



# TOWN CENTER IMPROVEMENT DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended  
December 31, 2005



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

**Prepared by:  
Finance & Administration Department**

Electronic version available at [www.town-center.com](http://www.town-center.com)

**Town Center Improvement District  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended December 31, 2005**

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## INTRODUCTORY SECTION



May 31, 2006

To the Chairman, Members of the Board, 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, 2005. This report is published to provide the Board of Directors, District staff, our taxpayers, 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, 2005. 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.

#### *Profile of the Government*

The Town Center Improvement 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 ("District Act"). The District was created to promote, develop, encourage, and maintain employment, commerce, economic development and 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 940 acres and serves a population of approximately 80,000. 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.



Five of the District's Board members are elected by the community and six are appointed. 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;
- economic development within the community by being a pivotal player in business relocation, business retention, new industry, and job creation;
- business promotion which entails the promotion of area retailers and hotels, destination marketing efforts, 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, fountains, parks, and plazas; and finally,
- transportation, including shuttle services.

Additionally, three economic development zones have been created within the boundaries of the District. The Zones collect an additional 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 Board of Town Center Improvement District. All of the services funded by the Town Center Improvement District and the three economic development zones are included in the District's financial statements. 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 (see Note 2A).

#### *Local economy*

Major businesses located within the government'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 twelve years, the County's unemployment rate has decreased from 5.2% in 1993 to a relatively low rate of 3.9% as of December 2005. 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 34% for fiscal year 2000 and 32% for fiscal year 2005. 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 53 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.

For the same period of time, general and administrative expenses as a percentage of revenue for the General Fund have also been controlled at 15% for fiscal year 2000 and 12% for fiscal year 2005, 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.

#### *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. The Board has designated \$3.6 million for the construction of Town Green Park, a 2.6 acre public park to be completed in Spring 2006; and, \$4.3 million for the construction of Waterway Square, a multi-level public plaza and park featuring a water wall and large fountain system. Following its recent review of the District's Visioning 2020 plan, the Board established a Cultural Arts Task Force charged with the mission to conduct a needs assessment study, propose a possible cultural arts venue suitable for the needs of the area, and perform cost analysis and feasibility studies on the proposed project. As outlined in the District's Visioning 2020 plan, the project could eventually include the development of a theater, performing arts complex, a museum, or sports and recreation venues that draw people to Town Center. At this time a needs assessment study is currently underway and costs are being determined.

#### *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 (GFOA) awards participating governments a Certificate of Achievement for Excellence in Financial Reporting for publishing an easily readable and efficiently organized



comprehensive annual financial report (CAFR) that satisfies generally accepted accounting principles, applicable legal requirements and other GFOA Certificate of Achievement Program requirements. We believe that our current CAFR meets the Certificate of Achievement Program requirements as we submit it to GFOA for the first time to determine its eligibility for a certificate.

We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Chairman and Board members for their unfailing support for maintaining the highest standards of professionalism in the management of the Town Center Improvement District's finances.

Respectfully submitted,

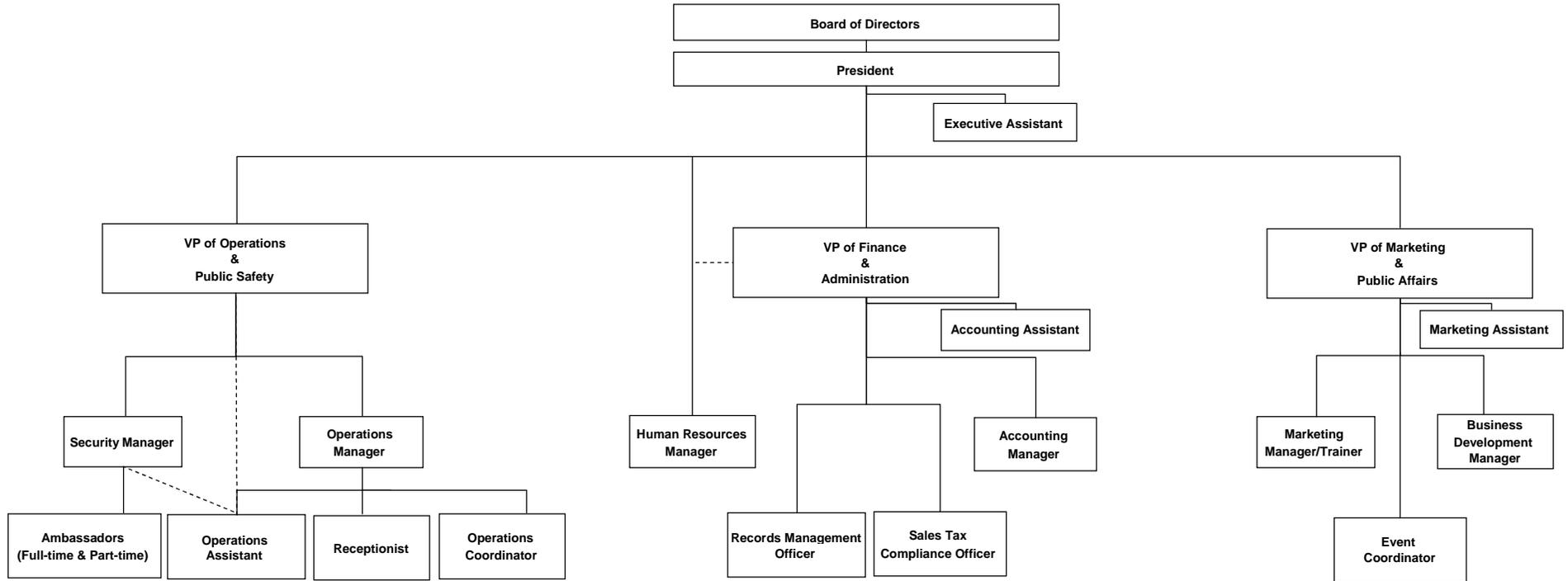
A handwritten signature in black ink, appearing to be "B. A. Pate".

