreement with The Woodlands Land Development Company, L.P. for a tract of the Convention Center land in the amount of \$300,000.

Beginning in 2003, the District recorded and began to amortize the future minimum lease payments under the Convention Center Lease over the 99 year lease term. Under the terms of the lease, rental payments commenced on January 1, 2005, with annual base rental amounts as shown below.

<u>Year</u>	<u>Annual Base Rental Amount</u>
2003 and 2004	\$0
2005	\$50,000
2006	\$100,000

Rental payments for year five through the end of the lease term will be adjusted to an amount equal to the annual base rental for the preceding year, increased or decreased in proportion to the increase or decrease in the consumer price index, currently the Consumer Price Index for all Urban Consumers (CPI-U) Houston-Galveston-Brazoria, Texas.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 11 – LONG-TERM LEASES (continued)

Hotel/Convention Center (continued)

The Convention Center Lease will generate \$9,500,000 in total remaining lease payments from The Woodlands Hotel, L.P. over the term of the lease. The future minimum lease payments are \$1,879,976 representing the present value of the total remaining rental payments through the end of the lease term, without adjustment for future changes in the CPI-U as described above, calculated using the District's current incremental borrowing rate of 5.2791 percent.

The amortization of the future minimum lease payments under the Convention Center Lease for the next five years and in five year increments thereafter through the end of the lease is shown below.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	754	99,246	100,000
2008	794	99,206	100,000
2009	836	99,164	100,000
2010	880	99,120	100,000
2011	927	99,073	100,000
2012-2016	5,420	494,580	500,000
2017-2021	7,010	492,990	500,000
2022-2026	9,066	490,934	500,000
2027-2031	11,726	488,274	500,000
2032-2036	15,165	484,835	500,000
2037-2041	19,614	480,386	500,000
2042-2046	25,367	474,633	500,000
2047-2051	32,808	467,192	500,000
2052-2056	42,432	457,568	500,000
2057-2061	54,879	445,121	500,000
2062-2066	70,977	429,023	500,000
2067-2071	91,797	408,203	500,000
2072-2076	118,724	381,276	500,000
2077-2081	153,550	346,450	500,000
2082-2086	198,591	301,409	500,000
2087-2091	256,845	243,155	500,000
2092-2096	332,186	167,814	500,000
2097-2101	429,628	70,372	500,000
Total	\$ 1,879,976	\$ 7,620,024	\$ 9,500,000

As a result of the Convention Center Lease, the District reflects a deficit in total net assets under the full accrual accounting method required by GASB 34. This deficit is due to the District retaining all debt associated with building the leased facilities and not recording the historical costs associated with the leased assets in accordance with capital lease accounting requirements of generally accepted accounting principles. The principal amount of the District's total debt on bonds issued to construct the leased facilities, at December 31, 2006, is \$47,670,000.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 11 – LONG-TERM LEASES (continued)

Hotel/Convention Center (continued)

District management expects the additional activities related to the Convention Center Lease to benefit the Town Center area generally through expanded economic development.

Cynthia Woods Mitchell Pavilion

On February 1, 2003, the District and The Cynthia Woods Mitchell Pavilion entered into a long-term lease (“Pavilion Lease”) whereby The Cynthia Woods Mitchell Pavilion is leasing a portion of the convention center parking garage (599 spaces) for a term of 20 years. Consideration for the Pavilion Lease was received by the District prior to construction of the Convention Center parking garage in the amount of \$3,550,000. The District’s costs for these facilities and related depreciation are shown below.

Category	Cost	Accumulated Depreciation	Book Value
Land	\$835,713	-	\$835,713
Garage (portion attributable to 599 parking spaces)	3,070,436	230,283	2,840,153
Total	\$3,906,149	\$230,283	\$3,675,866

The District is treating the Pavilion Lease as an operating lease based on the lease terms and the requirements of generally accepted accounting principles. Accordingly, the above land and facility costs covered by the Pavilion Lease are recorded in the District’s capital assets as of December 31, 2006.

NOTE 12 – GENERAL LONG-TERM DEBT

General long-term debt consists of Series 2001 Sales Tax and Hotel Occupancy Tax Bonds originally issued at \$51 million for the District built Convention Center. These bonds are secured by the District’s pledge of the payments it is to receive from the general sales and use tax of the District derived at a rate of ½ of 1% of taxable sales and general hotel occupancy tax derived at a rate of 7% of room rentals. In accordance with the terms of the Bond Resolution, a Debt Service Reserve Fund is to be maintained by the District as security for the payment of the Bonds. The total amount to be accumulated and maintained in the Debt Service Reserve Fund is \$1,877,188, which is equal to one half of the maximum annual Debt Service on the Bonds and was funded from the proceeds of the sale of the Bonds.

The following is a summary of general long-term debt transactions for the year ended December 31, 2006:

Bonds payable, beginning of year	\$ 48,925,000
Principal payments	(1,255,000)
Bonds payable, end of year	<u>\$ 47,670,000</u>

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 12 – GENERAL LONG-TERM DEBT (continued)

Bonds payable at year end consisted of the following:

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Interest Rate</u>	<u>Principal Payment Dates Serially, Beginning/ Ending</u>	<u>Interest Payment Dates</u>	<u>Callable Date*</u>
2001 Tax Bonds	\$ 47,670,000	4.00 - 5.625%	March 1, 2004/2027	September 1/ March 1	2011

* Or any interest payment date thereafter in accordance with redemption provisions of the Bond Resolution.

The debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	1,310,000	2,441,661	3,751,661
2008	1,365,000	2,386,796	3,751,796
2009	1,425,000	2,327,850	3,752,850
2010	1,485,000	2,265,084	3,750,084
2011	1,555,000	2,197,613	3,752,613
2012-2016	9,150,000	9,610,275	18,760,275
2017-2021	12,060,000	6,699,800	18,759,800
2022-2026	15,665,000	3,093,988	18,758,988
2027	3,655,000	95,944	3,750,944
	\$ 47,670,000	\$ 31,119,010	\$ 78,789,010

Obligations Under Capital Leases

In 2006, the District entered into a lease purchase agreement for a vehicle costing \$14,873. The lease is for a period of twenty-four months with monthly payments of \$658. However, the District intends to payoff the lease in early 2007. The cost of the vehicle acquired is recorded in capital assets and is a capital lease for financial reporting. As of December 31, 2006, the debt service requirements on the capitalized lease are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 9,458	\$ 85	\$ 9,543

Federal Tax Compliance (Arbitrage) for Tax-Exempt Debt

In accordance with provisions of Section 148 of the Internal Revenue Code of 1986, as amended, (the "Code") the District's "tax-exempt" debt obligations must meet certain minimum criteria to be considered and continue to be considered "tax-exempt".

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 12 – GENERAL LONG-TERM DEBT (continued)

Federal Tax Compliance (Arbitrage) for Tax-Exempt Debt (continued)

This “tax-exempt” status means that interest income earned by purchasers of the District’s long-term debt instruments is not subject to federal income taxes. Related Treasury Regulations promulgated under section 148 of the Code generally provide that the determination of whether these obligations are tax-exempt is made as of the date such obligations are issued based on a reasonable expectation regarding the use of the proceeds of the bonds issued. Any tax-exempt debt issue that does not meet and continue to meet the minimum criteria of Section 148 of the Code and the related Treasury Regulations described above are considered “arbitrage bonds” and are not considered “tax-exempt” as described above.

Rebate

Tax-exempt bonds will become arbitrage bonds if certain arbitrage profits are not paid to the federal governments as rebate under section 148(f) of the Code. The District’s obligations to calculate and make rebate payments (if any) will continue as long as there are gross proceeds allocable to outstanding tax-exempt debt. The District has performed the fifth year arbitrage rebate calculation for the period July 26, 2001 to July 26, 2006 as required under section 148 (f) of the Code. Results of this calculation showed no contingent rebatable arbitrage due with respect to the bonds. The District will perform an analysis to cover the tenth year arbitrage rebate calculation for the period through July 26, 2011.