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

A handwritten signature in black ink, appearing to be "Frank W. Robinson".

Frank W. Robinson  
President

# TOWN CENTER IMPROVEMENT DISTRICT ORGANIZATIONAL CHART



**TOWN CENTER IMPROVEMENT DISTRICT  
APPOINTED AND ELECTED OFFICIALS  
For the Year Ended December 31, 2005**

<b>APPOINTED</b>
Chairman (Appointed by the WCOA) <b>Dr. Ed Robb III</b> (first elected by the Board as Chairman, May 18, 2005) <i>Term expires: 1<sup>st</sup> Sat. May 2006</i>
Treasurer/Assistant Secretary (Appointed by City of Oak Ridge North) <b>Mr. Fred O'Connor, Mayor of Oak Ridge North</b> (first elected by the Board as Treasurer/Asst Secretary, May 18, 2005) <i>Term expires: 1<sup>st</sup> Sat. May 2008</i>
Secretary (Appointed by the TWA) <b>Mr. Lloyd Matthews</b> (first elected by the Board as Secretary, July 28, 2004) <i>Term expires: 1<sup>st</sup> Sat. May 2006</i>
Director (Appointed by Montgomery County Precinct 3) <b>Ms. Nelda Luce Blair</b> <i>Term expires: 1<sup>st</sup> Sat. May 2008</i>
Director (Appointed by the WCA) <b>Ms. Peggy Hausman</b> <i>Term expires: 1<sup>st</sup> Sat. May 2008</i>
Director (Appointed by City of Shenandoah) <b>Mr. Ken Smith</b> <i>Term expires: 1<sup>st</sup> Sat. May 2008</i>
<b>ELECTED</b>
Vice-Chairman (Elected) <b>Ms. Vicki Richmond</b> (first elected by the Board as Vice-Chairman, May 18, 2005) <i>Term expires: 1<sup>st</sup> Sat. May 2006</i>
Director (Elected) <b>Mr. Bob Kinnear</b> <i>Term expires: 1<sup>st</sup> Sat. May 2008</i>
Director (Elected) <b>Mr. Roger Galatas</b> <i>Term expires: 1<sup>st</sup> Sat. May 2006</i>
Director (Elected) <b>Mr. Alex Sutton</b> <i>Term expires: 1<sup>st</sup> Sat. May 2006</i>
Director (Elected) <b>Mr. Bruce Withers</b> <i>Term expires: 1<sup>st</sup> Sat. May 2006</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, each major fund, and the aggregate remaining fund information of Town Center Improvement District, ("District") as of and for the year ended December 31, 2005, 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, each major fund, and the aggregate remaining fund information of Town Center Improvement District as of December 31, 2005, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Null-Lairson, P. C.*

Houston, Texas  
March 3, 2006

## **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, 2005.

### **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 21-22 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, 2005, 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 six 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 Economic Development Zone No. 2 fund all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 23-26 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 27-47 of this report.

### **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements can be found on pages 49-50 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 \$23 million as of December 31, 2005. The principal reason for this 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 \$27.2 million. Of this amount, approximately \$16.5 million consisted of cash and temporary investments, approximately \$4.9 million represented receivables, and \$5.8 million represented capital assets net of \$562,668 in accumulated depreciation. The remaining balance of the assets consists of various prepaid expenses. Of the \$2.9 million change in net assets, \$1.5 million relates to an increase in capital assets for Town Green Park

construction, with the remaining amount attributable to the degree to which increases in ongoing revenues exceeded increases in ongoing expenses.

Total liabilities were approximately \$50.4 million as of year end. Of this amount, approximately \$49.8 million consisted of debt and accrued interest associated with our outstanding bonds, of which \$1.2 million is payable within the next year. The decrease in 2005 long-term liabilities relates to the principal reduction on our outstanding debt. The remaining balance of the liabilities consists of accounts payable and accrued expenses. For the fiscal year ended December 31, 2005 the District's overall financial position has improved as the deficit in total net assets has decreased by \$2.9 million. A schedule of net assets, at December 31, 2005, follows:

**TOWN CENTER IMPROVEMENT DISTRICT  
SCHEDULE OF NET ASSETS  
DECEMBER 31, 2005**

		<u>Governmental Activities</u>	
		<u>2005</u>	<u>2004</u>
Current and other assets		\$ 21,437,262	\$ 21,413,053
Capital assets		5,843,824	4,479,666
	<b>Total Assets</b>	<b><u>27,281,086</u></b>	<b><u>25,892,719</u></b>
Other liabilities		1,484,189	1,711,240
Long-term liabilities outstanding		48,925,000	50,204,919
	<b>Total Liabilities</b>	<b><u>50,409,189</u></b>	<b><u>51,916,159</u></b>
 <b>Net Assets</b>			
Invested in capital assets, net of related debt		2,154,135	589,138
Restricted		1,163,663	1,125,634
Unrestricted		(26,445,901)	(27,738,212)
	<b>Total Net Assets</b>	<b><u>\$ (23,128,103)</u></b>	<b><u>\$ (26,023,440)</u></b>

Changes in net assets, for the year ended December 31, 2005, follows:

**TOWN CENTER IMPROVEMENT DISTRICT  
CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
<b>General Revenues</b>		
Sales taxes	\$ 10,336,875	\$ 9,089,653
Hotel occupancy taxes	2,568,060	2,279,445
Unrestricted investment earnings	661,421	514,499
Miscellaneous income	60,137	39,538
<b>Program Revenues</b>		
Image enhancements	378,143	364,110
<b>Total Revenues</b>	<u>14,004,636</u>	<u>12,287,245</u>
<b>Expenses</b>		
<b>General Expenses</b>		
General and administrative	2,693,038	2,089,425
Interest on long-term debt	2,544,774	2,627,819
<b>Program Expenses</b>		
Security enhancements	3,982,691	3,588,614
Image enhancements	1,484,622	1,393,670
Economic development	506,998	198,637
Operations & maintenance	197,178	233,233
<b>Total Expenses</b>	<u>11,409,300</u>	<u>10,131,397</u>
<b>Excess/(Deficiency)</b>	2,595,336	2,155,847
<b>Gain on land sale</b>	300,000	-
<b>Increase in Net Assets</b>	2,895,336	2,155,847
<b>Net Assets - Beginning</b>	<u>(26,023,440)</u>	<u>(28,179,287)</u>
<b>Net Assets - Ending</b>	<u>\$ (23,128,103)</u>	<u>\$ (26,023,440)</u>

## **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 combined ending fund balances of approximately \$19 million, an increase of \$177 thousand or 1% in comparison with the prior year. This increase is primarily due to the current year operating surplus. Approximately \$10.5 million of this total constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) fund authorized projects of approximately \$6.5 million; and, 2) pay debt service of approximately \$2 million.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance in the General Fund was approximately \$10.5 million. 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 decreased by approximately \$1.75 million during the current fiscal year. The decrease is primarily due to debt service transfers of \$3.6 million, and transfers for approved capital projects of \$3.2 million in 2005.

The Debt Service Fund has a total fund balance of approximately \$2 million, all of which is reserved for the payment of debt service.

### **Debt Administration**

At the end of the current fiscal year, the District had total debt outstanding of approximately \$48.9 million. Additional information on the District's long-term debt can be found in the footnotes to the financial statements on pages 41-43.

Moody's Investors Services (Moody's) and Standard & Poor's (S&P) have provided ratings on the District issued and outstanding bonds of "Aaa" and "AAA" respectively, based on the issuance of the Municipal Bond Guaranty Insurance Policy issued in respect to the bonds by the District. The underlying rating of the District is "Baa2" by Moody's and "BBB" by S&P.

### **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.

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.

As stated above, 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 three 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, while 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, and Economic Development Zone No. 3 is the south mall expansion project which added 150,000 additional square feet of mixed retail and restaurant space.

### **Retail**

The Woodlands Mall, surrounding retail establishments and restaurants are synonymous with shopping, dining and entertainment. With the additions of 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 2005 was up \$1.2 million or 13.7%.

In 2005, construction began on three new buildings totaling 36,123 square feet of mixed use retail and office space near The Waterway within the District. Construction also began on the first building along The Waterway and will feature 20,745 gross rentable retail space on the ground floor. Additional development is planned along The Woodlands Waterway, a 1.25-mile linear park and transportation corridor located within the District.

### **Hotels**

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 18.6% over the prior year. Furthermore, the occupancy rate increased by 6.2% and the RevPAR (revenue per available room) increased approximately 8.69% to an average rate of \$81.63. As a result, hotel occupancy tax revenue increased \$289 thousand or 12.7% in 2005. The Woodlands Waterway Marriott Hotel and the District built Convention Center experienced breakthrough success in 2005 and look for this momentum to continue into 2006 and beyond. 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. In 2005, over 93,000 rooms were occupied, and the hotel served over 450,000 meals to people attending a meeting or banquet event at the Convention Center.

Accordingly, overall travel is rebounding and the convention and group business is the strongest segment, growing at over 15% from the prior year. The success of The Woodlands Waterway Marriott Hotel and Convention Center is the basis for Montgomery County experiencing the largest RevPAR growth for 2005 in Greater Houston, doubling the growth experienced in the Houston Area.

## **Capital Assets**

As of December 31, 2005, the District's Board of Directors had approved transfers of \$3.5 million to the Capital Projects Fund for the financing of Town Green Park, a 2.6 acre green space located in the District. Additional transfers of \$125,000 had previously been approved and designated in the Capital Projects Fund for the construction of the With Hope Sculpture to be located within the park. During 2005, construction draw payments began on these projects. As of December 31, 2005, draw payments totaling \$1.5 million were capitalized and recorded as construction in progress on the government-wide financial statements. In addition, a receivable was also established in the General Fund with a corresponding liability recorded by Economic Development Zone No. 2 to account for the eventual 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. Project completion is expected in the Spring of 2006. A summary of the District's capitalized fixed assets can be found in Note 2 and Note 7 of the financial statements.

## **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, 2005**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and temporary investments	\$ 16,529,787
Receivables	4,874,040
Prepaid expenses	33,435
Capital assets, net of \$562,668 in accumulated depreciation	5,843,824
<b>Total Assets</b>	<b><u>27,281,086</u></b>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	651,110
Accrued interest payable	833,079
Noncurrent liabilities:	
Due within one year - Bonds	1,255,000
Due in more than one year - Bonds	47,670,000
<b>Total Liabilities</b>	<b><u>50,409,189</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,154,135
Restricted for debt service	1,163,663
Unrestricted	(26,445,901)
<b>Total Net Assets</b>	<b><u>\$ (23,128,103)</u></b>

See Notes to Financial Statements.