Unexpended Tax-Exempt Debt Issuance Proceeds (Yield Restriction Requirements)

Section 148 of the Code also provides that in order for tax-exempt debt not to be considered arbitrage debt, certain proceeds require yield restriction meaning that proceeds of such debt must be invested at a yield that is not materially higher than the yield on the debt issued. The yield restriction may be accomplished by making yield reduction payments pursuant to Treasury Regulation Section 1.148-5(c). During 2006, the District transferred all of the remaining \$69 thousand of unexpended debt issuance proceeds to the Debt Service Fund to retire related debt issues still outstanding.

NOTE 13 – SIGNIFICANT PROVISIONS OF THE DISTRICT ACT

Certain provisions of the District Act, which are considered significant, are summarized below.

A. Primary Purpose

The District's primary purpose is economic development and all related activities for the area.

B. General and Specific Powers of the District

The District Act confers general powers on the District similar to municipal management districts, as prescribed by Subchapter E, Chapter 375, Local Government Code, by the general laws of the state applicable to conservation and reclamation districts created

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 13 – SIGNIFICANT PROVISIONS OF THE DISTRICT ACT (continued)

B. General and Specific Powers of the District (continued)

under Article XVI, Section 59, of the Texas Constitution and to road districts and road utility districts created pursuant to Article III, Section 52, of the Texas Constitution, including those conferred by Chapters 49 and 54 of the Water Code and Chapter 441, Texas Transportation Code.

Additional specific powers and duties are provided for in the District Act, which include the financing of improvement projects and/or related services for achieving the District's purposes. Specific types of improvement projects and/or related services are provided for in the Act. Improvement projects and/or related services may be financed in whole or in part by the levy and collection of a limited sales and use tax, a hotel occupancy tax or a combination of these and other revenues. The District may also issue bonds to fund improvement projects and/or related services as described below in Section D.

The District Act authorizes the District to define and create Economic Development Zones ("Zones"). The District's Board of Directors is authorized to appoint a governing body for each Zone created. Upon creation, each Zone will be considered a separate government in accordance with the provisions of the District Act. Each Zone's Board of Directors is authorized to fund specific improvement projects through the creation and levy of an incremental one percent sales and use tax within the Zone. This incremental sales and use tax was approved by the District's voters in January 2000. The existence of a specific Zone will be based on the limited duration of its financial master plan.

C. Director Bonds

The District Act requires that each Director appointed or elected execute a bond for \$10,000 payable to the District and conditioned on faithful performance of his or her duties. All bonds of the Directors shall be approved by the Board.

D. Bonded Indebtedness

The District Act authorizes the District to issue bonds in accordance with specific sections of the Local Government Code. Bonds issued by the District for the primary purpose of providing water, sewage or drainage facilities must be approved by the Texas Commission on Environmental Quality in the manner provided by Chapter 49 of the Texas Water Code.

Bonds issued by the District may be secured and made payable, wholly or partly, by a pledge of any part of the net proceeds of:

- 1) a specified portion, but not more than one-half percent of the District's sales tax;
- 2) the District's hotel occupancy tax; and,
- 3) certain other sources, as provided in the District Act.

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 13 – SIGNIFICANT PROVISIONS OF THE DISTRICT ACT (continued)

E. Other Provisions

The District may contract with area municipalities, other political subdivisions, corporations and individuals to achieve its purposes. Contracts for security services and interlocal contracts with area municipalities and other political subdivisions for law enforcement assistance within the District have been entered into by the District.

In addition, the District, only after a public hearing, may adopt and enforce rules and regulations related to real property owned by the District or any real property in which the District has an interest. Any and all fines or other penalties collected for a violation of a District rule is remitted to the County.

Because the District was created in an area that is devoted primarily to commercial and business activity, the District may not impose an impact fee or assessment on a single family residential property or a residential duplex, triplex, quadruplex, or condominium.

NOTE 14 - OPERATING LEASE AGREEMENTS

In September 2003, the District entered into an operating lease agreement for office space starting January 2004. Monthly payments for the office lease began in September 2004 at a monthly base rent of \$21,769 through June, 2009, and \$22,639 for the remaining lease term. Approximate monthly payments for equipment leases are \$112. Annual payments under these leases are shown below.

<u>Year</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2007	261,225	1,343	262,568
2008	261,225	-	261,225
2009	266,450	-	266,450
2010	271,674	-	271,674
2011	271,674	-	271,674
2012-2014	747,104	-	747,104
	<u>\$ 2,079,351</u>	<u>\$ 1,343</u>	<u>\$ 2,080,694</u>

During the year ended December 31, 2006, the District incurred lease expenditures of \$261,225 in the governmental funds and \$252,082 in the government-wide financial statements that included \$146,721 in accrued rent that will be paid over the lease term.

NOTE 15 - PENSION PLAN

The District established a simplified employee pension plan (SEP) on July 1, 1994, that covers all of the District's employees. A SEP is a tax-deferred retirement plan providing pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the

**TOWN CENTER IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 15 - PENSION PLAN (continued)

returns earned on investments of those contributions and forfeitures of other participant's benefits that may be allocated to such participant's account. Contributions made by the District vest immediately.

An employee who leaves the employment of the District is entitled to all contributions, plus any accumulated earnings in that employee's account. The provisions and contributions set by the District to be paid into the plan are determined by the Board of Directors and the rules that govern SEP plans. For the year ended December 31, 2006, the District contributed 8.7 percent of each covered employee's salary for total contributions of \$109,348. This is a non-participating plan. The plan is fully funded on a current basis and is administered by an independent brokerage firm.

The District does not make contributions to any other type of post employment benefit programs.

NOTE 16 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injuries; and, natural disasters. The risk of loss is covered by commercial insurance carriers and through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP). The participation of the District in TML-IRP is limited to payment of premiums for real and personal property, errors and omissions, general liability, and workers' compensation coverage. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District and the Zones have received \$10,089 in combined equity distributions from the liability and property funds of the Pool since 2003. These distributions are a return of member equity and are determined by the Pool based on eligibility requirements for each member and changes in Pool equity for each year. The amount of equity returns is based on favorable loss ratios and length of membership with the Pool for each member.



STATISTICAL SECTION

STATISTICAL SECTION

This part of Town Center Improvement District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.</i>	57-62
Revenue Capacity <i>These schedules contain information to help the reader assess the government’s most significant local revenue sources, the sales and use tax and hotel occupancy tax.</i>	63-65
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	66-69
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	70-72
Operating Information <i>These schedules contain data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.</i>	73-75

For uniformity and consistency, most statistical and trend data is presented beginning for fiscal year 2004 when the District implemented the new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. Other economic and demographic data is presented for years in which data could be confirmed and was readily available.

Sources: Unless otherwise noted, the information in these schedules is derived from the audited financial statements for the relevant year.

**Town Center Improvement District
Net Assets by Component
Last Three Fiscal Years
(accrual basis of accounting)*
(amounts expressed in whole dollars)**

	Fiscal Year		
	2006	2005	2004
Governmental activities			
Invested in capital assets, net of related debt	\$ 6,675,173 ²	\$ 2,154,135 ¹	\$ 589,138
Restricted	4,437,813 ³	1,163,663	1,125,634
Unrestricted	(26,445,286)	(26,445,901)	(27,738,212)
Total governmental activities net assets	<u>\$ (15,332,300)</u>	<u>\$ (23,128,103)</u>	<u>\$ (26,023,440)</u>
Business-type activities			
Invested in capital assets, net of related debt			
Restricted			
Unrestricted			
Total business-type activities net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Primary government			
Invested in capital assets, net of related debt	\$ 6,675,173	\$ 2,154,135	\$ 589,138
Restricted	4,437,813	1,163,663	1,125,634
Unrestricted	(26,445,286)	(26,445,901)	(27,738,212)
Total primary government net assets	<u>\$ (15,332,300)</u>	<u>\$ (23,128,103)</u>	<u>\$ (26,023,440)</u>

¹ In 2005, construction began on Town Green Park thereby increasing capital assets. Additionally, the Board designated \$4.3 million for the future construction of Waterway Square.