**TOWN CENTER IMPROVEMENT DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Functions/Programs</b>	<b><u>Expenses</u></b>	<b><u>Program Revenue</u></b>	<b><u>Net (Expense)/ Revenue and Changes in Net Assets</u></b>
		<b><u>Operating Contributions</u></b>	<b><u>Total Governmental Activities</u></b>
Governmental activities			
Security enhancements	\$ 3,982,691	\$ -	\$ (3,982,691)
Image enhancements	1,484,622	378,143	(1,106,479)
Economic development	506,998	-	(506,998)
Operations & maintenance	197,178	-	(197,178)
General and administrative	2,693,038	-	(2,693,038)
Interest on long-term debt	2,544,774	-	(2,544,774)
Total governmental activities	<u>\$ 11,409,300</u>	<u>\$ 378,143</u>	<u>(11,031,157)</u>
<b>General Revenues:</b>			
Taxes:			
Sales taxes			10,336,875
Hotel occupancy taxes			2,568,060
Unrestricted investment earnings			661,421
Miscellaneous			60,137
Total General Revenues			<u>13,626,493</u>
Gain on land sale			<u>300,000</u>
Change in Net Assets			2,895,336
Net Assets - Beginning			<u>(26,023,440)</u>
Net Assets - Ending			<u>\$ (23,128,103)</u>

See Notes to Financial Statements.

**TOWN CENTER IMPROVEMENT DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<b>General</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Economic Development Zone No. 2</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and temporary investments	\$ 13,848,471	\$ 68,256	\$ 1,959,824	\$ 414	\$ 652,822	\$ 16,529,787
Sales tax receivable	2,394,879	-	-	130,254	123,919	2,649,052
Hotel occupancy tax receivable	167,376	-	-	-	-	167,376
Other receivables	140,003	-	36,918	-	-	176,921
Due from other funds	-	7,102,752	-	-	-	7,102,752
Prepaid expenditures	33,435	-	-	-	-	33,435
Town Green Park receivable	1,504,986	-	-	-	-	1,504,986
Total Assets	<u>\$ 18,089,150</u>	<u>\$ 7,171,008</u>	<u>\$ 1,996,742</u>	<u>\$ 130,668</u>	<u>\$ 776,741</u>	<u>\$ 28,164,309</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 14,219	\$ -	\$ -	\$ -	\$ -	\$ 14,219
Due to other funds	7,102,752	-	-	-	-	7,102,752
Other accrued expenditures	443,164	-	-	23,139	6,713	473,016
Town Green Park liability	-	-	-	1,504,986	-	1,504,986
Total Liabilities	<u>7,560,135</u>	<u>-</u>	<u>-</u>	<u>1,528,125</u>	<u>6,713</u>	<u>9,094,973</u>
Fund balances:						
Reserved for:						
Capital expenditures	-	68,256	-	-	-	68,256
Debt service	-	-	1,996,742	-	-	1,996,742
Unreserved, designated - reported in:						
Capital Projects	-	7,102,752	-	-	-	7,102,752
Special Revenue Funds	-	-	-	(1,397,457)	770,028	(627,429)
Unreserved, undesignated	10,529,015	-	-	-	-	10,529,015
Total Fund Balances	<u>10,529,015</u>	<u>7,171,008</u>	<u>1,996,742</u>	<u>(1,397,457)</u>	<u>770,028</u>	<u>19,069,336</u>
Total Liabilities and Fund Balances	<u>\$ 18,089,150</u>	<u>\$ 7,171,008</u>	<u>\$ 1,996,742</u>	<u>\$ 130,668</u>	<u>\$ 776,741</u>	<u>\$ 28,164,309</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, 2005***

Total fund balance, governmental funds \$ 19,069,336

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 5,843,824

Certain other receivables are not available to pay current period expenditures and are, therefore, not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets 1,880,692

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	(48,925,000)
Accrued interest	(833,079)
Accrued rent on office space	(155,864)
Compensated absences	(8,012)

Net Assets of Governmental Activities in the Statement of Net Assets	\$ (23,128,103)
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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, 2005**

	<b>General</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Economic Development Zone No. 2</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>						
Sales tax	\$ 9,171,856	\$ -	\$ -	\$ 583,698	\$ 581,321	\$ 10,336,875
Hotel occupancy tax	2,568,060	-	-	-	-	2,568,060
Image enhancements	378,143	-	-	-	-	378,143
Investment earnings	448,071	1,916	142,962	2,583	19,077	614,609
Miscellaneous	60,137	-	-	-	-	60,137
<b>Total Revenues</b>	<b>12,626,267</b>	<b>1,916</b>	<b>142,962</b>	<b>586,281</b>	<b>600,398</b>	<b>13,957,824</b>
<b>EXPENDITURES</b>						
Current:						
Security enhancements	3,983,156	-	-	-	-	3,983,156
Image enhancements	1,484,804	-	-	-	-	1,484,804
Economic development	506,998	-	-	-	-	506,998
Operations & maintenance	196,333	-	-	-	-	196,333
General and administrative	1,531,516	-	-	8,813	10,167	1,550,496
Capital outlay	59,819	154,944	-	2,052,575	246,335	2,513,673
Debt Service:						
Principal	89,919	-	1,190,000	-	-	1,279,919
Interest and fiscal charges	4,788	-	2,560,361	-	-	2,565,149
<b>Total Expenditures</b>	<b>7,857,333</b>	<b>154,944</b>	<b>3,750,361</b>	<b>2,061,388</b>	<b>256,502</b>	<b>14,080,528</b>
<b>Excess/(deficiency) of revenues over/(under) expenditures</b>	<b>4,768,934</b>	<b>(153,028)</b>	<b>(3,607,399)</b>	<b>(1,475,107)</b>	<b>343,896</b>	<b>(122,704)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>						
Transfers in/(out)	(6,819,158)	3,194,105	3,625,053	-	-	-
Proceeds from land sale	300,000	-	-	-	-	300,000
<b>Total other financing sources/(uses)</b>	<b>(6,519,158)</b>	<b>3,194,105</b>	<b>3,625,053</b>	<b>-</b>	<b>-</b>	<b>300,000</b>
<b>Net Change in Fund Balances</b>	<b>(1,750,224)</b>	<b>3,041,077</b>	<b>17,654</b>	<b>(1,475,107)</b>	<b>343,896</b>	<b>177,296</b>
Fund Balances - Beginning of Year	12,279,239	4,129,931	1,979,088	77,650	426,132	18,892,040
<b>Fund Balances - End of Year</b>	<b>\$ 10,529,015</b>	<b>\$ 7,171,008</b>	<b>\$ 1,996,742</b>	<b>\$ (1,397,457)</b>	<b>\$ 770,028</b>	<b>\$ 19,069,336</b>