² In 2006, the District recorded \$2.5 million in capital assets for land, and the design and development costs for Town Green Park which were donated by The Woodlands Development Company, along with \$2.1 million in additional capitalized construction costs for Town Green Park, as approved by the Board.

³ The Board approved a one-time transfer of \$2.7 million of current year sales tax for future debt service requirements.

*As of January 1, 2004, the District implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Town Center Improvement District
Changes in Net Assets
Last Three Fiscal Years
(accrual basis of accounting)*
(amounts expressed in whole dollars)

Expenses	Fiscal Year		
	2006	2005	2004
Governmental activities			
Security enhancements	\$ 3,816,320	\$ 3,982,691	\$ 3,588,614
Image enhancements	1,584,088	1,484,622	1,393,670
Economic development	350,586	506,998	198,637
Operations & maintenance	266,677	197,178	233,233
General and administrative	2,860,142	2,693,038	2,089,425
Interest on long-term debt	2,480,262	2,544,774	2,627,819
Total governmental activities expenses	<u>\$ 11,358,075</u>	<u>\$ 11,409,300</u>	<u>\$ 10,131,398</u>
Total Business-type activities expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government expenses	<u>\$ 11,358,075</u>	<u>\$ 11,409,300</u>	<u>\$ 10,131,398</u>
Program Revenues			
Governmental activities			
Operating Grants & Contributions:			
Image enhancements	388,894	378,143	364,110
Capital Grants & Contributions:			
Operations & maintenance	2,505,000 ³	-	-
Total governmental activities program revenues	<u>\$ 2,893,894</u>	<u>\$ 378,143</u>	<u>\$ 364,110</u>
Total Business-type activities program revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government program revenues	<u>\$ 2,893,894</u>	<u>\$ 378,143</u>	<u>\$ 364,110</u>
Net (expense)/revenue			
Governmental activities	\$ (8,464,182)	\$ (11,031,157)	\$ (9,767,288)
Business-type activities	-	-	-
Total primary government net expense	<u>\$ (8,464,182)</u>	<u>\$ (11,031,157)</u>	<u>\$ (9,767,288)</u>
General Revenues and Other Changes in Net Assets			
Governmental activities			
Taxes:			
Sales tax	\$ 12,002,873	\$ 10,336,875 ¹	\$ 9,089,653
Hotel occupancy tax	3,273,005	2,568,060	2,279,445
Unrestricted investment earnings	973,171	661,421	514,499
Miscellaneous	10,935	60,137	39,538
Total governmental activities	<u>\$ 16,259,984</u>	<u>\$ 13,626,493</u>	<u>\$ 11,923,135</u>
Total Business-type activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Gain on Land Sale	\$ -	\$ 300,000 ²	\$ -
Total primary government general revenues and other changes in net assets	<u>\$ 16,259,984</u>	<u>\$ 13,926,493</u>	<u>\$ 11,923,135</u>
Changes in Net Assets			
Governmental activities	\$ 7,795,803	\$ 2,595,336	\$ 2,155,847
Business-type activities	-	-	-
Gain on Land Sale	-	300,000	-
Total primary government changes in net assets	<u>\$ 7,795,803</u>	<u>\$ 2,895,336</u>	<u>\$ 2,155,847</u>

¹ Sales tax increases relate to the growth in the District's retail base with the completion of Market Street and the Mall Expansion.

² The District sold a parcel of the Convention Center land site for \$300,000.

³ In 2006, the District recorded \$2.5 million in capital assets for land, and the design and development costs for Town Green Park which were donated by The Woodlands Development Company, along with \$2.1 million in additional capitalized construction costs for Town Green Park, as approved by the Board.

*As of January 1, 2004, the District implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

**Town Center Improvement District
 Governmental Activities Tax Revenues By Source
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in whole dollars)**

Fiscal Year	Sales Tax	Hotel Occupancy Tax	Total
2006	\$ 12,002,873	\$ 3,273,005	\$ 15,275,878 ¹
2005	10,336,875	2,568,060	12,904,935
2004	9,089,653	2,279,445	11,369,098
2003	7,401,165	1,803,198	9,204,363
2002	7,398,908	1,446,148	8,845,056
2001	6,985,239	838,324	7,823,563
2000	6,707,313	560,064	7,267,377
1999	4,859,085	478,801	5,337,886
1998	4,228,355	467,147	4,695,502
1997	3,347,066	101,981	3,449,047

¹ The \$2 million increase in sales tax and hotel occupancy tax revenues relate to favorable economic trends statewide during 2006.

**Town Center Improvement District
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in whole dollars)**

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Unreserved, undesignated	\$ 10,040,421	\$ 9,024,029 ²	\$ 12,279,239	\$ 13,411,652	\$ 12,271,581	\$ 10,515,606	\$ 7,663,084	\$ 4,514,859	\$ 2,949,687	\$ 2,279,521
Reserved for Long-term Receivables	3,715,575 ⁵	1,504,986 ⁵	-	-	-	-	-	-	-	-
Total General Fund	<u>\$ 13,755,996</u>	<u>\$ 10,529,015</u>	<u>\$ 12,279,239</u>	<u>\$ 13,411,652</u>	<u>\$ 12,271,581</u>	<u>\$ 10,515,606</u>	<u>\$ 7,663,084</u>	<u>\$ 4,514,859</u>	<u>\$ 2,949,687</u>	<u>\$ 2,279,521</u>
All other governmental funds										
Reserved for Debt Service	\$ 4,437,813 ⁶	\$ 1,996,742	\$ 1,979,088	\$ 3,017,479	\$ 3,072,139	\$ 4,146,410 ¹	\$ -	\$ -	\$ -	\$ -
Reserved for Capital Expenditures	-	68,256	66,340	1,421,022	-	-	-	-	-	-
Unreserved, designated reported in:										
Capital Projects	5,341,991 ⁴	7,102,752 ²	4,063,591	-	2,106,393	33,349,115 ¹	657,007	997,923	1,642,959	900,000
Special Revenue Fund	1,129,335	-	-	-	-	-	-	-	-	-
Unreserved, undesignated reported in:										
Special Revenue Fund	(3,565,945) ⁴	(627,429) ³	503,782	-	10,741	11,277	1,725,451	1,102,248	582,782	102,039
Total all other governmental funds	<u>\$ 7,343,194</u>	<u>\$ 8,540,321</u>	<u>\$ 6,612,801</u>	<u>\$ 4,438,501</u>	<u>\$ 5,189,273</u>	<u>\$ 37,506,802</u>	<u>\$ 2,382,458</u>	<u>\$ 2,100,171</u>	<u>\$ 2,225,741</u>	<u>\$ 1,002,039</u>
Total all fund balances	<u>\$ 21,099,190</u>	<u>\$ 19,069,336</u>	<u>\$ 18,892,040</u>	<u>\$ 17,850,153</u>	<u>\$ 17,460,854</u>	<u>\$ 48,022,408</u>	<u>\$ 10,045,542</u>	<u>\$ 6,615,030</u>	<u>\$ 5,175,428</u>	<u>\$ 3,281,560</u>

¹ Increases in Debt Service and Capital Projects relate to the bond issue and construction for the Convention Center.

² Decrease in General Fund unreserved fund balance and corresponding increase in Capital Projects Fund balance relates to the Board's approved transfer for the Waterway Square project.

³ Decrease in Special Revenue balance relates to Zone 2 recording the expense for Town Green Park construction draws which will be recouped by future sales tax collections for the Zone.

⁴ The increase in the Special Revenue deficit and the corresponding decrease in the Capital Projects Fund is related to Town Green Park capital outlay.

⁵ The increase in the General Fund is related to the Town Green Park receivable.

⁶ The Board approved a one-time transfer of \$2.7 million of current year sales tax for future debt service requirements.

Town Center Improvement District
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in whole dollars)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Sales tax	\$ 12,002,873	\$ 10,336,875	\$ 9,089,653	\$ 7,401,165	\$ 7,398,908	\$ 6,985,239	\$ 6,707,313	\$ 4,859,085	\$ 4,228,355	\$ 3,347,066
Hotel occupancy tax	3,273,005	2,568,060	2,279,445	1,803,198	1,446,148	838,324	560,064	478,801	467,147	101,981
Image enhancements	388,894	378,143	364,110	-	-	-	-	-	-	-
Investment earnings	1,197,060 ³	614,609	422,541	454,100	1,100,577	1,551,796	506,357	318,881	240,126	145,455
Miscellaneous	11,651	60,137	39,538	53,437	113,801	266,262	133,989	69,969	1,705	1,240
Total Revenues	\$ 16,873,483	\$ 13,957,824	\$ 12,195,287	\$ 9,711,900	\$ 10,059,434	\$ 9,641,621	\$ 7,907,723	\$ 5,726,736	\$ 4,937,333	\$ 3,595,742
Expenditures										
Security enhancements	\$ 3,816,702	\$ 3,983,156	\$ 3,588,614	\$ 3,255,123	\$ 2,941,529	\$ 2,094,906	\$ 2,038,156	\$ 1,655,539	\$ 1,436,221	\$ 1,438,662
Image enhancements	1,583,192	1,484,804	1,393,670	705,535	862,926	967,930	851,053	763,458	386,725	468,337
Economic development	350,586	506,998	198,637	302,189	214,437	181,732	275,134	194,927	183,185	-
Operations & maintenance	266,611	196,333	233,233	331,376	92,459	-	-	-	-	-
General and administrative	1,673,320	1,550,497	1,325,701	1,259,948	1,228,741	1,082,627	904,308	802,650	565,421	506,674
Capital outlay	5,689,332 ⁴	2,513,673	565,352	726,862	32,634,034	21,645,270 ¹	408,560	870,560	471,913	53,504
Debt Service:										
Principal	1,260,415	1,279,919	1,220,374	94,707	-	-	-	-	-	-
Interest and fiscal charges	2,723,343	2,565,149	2,627,819	2,646,861	2,646,862	661,715	-	-	-	-
Total Expenditures	\$ 17,363,502	\$ 14,080,529	\$ 11,153,400	\$ 9,322,601	\$ 40,620,988	\$ 26,634,180	\$ 4,477,211	\$ 4,287,134	\$ 3,043,465	\$ 2,467,177
Excess/(deficiency) of revenues over/(under) expenditures	\$ (490,019)	\$ (122,705)	\$ 1,041,887	\$ 389,299	\$ (30,561,554)	\$ (16,992,559)	\$ 3,430,512	\$ 1,439,602	\$ 1,893,868	\$ 1,128,565
Other Financing Sources/(Uses)										
Transfers in/(out)	-	-	-	-	-	3,550,000 ¹	-	-	-	-
Proceeds from Bond Sale	-	-	-	-	-	51,419,425	-	-	-	-
Developer Contributions	2,505,000 ⁴	-	-	-	-	-	-	-	-	-
Proceeds from Capital Lease	14,873	-	-	-	-	-	-	-	-	-
Proceeds from Land Sale	-	300,000 ²	-	-	-	-	-	-	-	-
Total Financing Sources/(Uses)	\$ 2,519,873	\$ 300,000	\$ -	\$ -	\$ -	\$ 54,969,425	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 2,029,854	\$ 177,295	\$ 1,041,887	\$ 389,299	\$ (30,561,554)	\$ 37,976,866	\$ 3,430,512	\$ 1,439,602	\$ 1,893,868	\$ 1,128,565
Debt service as a percentage of noncapital expenditures	34.3%	33.3%	36.4%	31.9%	33.1%	13.3%	0.0%	0.0%	0.0%	0.0%

¹ Capital outlay increases relate to construction draws for the Convention Center. Increase in Transfers In relates to a project contribution received from the Cynthia Woods Mitchell Pavilion, note 11.

² In 2005, the District sold a parcel of the Convention Center land site for future development. Capital outlay increased in 2005 as a result of Town Green Park construction.

³ Investment earnings increased as a result of a rising interest rate environment, increased cash balances, the increased interest portion of the convention center lease payment, and the initial interest payments from EDZ #2 in accordance with the Town Green Park reimbursement agreement.

⁴ Capital Outlay increase relates to the remainder of Town Green Park construction costs. Developer Contributions include land, development, and design donated by The Woodlands Development Company.

Town Center Improvement District
Comparative Schedule of Actual Expenditures - General Fund
Last Ten Fiscal Years

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Current:										
Security enhancements										
Mounted patrol	\$ 1,164,372	\$ 1,568,149	\$ 1,447,045	\$ 1,442,386	\$ 1,311,175	\$ 871,525	\$ 621,394	\$ 642,753	\$ 579,955	\$ 627,965
Public Safety/Ambassador Personnel	186,624	225,858	85,126	62,460	31,964	-	-	-	-	-
Private security - Waterway	94,348	91,945	117,799	-	-	-	-	-	-	-
Law enforcement - County	1,378,172	1,134,019	980,780	963,056	909,202	660,937	731,374	618,047	607,405	555,084
Law enforcement - Impact area	432,099	432,107	432,103	328,715	288,719	248,719	225,701	181,589	133,257	147,006
The Woodlands Fire Department	405,600	390,000	390,000	372,867	270,000	230,000	200,000	96,435	-	-
Special & Public Safety Operations	73,697	113,901	135,761	82,239	94,822	51,763	174,119	70,964	76,276	79,153
Equipment, patrol vehicles, and maintenance	81,790	27,177	-	3,400	35,647	31,962	85,568	45,751	39,328	29,454
	<u>3,816,702</u>	<u>3,983,156</u>	<u>3,588,614</u>	<u>3,255,123</u>	<u>2,941,529</u>	<u>2,094,906</u>	<u>2,038,156</u>	<u>1,655,539</u>	<u>1,436,221</u>	<u>1,438,662</u>
Image enhancements	<u>1,583,192</u>	<u>1,484,804</u>	<u>1,393,670</u>	<u>705,535</u>	<u>862,926</u>	<u>881,516</u>	<u>850,245</u>	<u>763,458</u>	<u>386,725</u>	<u>468,337</u>
Economic development	<u>350,586</u>	<u>506,998</u>	<u>198,637</u>	<u>302,189</u>	<u>214,437</u>	<u>181,732</u>	<u>275,134</u>	<u>194,927</u>	<u>183,185</u>	<u>15,050</u>
Operations & maintenance	<u>266,611</u>	<u>196,333</u>	<u>233,233</u>	<u>331,376</u>	<u>92,459</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General and administrative										
Salaries and benefits	943,251	845,462	741,964	688,886	796,025	673,673	554,254	431,316	341,624	290,298
Office rent	275,680	269,396	89,717	173,424	147,106	133,099	92,258	93,871	27,242	26,922
Automobile expense	52,800	42,000	40,800	41,200	40,800	40,148	31,200	30,800	24,600	18,600
Office - General	30,751	27,392	30,478	77,231	29,761	35,613	27,377	19,215	9,710	23,279
Telephone	21,059	17,350	14,801	21,673	17,984	23,490	24,323	28,817	17,070	12,792
Office equipment leases	18,002	17,727	17,608	8,818	8,432	6,956	4,514	4,336	4,844	5,120
Professional fees and services	238,209	151,458	138,743	118,018	103,192	81,873	98,041	147,367	88,168	86,649
Bonds and insurance	14,603	17,211	12,831	18,576	5,054	4,634	7,480	4,978	11,506	6,100
Administrative and other	74,490	143,521	142,811	102,747	72,598	53,629	44,110	41,923	40,657	36,914
	<u>1,668,845</u>	<u>1,531,516</u>	<u>1,229,753</u>	<u>1,250,573</u>	<u>1,220,952</u>	<u>1,053,115</u>	<u>883,557</u>	<u>802,623</u>	<u>565,421</u>	<u>506,674</u>
Capital outlay	<u>58,784</u>	<u>59,819</u>	<u>45,608</u>	<u>61,950</u>	<u>-</u>	<u>34,770</u>	<u>68,452</u>	<u>225,524</u>	<u>199,872</u>	<u>53,504</u>
Debt service - lease principal	<u>5,415</u>	<u>89,919</u>	<u>85,374</u>	<u>94,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt service - lease interest	<u>218</u>	<u>4,788</u>	<u>9,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 7,750,353</u>	<u>\$ 7,857,333</u>	<u>\$ 6,784,222</u>	<u>\$ 6,001,453</u>	<u>\$ 5,332,303</u>	<u>\$ 4,246,039</u>	<u>\$ 4,115,544</u>	<u>\$ 3,642,071</u>	<u>\$ 2,771,424</u>	<u>\$ 2,482,227</u>