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, 2005***

Net change in fund balances - total governmental funds: \$ 177,296

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. 1,364,158

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 46,812

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 repayments 1,279,919

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 (2,367)  
 Accrued interest 20,375

Change in net assets of governmental activities \$ 2,895,336

See Notes to Financial Statements.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

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 73<sup>rd</sup> 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. The District's Board of Directors held its organizational meeting on August 18, 1993. The District Act was amended by Senate Bill 26, passed by the 75<sup>th</sup> Texas Legislature, Regular Session, 1997, by Senate Bill 1807, passed by the 76<sup>th</sup> Texas Legislature, Regular Session, 1999 and by Senate Bill 1353, passed by the 79<sup>th</sup> Texas Legislature, Regular Session, 2005. See Note 13 for additional disclosure regarding significant provisions of the District Act, as amended.

Located approximately 27 miles north of downtown Houston, Texas, the District (Town Center area of The Woodlands) is generally bounded on the south by The Woodlands Parkway, on the east by Interstate Highway 45, on the north by Lake Woodlands Drive and on the west by Grogan's Mill Road. In addition, the District annexed a portion of land totaling approximately 74.48 acres at the northwest intersection of State Highway 242 and Interstate 45. On August 30, 2000, the District annexed into its boundaries an additional 12.792 acres of land along Research Forest Drive west of Interstate 45. In 2001, the District annexed approximately 49.7754 acres, which includes The Woodlands Resort and Conference Center. The area is devoted primarily to commercial and business activity and includes The Woodlands Mall and Market Street, as well as other retail, business office and residential developments. The District's primary activities include economic development, promotion of the local business community, public safety and creation of jobs within the District and the surrounding area. The District is governed by an eleven (11) member Board of Directors and employs permanent staff, which includes a President. Five of the District's Board Members are elected and six are appointed by 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.

**NOTE 2 - 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. 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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

A. Reporting Entity (continued)

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. 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.

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 and general and administrative services.

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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

A. Reporting Entity (continued)

*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.

Separately issued audited financial statements are not issued for the blended 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. 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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

B. Government-Wide and Fund Financial Statements (continued)

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 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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

C. Measurement Focus and Basis of Accounting (continued)

The ***Economic Development Zone No. 2 Fund*** is used to account for the activities of the Town Center Economic Development Zone No. 2. Town Center Economic Development Zone No. 2 was established to further the promotion and stimulation of business, commercial and economic activity in the Zone as well as the District.

Additionally, the District reports the following fund types:

The ***Special Revenue Funds*** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes. Special Revenue Funds include Town Center Economic Development Zone No. 1 and Town Center Economic Development Zone No. 3.

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.

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.

**TOWN CENTER IMPROVEMENT DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2005**

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

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 as follows:

<b>Asset Description</b>	<b>Estimated Useful Life</b>
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
Land Improvements	20 to 30 years
Infrastructure	20 to 50 years
Land	n/a
Construction in Progress	n/a

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

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 included in the results of operations of the governmental funds.

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, 2005, the District recorded compensated absences of \$8,012 in accrued liabilities on the government-wide financial statements.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

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 3 – DEFICIT FUND EQUITY**

Economic Development Zone No. 2 has a deficit fund balance of \$1.4 million as of December 31, 2005. In accordance with the project and financing plan adopted by the Board, this deficit relates specifically to the cost of construction for Town Green Park including certain related legal fees recorded by the Zone. The District transferred funds to the Capital Projects Fund for the park's construction draw payments which began in 2005. The capital outlay expenditures and related interfund liability to the General Fund are recorded in Economic Development Zone No. 2. The current financing plan for the Zone allows for the repayment of \$4.3 million in approved project costs of which \$3.6 million has been authorized and transferred from the District's General Fund.

The related General Fund receivable and Economic Development Zone No. 2 liability is recorded in the fund financial statements only. The related interfund receivable and liability have been excluded from the government-wide financials.

**NOTE 4 – 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, deposits with financial institutions, money market mutual funds, and short-term investments in private-managed public funds investment pool accounts such as TexPool.

Deposits and Custodial Credit Risk

State statutes require that all 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, 2005, of the total bank balances including certificates of deposits, the Federal Depository Insurance Corporation (FDIC) covered \$100,000. The remaining balance was properly collateralized in accordance with the State, as well as, the District's internal investment policy.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 4 – DEPOSITS AND INVESTMENTS (continued)**

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.