**Town Center Improvement District
General Governmental Tax Revenues & Rates By Source
Last Three Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in whole dollars)**

Fiscal Year	TCID Sales Tax	Economic Development Zone Sales Tax	TCID Hotel Occupancy Tax	Total
2006	10,543,800	1,459,073	3,273,005	15,275,878
2005	9,171,856	1,165,019	2,568,060	12,904,935
2004	8,317,222	772,431	2,279,445	11,369,098

<u>Base Sales Tax Rate</u>	<u>Rates in Addition to Base</u>	<u>Hotel Tax Rate</u>
1% (imposed 1994-present)	EDZ#1 - 1% (imposed 2001-present) EDZ#2 - 1% (imposed 2003-present) EDZ#3 - 1% (imposed 2003-present) EDZ#4 - 1% (imposed 2006-present)	7% (imposed 1997-present)

Sales tax is generally received by the District from the Comptroller two months after the period of collection from the taxpayers. The District began imposing sales tax on October 1, 1994, with the first collections received in December, 1994.

Hotel occupancy tax is generally received by the District in the month following collection by the hotels. The District began imposing hotel occupancy taxes on September 1, 1997, with the first collections received in October, 1997.

**Town Center Improvement District
Hotels in the District**

Hotel	2006 Rooms (approximate)	2005 Rooms (approximate)	2004 Rooms (approximate)
Drury Inn	151	151	152
Courtyard by Marriott	90	90	90
Hilton Garden Inn	117	117	117
Residence Inn-Lake Front Circle	90	90	90
Residence Inn 2-Six Pines Drive	96	96	96
Fairfield Inn	83	83	83
Woodlands Resort & Conference Ctr	440	440	440
Woodlands Waterway Marriott	341	343	344
Total	1,408	1,410	1,412

**Town Center Improvement District
Major Sources of Revenue
December 31, 2006**

Listed below are several of the major retail establishments located within the District. The list was compiled by estimating the largest retailers' square footages by visual inspection, and is not based on the amount of actual sales revenue or sales tax generated, since such information is deemed confidential and protected by State law. Retailers are listed in alphabetical order.

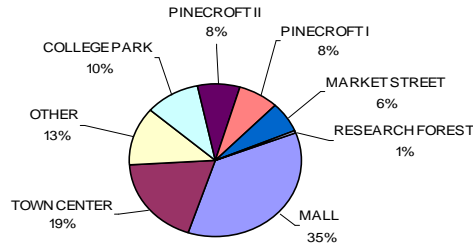
Major Retail Establishments		
Barnes & Noble	Donoho's Jewellers	Ross for Less
Bed, Bath & Beyond	HEB Food Store	Sears Roebuck & Co.
Best Buy	JC Penney	Target
Borders	Lowe's	Tinseltown Movies 17
Brandon Furniture	Macy's	Toys R Us
Circuit City	Marshall's	Ulta
Dillard's	Office Max	Wal-Mart

**Town Center Improvement District
Top Sales Tax Sources**

Fiscal Year	Largest Tax Payer			Top 5 Tax Payers			Top 10 Tax Payers		
	Total	% Retail	% Non-Retail	Total	% Retail	% Non-Retail	Total	% Retail	% Non-Retail
2006	5.76%	5.76%	n/a	23.84%	19.44%	4.40%	36.79%	29.82%	6.96%
2005	6.97%	6.97%	n/a	26.37%	22.16%	4.21%	39.30%	35.09%	4.21%
2004	<10%	<10%	n/a	27.30%	23.30%	4.00%	42.00%	35.20%	6.80%

Specific tax payers may not be disclosed as such information is deemed confidential and protected by State law.

TOWN CENTER IMPROVEMENT DISTRICT 2006 SALES TAX BY LOCATION



Analysis generated from Texas State Comptroller reports on sales tax concentration by geographical area within the District.
(EDZ Sales Tax Not Included)

LOCATION FOOTNOTES IN ORDER OF CONCENTRATION:

- MALL** Includes major anchor department stores, retail stores, kiosks, carts, and food court merchants located at 1201 Lake Woodlands Drive inside The Woodlands Mall, and includes newly constructed stores and restaurants on the southside of the Mall. Economic Development Zone No. 3 encompasses the latter part of this area.
- TOWN CENTER** Includes retail stores, restaurants, hotels, construction, and other business taxpayers with a physical presence in the general Town Center area bounded on the east by I-45, on the south by The Woodlands Parkway, on the west by Grogans Mill Road and on the north by Lake Woodlands Drive. The Woodlands Resort and Conference Center located at 2301 N Millbend is also included in the Town Center figure.
- OTHER** Taxable purchases made within Town Center generate this sales tax which is remitted by taxpayers with no physical location in Town Center. Also includes sales tax that cannot be attributed to a specific taxpayer as Comptroller reports only include those taxpayers having remitted more than \$25,000 in state and local taxes to the Comptroller in the prior year.
- COLLEGE PARK** Includes retail stores, hotels, and restaurants located in the College Park Shopping Center at the northwest intersection of State Highway 242 and I-45. Economic Development Zone No. 4 encompasses this area.
- PINECROFT 2** Includes retail stores and restaurants located in the Pinecroft 2 Shopping Center generally bounded on the east by Pinecroft Drive, on the south by Lake Woodlands Drive, on the west by Six Pines Drive and on the north by Lake Front Circle.
- PINECROFT 1** Includes retail stores and restaurants located in the Pinecroft 1 Shopping Center generally bounded on the east by I-45, on the south by Lake Woodlands Drive, on the west by Pinecroft Drive and on the north by Lake Front Circle.
- MARKET STREET** Includes retail stores, restaurants, and business tenants in the newly constructed area west of The Woodlands Mall and north of The Cynthia Woods Mitchell Pavilion. This retail center is generally bounded on the east by Six Pines Drive, on the south by Lake Robbins Drive, on the west by Grogan's Mill, and on the north by Lake Woodlands Drive. Economic Development Zone No. 2 encompasses this area.
- RESEARCH FOREST** Includes restaurants and retail establishments located in a small area west of I-45 along Research Forest Drive.

**Ratios of Outstanding Debt by Type
Last Three Fiscal Years
(amounts expressed in whole dollars)**

Governmental Activities									
Fiscal Year	General *		Total Primary Government	Outstanding Debt as a % of Total Annualized Taxable Room Revenue	# Hotels	Outstanding		# Rooms	Outstanding Debt Per Room
	Obligation Bonds	Capital Leases				Debt Per Hotel	Debt Per Room		
2006	\$47,670,000	\$9,458	\$47,679,458	102%	8	\$5,959,932	1408	\$33,863	
2005	\$48,925,000	-	\$48,925,000	133%	8	\$6,115,625	1410	\$34,699	
2004	\$50,115,000	\$89,919	\$50,204,919	154%	8	\$6,275,615	1412	\$35,556	

Note: Details regarding the District's outstanding debt can be found in the notes to the financial statements.

*Bond debt issued for the Convention Center. To the extent that there is a shortfall in any annual period of hotel occupancy tax sufficient enough to service annual debt payments, 1/2 of 1% of sales tax collections are pledged to fulfill the remaining annual debt service requirement.

**Town Center Improvement District
Ratios of General Bonded Debt Outstanding
Last Three Fiscal Years
(amounts expressed in whole dollars)**

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total Outstanding	Total Pledged Revenue (Hotel & Sales)	Outstanding Debt as a % of Total Pledged Taxable Revenues
2006	47,670,000	4,437,813	43,232,187	573,947,214	8%
2005	48,925,000	1,996,742	46,928,258	495,279,371	9%
2004	50,115,000	1,979,080	48,135,920	416,020,661	11%

Note: Details regarding the District's outstanding debt can be found in the notes to the financial statements.

To the extent that there is a shortfall in any annual period of hotel occupancy tax sufficient enough to service annual debt payments, 1/2 of 1% of sales tax collections are pledged to fulfill the remaining annual debt service requirement.

**Town Center Improvement District
Legal Debt Margin & Pledged Revenue Coverage
Last Three Fiscal Years
(amounts expressed in whole dollars)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Hotel Occupancy Tax	3,273,005	2,568,060	2,279,445
1/2 Sales Tax	<u>5,271,900</u>	<u>4,585,928</u>	<u>4,158,611</u>
Total Pledged Revenues	<u><u>8,544,905</u></u>	<u><u>7,153,988</u></u>	<u><u>6,438,056</u></u>
Maximum Annual Debt Service Coverage (130% requirement*)	3,754,375 228%	3,754,375 191%	3,754,375 171%
Maximum Net Annual Debt Service Coverage	3,643,621 235%	3,643,621 196%	3,643,621 177%
Possible Additional Debt (15 yrs.) ¹	\$25,643,000	\$22,460,000	\$15,483,000
Possible Additional Debt (10 yrs.) ¹	\$19,774,000	\$17,320,000	\$11,940,000
Additional Annual Debt Service	2,815,444	1,748,693	1,197,976
MADS Coverage (%)	130%	130%	130%

Notes:

¹ Represents the internal estimated amount of debt that could be issued based on shown revenue stream, assuming a 7% interest rate with 130% coverage and 10 or 15 year term.

* The District is not subject to a state mandated legal debt margin. Per the District's Bond Resolution pledged revenues shall be 1.3 times the maximum annual debt service during any fiscal year on the remaining outstanding bonds.

Town Center Improvement District
Direct and Overlapping Governmental Activities Debt
(amounts expressed in whole dollars)

Governmental Unit	Debt Outstanding	As of	Approximate Acreage	TCID Acreage	TCID Proportionate Debt Ratio	Percent Overlap	Estimated Share of Overlapping Debt
Direct Debt repaid with sales tax (blended component units):							
Town Center Economic Development Zone No. 1	\$ -	12/31/06	14	965	100.00%	100.00%	\$ -
Town Center Economic Development Zone No. 2	\$ -	12/31/06	47	965	100.00%	100.00%	\$ -
Town Center Economic Development Zone No. 3	\$ -	12/31/06	17	965	100.00%	100.00%	\$ -
Town Center Economic Development Zone No. 4	\$ -	12/31/06	98	965	100.00%	100.00%	\$ -
Direct Debt repaid with hotel occupancy tax and sales tax:							
Town Center Improvement District	\$ 47,670,000	12/31/06	965	965	100.00%	100.00%	\$ 47,670,000
Overlapping Debt:							
Montgomery County	\$ 281,950,608	12/31/06	697,600	965	0.14%	100.00%	\$ 390,026
Conroe Independent School District	\$ 709,807,646	12/31/06	221,427	965	0.44%	100.00%	\$ 3,093,407
North Harris Montgomery Community College District	\$ 195,336,613	12/31/06	935,680	965	0.10%	100.00%	\$ 201,458
Montgomery County Hospital District	\$ -	12/31/06	697,600	965	0.14%	100.00%	\$ -
The Woodlands Metro Center MUD	\$ 23,900,000	12/31/06	1,648	965	58.56%	98.00%	\$ 13,714,945
The Woodlands Municipal Utility District #39	\$ 20,284,445	12/31/06	858	965	100.00%	5.00%	\$ 1,014,222
The Woodlands Road Utility District #1	\$ 58,420,000	12/31/06	2,348	965	41.10%	95.00%	\$ 22,809,427
Total Direct and Overlapping Debt	\$ 1,337,369,312						\$ 88,893,485

Source: First Southwest, financial advisors to the District

**Town Center Improvement District
Direct and Overlapping Government Tax Rates
Last Ten Fiscal Years
(amounts expressed in whole dollars)**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Sales Tax ¹										
State of Texas	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625
Montgomery County	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Improvement District	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100
Town Center Economic Development Zone No. 1	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	n/a	n/a	n/a	n/a
Or: Town Center Economic Development Zone No. 2	0.0100	0.0100	0.0100	0.0100	n/a	n/a	n/a	n/a	n/a	n/a
Or: Town Center Economic Development Zone No. 3	0.0100	0.0100	0.0100	0.0100	n/a	n/a	n/a	n/a	n/a	n/a
Or: Town Center Economic Development Zone No. 4	0.0100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Direct and Overlapping Sales Tax	\$0.0825 max *	\$0.0825 max *	\$0.0825 max *	\$0.0825 max *	\$0.0825 max *	\$0.0825 max *	\$ 0.0725	\$ 0.0725	\$ 0.0725	\$ 0.0725
Hotel Occupancy Tax ²										
State of Texas	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600	\$ 0.0600
Montgomery County	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Improvement District	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700
Town Center Economic Development Zone No. 1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Direct and Overlapping Hotel Occupancy Tax	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1300
Property Tax ³										
State of Texas	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Improvement District	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Town Center Economic Development Zone No. 4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montgomery County	\$ 0.4913	\$ 0.4963	\$ 0.4828	\$ 0.4710	\$ 0.4710	\$ 0.4747	\$ 0.4747	\$ 0.4897	\$ 0.4897	\$ 0.4927
Conroe Independent School District	1.5900	1.7600	1.7325	1.7325	1.7225	1.7025	1.7025	1.6905	1.7505	1.6355
North Harris Montgomery Community College District	0.1167	0.1207	0.1145	0.1145	0.1055	0.1100	0.1100	0.1174	0.1198	0.1228
Montgomery County Hospital District	0.0781	0.0850	0.0999	0.1082	0.1338	0.1378	0.1378	0.0785	0.0785	0.0885
The Woodlands Metro Center MUD	0.2300	0.2700	0.3000	0.3000	0.3200	0.4000	0.4000	0.4500	0.4500	0.4600
The Woodlands Municipal Utility District #39	0.4800	0.5800	0.8800	0.8800	0.8800	0.8200	0.7200	0.7200	0.7200	0.7200
The Woodlands Road Utility District #1	0.4800	0.4817	0.5000	0.5000	0.5000	0.5000	0.4925	0.5000	0.5000	0.4900
Total Direct and Overlapping Property Tax	\$ 3.4661	\$ 3.7937	\$ 4.1097	\$ 4.1062	\$ 4.1328	\$ 4.1450	\$ 4.0375	\$ 4.0461	\$ 4.1085	\$ 4.0095

¹ Per \$1.00 of taxable sales. The maximum allowed sales tax rate is 8.25% in Texas.