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, 2005 the District had the following certificates of deposit, investments, maturities and credit quality:

<b>Investment</b>	<b>Fair Value</b>	<b>Weighted Average Maturity Days</b>	<b>Credit Risk</b>
Certificates of Deposit	\$3,500,000	7	Green/Three Star
TexPool	\$8,491,972	1	AAAm
AIM Sweep Account	\$1,308,374	1	AAAm
<b>Total</b>	<b>\$13,300,346</b>		

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, 2005, checking and time deposits at Woodforest National Bank (a privately-held bank) and Amegy Bank (Moody’s rated Baa1) represented 8% of the District’s cash balances. Certificates of deposit held at Encore Bank (Veribanc credit rating, green/three star) represented 21%; while TexPool (S&P rated, AAAm) and AIM investments (S&P, rated AAAm) represented 51% and 8%, respectfully. Additionally, the District’s debt service reserve which is restricted by the terms of the Bond Resolution, represents approximately 12% of the District’s cash balances and is held by Bayerische Hypo-und Vereins Bank AG, rated A-1 by S&P.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 5 - 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 similar events. The District collected \$2,568,060 from the levy of this tax for the fiscal year ended December 31, 2005.

**NOTE 6 - 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 \$10,336,875 from the levy of this sales and use tax for the fiscal year ended December 31, 2005.

**NOTE 7 - GENERAL FIXED ASSETS**

A summary of changes in general fixed assets, for the year ended December 31, 2005, follows:

<b>Governmental Activities</b>	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Balance End of Year</b>
Depreciable Assets:				
Pavilion Parking Garage	\$ 3,100,813	\$ -	\$ -	\$ 3,100,813
Visual improvements	433,197	-	-	433,197
Furniture	30,881	-	-	30,881
Equipment	376,104	22,088	(26,901)	371,291
Sound system	26,874	-	-	26,874
Leasehold improvements	80,011	-	-	80,011
Total Depreciable Assets	<u>\$ 4,047,880</u>	<u>\$ 22,088</u>	<u>\$ (26,901)</u>	<u>\$ 4,043,067</u>
Nondepreciable Assets:				
Construction in Progress	\$ -	\$ 1,527,711	\$ -	\$ 1,527,711
Land	835,714	-	-	835,714
Total Nondepreciable Assets	<u>\$ 835,714</u>	<u>\$ 1,527,711</u>	<u>\$ -</u>	<u>\$ 2,363,425</u>
Less: Accumulated Depreciation	(403,928)	(177,412)	18,672	(562,668)
Capital Assets, net of depreciation	<u>\$ 4,479,666</u>	<u>\$ 1,372,387</u>	<u>\$ (8,229)</u>	<u>\$ 5,843,824</u>

Depreciation expense of \$177,412 for the year was charged to general and administrative expenses in the District's governmental activities.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 8 – CONSTRUCTION COMMITMENTS**

As of December 31, 2005, the District had active construction projects for Town Green Park and the With Hope Sculpture to be located within the park. During 2005, construction draws began on these projects with payments totaling \$1.5 million paid during the current fiscal period. As of December 31, 2005, this amount was capitalized in the government-wide financials. Project completion for the park including the sculpture is expected in the Spring of 2006.

Construction Commitments

<b>Project</b>	<b>Amount Authorized</b>	<b>Spent-to-date</b>	<b>Remaining Commitment</b>
Town Green Park	\$3,500,000	(\$1,424,686)	\$2,075,314
With Hope Sculpture	125,000	(80,300)	44,700
<b>Total</b>	<b>\$3,625,000</b>	<b>(\$1,504,986)</b>	<b>\$2,120,014</b>

In addition to construction draw payments, legal fees related to this project have been capitalized for total construction-in-progress as of December 31, 2005 of \$1,527,711.

**NOTE 9 – INTERFUND RECEIVABLES AND PAYABLES**

As of December 31, 2005, interfund balances include:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 7,102,752
General Fund	Special Revenue Fund	1,504,986 *
		<u>\$ 8,607,738</u>

\*Relates to the Town Green Park receivable and excludes related project legal fees. Also see Note 8.

**Capital Projects Fund Balances  
As of December 31, 2005**

	<u>Balance</u>
I-45 Beautification Project Phase II	\$ 200,000
Ambassador Equipment	18,900
Public Safety Surveillance System	355,000
Patrol Vehicles	10,827
Fire Department Equipment	37,347
Town Green Park Construction	2,120,014
Waterway Square Construction	4,343,164
Garage Replacement Reserve	17,500
<b>Total</b>	<b>\$ 7,102,752</b>

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 9 – INTERFUND RECEIVABLES AND PAYABLES (continued)**

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

**NOTE 10 – INTERFUND TRANSFERS**

As of December 31, 2005, interfund transfers include:

Transfer out:	Transfer in:				Total
	General Fund	Capital Projects Fund	Debt Service Fund	Special Revenue Fund	
General Fund	\$ -	\$ (4,699,091)	\$ (3,625,053)	\$ -	\$ (8,324,144)
Capital Projects Fund					-
Debt Service Fund					-
Economic Dev Zone 2	1,504,986				1,504,986
Total	<u>\$ 1,504,986</u>	<u>\$ (4,699,091)</u>	<u>\$ (3,625,053)</u>	<u>\$ -</u>	<u>\$ (6,819,158)</u>

Transfers from the General Fund to the Capital Projects Fund of \$4.6 million include Board approved transfers for: Waterway Square construction (\$4.3 million), a public safety surveillance system (\$225 thousand), the With Hope Sculpture to be located in Town Green Park (\$125 thousand), and the replacement reserve for the Town Center parking garage (\$6 thousand).

Transfers from the General Fund to the Debt Service Fund of \$3.6 million include \$916 thousand in hotel occupancy tax and \$2.7 million in pledged sales tax used to service debt in accordance with the Bond Resolution.

Transfers from Economic Development Zone No. 2 to the General Fund of \$1.5 million represent the amount of construction draw payments made by the District for Town Green Park construction during 2005.