*Sales tax is applicable based on the physical location of the taxable sale, therefore EDZ sales tax is mutually exclusive of another Zone's sales tax rate.

² Per \$1.00 of taxable room revenue.

³ Per \$100 of assessed valuation.

Sources: Montgomery County Central Appraisal District, Montgomery County Auditor

**Town Center Improvement District
The Woodlands Area Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population ¹	Median		Employers ¹	Jobs ¹	Unemployment Rate ²	School Enrollment ³
		Household Income ¹	Median Age ¹				
2006	83,884	\$109,622	37.5	1,511	42,190	3.3	42,431
2005	80,659	\$105,406	37.5	1,310	39,541	3.9	42,613
2004 ⁴	77,128	\$135,000	40	1,219	37,175	4.8	40,432
2003	74,358	\$127,900	39	1,140	31,500	4.8	39,246
2002	70,050	\$110,000	40	1,112	30,096	4.8	38,016
2001	67,054	\$115,000	39	1,030	26,686	4.3	36,775
2000	63,203	\$115,000	39	984	25,270	2.9	35,105
1999	59,138	\$120,000	40	896	22,629	3.3	33,286
1998	55,063	\$105,000	39	842	20,804	2.8	32,290
1997	50,789	\$100,000	39	787	18,524	3.3	not available

Information presented for informational purposes only. Not used in statistical section calculations.

Sources:

¹The Woodlands Development Company/The Woodlands, Texas

²Economagic.com/Montgomery County, Texas

³Texas Education Agency/Conroe Independent School District

⁴For years 2004 and prior, Median Household Income and Median Age based on new home purchaser profiles only.

**Town Center Improvement District
Taxpayer and Industry Statistics
Current and Last Five Fiscal Years
(amounts expressed in whole dollars)**

*Based on Texas State Comptroller Reports**

Fiscal Year	Taxable Sales Generated	Sales Tax Collected	# of Taxpayers	Per Taxpayer	Median Deposit	Average Deposit	Min Deposit	Max Deposit	Max as % of			
									Total District Sales Tax	Largest Industry	2nd Largest Industry	3rd Largest Industry
2006	1,054,380,000	10,543,800	2,103	5,014	121	5,048	\$ (6,559)	607,202	6%	44 - 45	72	21
2005	917,185,600	9,171,856	1,954	4,694	109	4,567	\$ (29,101)	629,205	7%	5311	5722	5172
2004	831,722,200	8,317,222	1,756	4,736	87	4,382	\$ (26,299)	591,773	7%	5311	5399	5722
2003	725,468,300	7,254,683	1,582	4,586	82	4,578	\$ (63,825)	572,929	8%	5311	5172	5399
2002	730,362,100	7,303,621	1,506	4,850	74	4,759	\$ (25,300)	560,211	8%	5311	5172	7011
2001	689,011,200	6,890,112	1,048	6,575	152	5,901	\$ (1,090)	574,911	8%	5311	5399	5722

Source: Texas State Comptroller reports

Prior to 2004 these reports only include those taxpayers having remitted more than \$100,000 in state and local taxes to the Comptroller in the prior year.

For 2004 and thereafter, reports include those taxpayers having remitted more than \$25,000 in state and local taxes to the Comptroller in the prior year.

Effective 2006 the SIC system of reporting industry sectors changed to the North American Industry Classification System (NAICS) on the Texas Comptroller reports.

Analysis for Town Center Improvement District only, does not include economic development zones.

STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES 1987 - 2005

Standard Industrial Classification (SIC) codes are four digit numerical codes assigned by the U.S. government to business establishments to identify their primary industry. The classification was developed to facilitate the collection, presentation, and analysis of data; and to promote uniformity and comparability in the statistical data collected by various agencies of the federal government, state agencies, and private organizations.

2000 - 2005 Town Center Improvement District Top SIC Industry Codes from analysis above	
5311	Department Stores
5722	Household Appliance Stores
5172	Petroleum and Petroleum Products Wholesalers, Except Bulk Stations and Terminals
5399	Miscellaneous General Merchandise Stores
7011	Hotels and Motels

NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS) - 2006

NAICS uses a six digit hierarchical coding system to classify all economic activity into twenty sectors. Five sectors are mainly goods-producing sectors and fifteen are entirely services-producing sectors. This six digit hierarchical structure allows greater coding flexibility than the four digit structure of the SIC. NAICS provides a new tool that ensures that economic statistics reflect our Nation's changing economy. Establishments that do similar things in similar ways are classified together.

2006 Town Center Improvement District Top NAICS Industry Codes from analysis above	
44 - 45	Retail Trade
72	Accommodation and Food Services
21	Mining
31	Manufacturing
51	Information
42	Wholesale Trade

**Town Center Improvement District
Principal Non-Retail Employers of The Woodlands Area
Current Year and Five Years Ago**

Employer	2006			2001		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Hewitt Associates, LLC	2,600	1	6%	1,300	2	5%
Conroe Independent School District	2,271	2	5%	2100	1	8%
Anadarko Petroleum Corporation	1,850	3	4%	600	4	2%
Memorial Hermann The Woodlands Hospital	1,050	4	2%	560	5	2%
Huntsman Company, LLC	800	5	2%	-	-	-
Montgomery College	751	6	2%	-	-	-
Hughes Christensen	750	7	2%	900	3	3%
Lexicon Genetics	710	8	2%	-	-	-
Chevron Phillips Chemical Co.	600	9	1%	-	-	-
Maersk Sealand	545	10	1%	500	6	2%
Sadler Clinic	-	-	-	380	9	1%
CVS Corporation (previously Eckerd Drug)	-	-	-	450	7	2%
Entergy	-	-	-	275	10	1%
Mitchell Energy & Development	-	-	-	410	8	2%
	<u>11,927</u>		<u>28%</u>	<u>7,475</u>		<u>28%</u>
	42,190 Total Jobs - The Woodlands			26,686 Total Jobs - The Woodlands		

Source: South Montgomery County Woodlands Economic Development Partnership
Detailed statistics could not be obtained prior to 2001.

Town Center Improvement District
Full-time Equivalent Government Employees by Function
Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of December 31									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Security Enhancements										
Public Safety Department Personnel	1	1	1	1	1	0	0	0	0	0
Town Center Ambassador Personnel	4	5	5	0	0	0	0	0	0	0
Image Enhancements (Marketing & Public Affairs)	4	3	2	2	1	1	1	1	0	0
Economic Development	0	0	0	0	0	0	0	0	0	0
Operations & Maintenance	2	2	2	2	2	2	2	1	1	1
General & Administrative (Accounting, Finance, Admin, Executive)	11	11	10	10	9	7	6	6	4	4
	22	22	20	15	13	10	9	8	5	5

**Town Center Improvement District
Capital Asset Statistics by Function
Last Three Fiscal Years**

FUNCTION	2006		2005		2004	
	Quantity	Unit	Quantity	Unit	Quantity	Unit
Security Enhancements ¹						
Patrol Cars & Equipment - Sheriff's Department	\$ 76,913		\$ 55,145		\$ -	
Patrol Bicycles & Equipment - Sheriff's Department	\$ 7,179		\$ 25,833		\$ -	
Rescue & Haz-Mat Vehicles - Fire Department	\$ 1,733		\$ -		\$ 52,000	
Special Equipment - Fire Department	\$ 12,885		\$ 29,904		\$ 19,462	
Communications Equipment - Fire Department	\$ 3,023		\$ 7,929		\$ 5,562	
Traffic Controllers - Fire Department	\$ -		\$ 54,645		\$ -	
Traffic Controllers	-	units	10	units	-	units
Patrol Cars	-	units	2	units	-	units
Patrol Bicycles	-	units	9	units	-	units
Image Enhancements (Marketing & Public Affairs)						
Holiday Lighting Displays & Décor	592	items	592	items	592	items
Economic Development ²						
Hotel Rooms Booked for Conventions	31,875	rooms ³	10,140	rooms ⁴	-	rooms
Total Convention Center Square Feet Booked	10,605,190	sq ft ³	3,268,930	sq ft ⁴	-	sq ft
Operations & Transportation						
Wayfinding Signs	92	signs	92	signs	92	signs
Monument Signs	6	signs	6	signs	6	signs
Sculptures & Public Art	2	pieces	1	piece	-	pieces
Park Acreage - Town Green Park	2.6	acres	2.6	acres	-	acres
Park Acreage - Construction in Progress	1	acres	-	acres	-	acres

¹The District reimburses these entities for a percentage of the equipment and capital to be used in servicing the District. These assets are not owned or maintained by the District.

²For the District built Convention Center. Source: Annual Booking Report for The Woodlands Waterway Marriott Hotel & Convention Center

³For years 2006 and thereafter, a new reporting method was implemented. Statistics represents actual rooms and square feet booked for the year.

⁴For 2005, statistics represent rooms and square feet booked in 2005 for 2005 events.

Other sources not specifically noted include various government departments.

**Town Center Improvement District
Operating Indicators by Function
Last Three Fiscal Years**

FUNCTION	2006	2005	2004
Security Enhancements ¹			
# of Full-Time Officers Funded	19	16	13
# of Private Security Hours Contracted	41,096	53,697	45,336
Traffic Citations	1,040	1,320	795
Total Sheriff Dept Calls	5,574	5,912	5,348
Total Fire Calls	612	611	455
Montgomery County Sheriff's Department	\$ 1,141,977	\$ 889,114	\$ 744,680
Constable Precinct 3	\$ 100,903	\$ 95,050	\$ 85,696
Justice of the Peace Precinct 3	\$ 35,211	\$ 50,332	\$ 48,876
City of Oak Ridge North	\$ 215,635	\$ 215,635	\$ 215,635
City of Shenandoah	\$ 216,464	\$ 216,472	\$ 216,468
The Woodlands Fire Department	\$ 405,600	\$ 390,000	\$ 390,000
Image Enhancements (Marketing & Public Affairs) ²			
Events Produced	6	5	5
# of Articles Published	689	1,106	273
Website Hits	12,789,509	10,900,632	3,069,000
Sponsorships Sold	\$ 287,300	\$ 199,175	\$ 189,547
Economic Development			
Convention Center Bookings ³	864 ⁹	240 ¹⁰	-
# of Jobs ⁴	42,190	39,541	37,175
Funding Requests ⁵	30,000	45,000	50,000
CAP Index Crime Rating ⁶	55	53	53
ISO Rating ⁷	3	3	4
Operations & Transportation			
Transportation - Shuttle Trips ⁸	13,173	13,219	13,091

¹ Derived from interlocal contracts and actual expenses incurred.

² Various government departments. Formal records maintained beginning 2005. May include some estimates.

³ Statistics for the District built Convention Center. Source: The Woodlands Waterway Marriott Hotel

⁴ The Woodlands Development Company

⁵ Each year community organizations apply for funding through a committee process.

⁶ Scores indicate the risk of crime at a site compared to the average of 100.

A score of 400 means the risk is 4 times the average and a score of 50 means the risk is half the average.

⁷ The Woodlands Fire Department

Every homeowner or business pays a premium to their insurance carrier for fire insurance based on ISO ratings.

The ISO rating for fire insurance protection can range from 1 to a 10, with 10 being little or no protection.

Commercial fire ratings are established on an individual basis by ISO.

⁸ Contract compliance reports provided by The Friendship Center

⁹ For years 2006 and thereafter, a new reporting method was implemented. Statistics represents actual rooms and square feet booked for the year.

¹⁰ For 2005, statistics represent rooms and square feet booked in 2005 for 2005 events.

Other sources not specifically noted include various government departments.

SPECIAL REVENUE FUND - STATEMENTS BY PROJECT

**TOWN CENTER IMPROVEMENT DISTRICT
SPECIAL REVENUE FUND - PROJECT BALANCE SHEETS
DECEMBER 31, 2006**

	<u>Economic Development Zone No. 1</u>	<u>Economic Development Zone No. 2</u>	<u>Economic Development Zone No. 3</u>	<u>Total Projects</u>
ASSETS				
Cash and temporary investments	\$ 560	\$ 1,445	\$ 1,006,560	\$ 1,008,565
Taxes receivable, net	20,815	149,630	108,411	278,856
Total Assets	<u>\$ 21,375</u>	<u>\$ 151,075</u>	<u>\$ 1,114,971</u>	<u>\$ 1,287,421</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Other accrued expenditures	\$ 560	\$ 1,445	\$ 6,451	\$ 8,456
Town Green Park Liability	-	3,715,575	-	3,715,575
Total Liabilities	<u>560</u>	<u>3,717,020</u>	<u>6,451</u>	<u>3,724,031</u>
Fund balances:				
Unreserved, designated - reported in:				
Special Revenue Funds	20,815	-	1,108,520	1,129,335
Unreserved, undesignated - reported in:				
Special Revenue Funds	-	(3,565,945)	-	(3,565,945)
Total Fund Balances	<u>20,815</u>	<u>(3,565,945)</u>	<u>1,108,520</u>	<u>(2,436,610)</u>
Total Liabilities and Fund Balances	<u>\$ 21,375</u>	<u>\$ 151,075</u>	<u>\$ 1,114,971</u>	<u>\$ 1,287,421</u>

**TOWN CENTER IMPROVEMENT DISTRICT
SPECIAL REVENUE FUND - PROJECT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Economic Development Zone No. 1</u>	<u>Economic Development Zone No. 2</u>	<u>Economic Development Zone No. 3</u>	<u>Total Projects</u>
REVENUES				
Sales tax	\$ 150,945	\$ 795,133	\$ 512,994	\$ 1,459,073
Investment earnings	1,333	9,798	40,977	52,108
Total Revenues	<u>152,278</u>	<u>804,931</u>	<u>553,972</u>	<u>1,511,181</u>
EXPENDITURES				
Current:				
General and administrative	\$ 4,445	\$ -	\$ -	\$ 4,445
Capital Outlay	149,842	5,254,531	192,655	5,597,028
Debt Service:				
Principal	-	-	-	-
Interest and fiscal charges	-	223,889	-	223,889
Total Expenditures	<u>154,287</u>	<u>5,478,420</u>	<u>192,655</u>	<u>5,825,362</u>
Excess/(deficiency) of revenues over/(under) expenditures	(2,009)	(4,673,489)	361,316	(4,314,181)
OTHER FINANCING SOURCES/(USES)				
Developer Contributions	-	2,505,000	-	2,505,000
Net Change in Fund Balances	(2,009)	(2,168,489)	361,316	(1,809,181)
Fund balances - Beginning of Year	<u>22,824</u>	<u>(1,397,457)</u>	<u>747,204</u>	<u>(627,429)</u>
Fund balances - End of Year	<u>\$ 20,815</u>	<u>\$ (3,565,945)</u>	<u>\$ 1,108,520</u>	<u>\$ (2,436,610)</u>