**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. As such the historical cost associated with the leased assets have not been recorded by the District.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 11 – LONG-TERM LEASES (continued)**

***Hotel/Convention Center (continued)***

At the April 27, 2005, Board of Directors meeting, the Board considered bids and proposals for the purchase of 0.3817 acres of District land that was a part of the Convention Center Lease and authorized the execution and delivery of all related documents by the District’s Chairman of the Board related to such sale. The District entered into a purchase and sale agreement with The Woodlands Land Development Company, L.P. for the tract of land in the amount of \$300,000. The District’s cost basis in the 0.3817 acres of land was \$207,837. Since the assets associated with the lease were never recorded by the District, \$300,000 was recognized as a gain on the sale in the government-wide financial statements. The proceeds from the sale of \$300,000 have also been recorded in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds as other financing sources.

The District’s revised cost basis for these facilities immediate following the sale is shown below.

<b>Category</b>	<b>Original Cost Basis</b>	<b>Sale/Transfers</b>	<b>Revised Cost Basis</b>
Land	\$4,263,209	(\$207,837)	\$4,055,372
Hotel/Convention Center and Sky Bridge	32,260,721	-	32,260,721
Garage (portion attributable to 500 parking spaces)	2,562,968	-	2,562,968
<b>Total</b>	<b><u>\$39,086,898</u></b>		<b><u>\$38,879,061</u></b>

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.

<b>Year</b>	<b>Annual Base Rental Amount</b>
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.

The Convention Center Lease will generate \$9,600,000 in total remaining lease payments from The Woodlands Hotel, L.P. over the term of the lease. The future minimum lease payments are \$1,880,692 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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 11 – LONG-TERM LEASES (continued)**

***Hotel/Convention Center (continued)***

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.

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 716	\$ 99,284	\$ 100,000
2007	754	99,246	100,000
2008	794	99,206	100,000
2009	836	99,164	100,000
2010	880	99,120	100,000
2011-2015	5,148	494,852	500,000
2016-2020	6,659	493,342	500,000
2021-2025	8,612	491,388	500,000
2026-2030	11,138	488,862	500,000
2031-2035	14,405	485,595	500,000
2036-2040	18,630	481,370	500,000
2041-2045	24,095	475,905	500,000
2046-2050	31,163	468,837	500,000
2051-2055	40,304	459,696	500,000
2056-2060	52,127	447,873	500,000
2061-2065	67,418	432,582	500,000
2066-2070	87,194	412,806	500,000
2071-2075	112,771	387,229	500,000
2076-2080	145,850	354,150	500,000
2081-2085	188,633	311,367	500,000
2086-2090	243,965	256,035	500,000
2091-2095	315,529	184,471	500,000
2096-2100	408,084	91,916	500,000
2101	94,986	5,014	100,000
<b>Total</b>	<b>\$ 1,880,692</b>	<b>\$ 7,719,309</b>	<b>\$ 9,600,000</b>

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 11 – LONG-TERM LEASES (continued)**

***Hotel/Convention Center (continued)***

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, 2005, is \$48,925,000.

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.

<b>Category</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Land	\$835,713	-	\$835,713
Garage (portion attributable to 599 parking spaces)	3,070,436	153,522	2,916,914
<b>Total</b>	<b>\$3,906,149</b>	<b>\$153,522</b>	<b>\$3,752,627</b>

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, 2005.

**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. 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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 12 – GENERAL LONG-TERM DEBT (continued)**

The following is a summary of general long-term debt transactions for the year ended December 31, 2005:

Bonds payable, beginning of year	\$ 50,115,000
Principal payments	<u>(1,190,000)</u>
Bonds payable, end of year	<u><u>\$ 48,925,000</u></u>

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	\$ 48,925,000	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>
2006	1,255,000	2,499,236	3,754,236
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
2011-2015	8,670,000	10,092,551	18,762,551
2016-2020	11,420,000	7,339,516	18,759,516
2021-2025	14,870,000	3,886,635	18,756,635
2026-2027	7,125,000	378,919	7,503,919
	<u><b>\$ 48,925,000</b></u>	<u><b>\$ 33,618,248</b></u>	<u><b>\$ 82,543,248</b></u>

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 12 – GENERAL LONG-TERM DEBT (continued)**

Obligations Under Capital Leases

In a prior year, the District entered into a lease purchase agreement for the Winter Wonderland Holiday Light Display costing \$270,000. The lease is for a period of three years with annual payments of \$94,707. The cost of the equipment acquired is recorded in capital assets. The lease is a capital lease for financial reporting. As of December 31, 2005, the lease was paid in full and no other capital leases were executed.

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". 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 a preliminary arbitrage rebate calculation for the period July 26, 2001 to July 26, 2004 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 remaining period of July 26, 2004 through July 26, 2006 when required.

*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). The District is continuing to proceed with reasonable diligence to expend any remaining unexpended debt issuance proceeds on qualifying projects or to retire related debt issues still outstanding.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**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 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. (See also Notes 5 and 6.)

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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

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 and use tax;
- 2) the District's hotel occupancy tax; and,
- 3) certain other sources, as provided in the District Act.

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.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**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. Annual payments under this lease are shown below.

<u>Year</u>	<u>Amount</u>
2006	261,225
2007	261,225
2008	261,225
2009	266,450
2010	271,674
2011-2014	<u>1,018,778</u>
	<u>\$ 2,340,576</u>

During the year ended December 31, 2005, the District incurred lease expenditures of \$261,225 in the governmental funds and \$252,082 in the government-wide financial statements that included \$155,864 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 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 amount set by the District to be paid into the plan is determined by the Board of Directors and the rules that govern SEP plans. For the year ended December 31, 2005, the District contributed 8.7 percent of each covered employee's salary. This is a non-participating plan. The plan is fully funded on a current basis and is administered by an independent brokerage firm.

**TOWN CENTER IMPROVEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**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.

**COMBINING NONMAJOR FUND**  
**FINANCIAL STATEMENTS**

**TOWN CENTER IMPROVEMENT DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2005**

	<u>Economic Development Zone No. 1</u>	<u>Economic Development Zone No. 3</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 105	\$ 652,718	\$ 652,822
Taxes receivable, net	26,824	97,095	123,919
Total Assets	<u>\$ 26,928</u>	<u>\$ 749,812</u>	<u>\$ 776,741</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Other accrued expenditures	<u>\$ 4,105</u>	<u>\$ 2,608</u>	<u>\$ 6,713</u>
Total Liabilities	<u>4,105</u>	<u>2,608</u>	<u>6,713</u>
Fund balances:			
Unreserved, designated - reported in:			
Special Revenue Funds	<u>22,824</u>	<u>747,204</u>	<u>770,028</u>
Total Fund Balances	<u>22,824</u>	<u>747,204</u>	<u>770,028</u>
Total Liabilities and Fund Balances	<u>\$ 26,929</u>	<u>\$ 749,812</u>	<u>\$ 776,741</u>

**TOWN CENTER IMPROVEMENT DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Economic Development Zone No. 1</u>	<u>Economic Development Zone No. 3</u>	<u>Total Other Governmental Funds</u>
<b>REVENUES</b>			
Sales tax	\$ 73,991	\$ 507,330	\$ 581,321
Investment earnings	512	18,565	19,077
<b>Total Revenues</b>	<u>74,503</u>	<u>525,895</u>	<u>600,398</u>
<b>EXPENDITURES</b>			
Current:			
General and administrative	\$ 10,167	\$ -	\$ 10,167
Capital Outlay	70,852	175,483	246,335
<b>Total Expenditures</b>	<u>81,019</u>	<u>175,483</u>	<u>256,502</u>
<b>Net Change in Fund Balances</b>	<u>(6,516)</u>	<u>350,412</u>	<u>343,896</u>
<b>Fund balances - Beginning of Year</b>	<u>29,340</u>	<u>396,792</u>	<u>426,132</u>
<b>Fund balances - End of Year</b>	<u>\$ 22,824</u>	<u>\$ 747,204</u>	<u>\$ 770,028</u>



## 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.

<b>Contents</b>	<b>Page</b>
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>	53-59
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>	60-63
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>	64-67
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>	68-70
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>	71-73

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 Two Fiscal Years**  
**(accrual basis of accounting)\***  
**(amounts expressed in whole dollars)**

	<b>Fiscal Year</b>	
	<b><u>2005</u></b> <sup>1</sup>	<b><u>2004</u></b>
Governmental activities		
Invested in capital assets, net of related debt	\$ 2,154,135	\$ 589,138
Restricted	1,163,663	1,125,634
Unrestricted	<u>(26,445,901)</u>	<u>(27,738,212)</u>
Total governmental activities net assets	<u>\$ (23,128,103)</u>	<u>\$ (26,023,440)</u>
Primary government		
Invested in capital assets, net of related debt	\$ 2,154,135	\$ 589,138
Restricted	1,163,663	1,125,634
Unrestricted	<u>(26,445,901)</u>	<u>(27,738,212)</u>
Total primary government net assets	<u>\$ (23,128,103)</u>	<u>\$ (26,023,440)</u>

<sup>1</sup> 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.

\*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 Two Fiscal Years**  
**(accrual basis of accounting)\***  
**(amounts expressed in whole dollars)**

	<u>Fiscal Year</u>	
	<u>2005<sup>1</sup></u>	<u>2004</u>
<b>Expenses</b>		
Governmental activities		
Security enhancements	\$ 3,982,691	\$ 3,588,614
Image enhancements	1,484,622	1,393,670
Economic development	506,998	198,637
Operations & maintenance	197,178	233,233
General and administrative	2,693,038	2,089,425
Interest on long-term debt	2,544,774	2,627,819
Total governmental activities expenses	<u>\$ 11,409,300</u>	<u>\$ 10,131,398</u>
Total primary government expenses	<u>\$ 11,409,300</u>	<u>\$ 10,131,398</u>
 <b>Program Revenues</b>		
Governmental activities		
Image enhancements	<u>\$ 378,143</u>	<u>\$ 364,110</u>
Total governmental activities program revenues	<u>\$ 378,143</u>	<u>\$ 364,110</u>
Total primary government program revenues	<u>\$ 378,143</u>	<u>\$ 364,110</u>
 <b>Net (expense)/revenue</b>		
Governmental activities	<u>\$ (11,031,157)</u>	<u>\$ (9,767,288)</u>
Total primary government net expense	<u>\$ (11,031,157)</u>	<u>\$ (9,767,288)</u>
 <b>General Revenues and Other Changes in Net Assets</b>		
Governmental activities		
Taxes:		
Sales tax	\$ 10,336,875	\$ 9,089,653
Hotel occupancy tax	2,568,060	2,279,445
Unrestricted investment earnings	661,421	514,499
Miscellaneous	60,137	39,538
Total governmental activities	<u>\$ 13,626,493</u>	<u>\$ 11,923,135</u>
Gain on Land Sale	\$ 300,000	\$ -
Total primary government general revenues and other changes in net assets	<u>\$ 13,926,493</u>	<u>\$ 11,923,135</u>
 <b>Changes in Net Assets</b>		
Governmental activities	\$ 2,595,336	\$ 2,155,847
Gain on Land Sale	300,000	-
Total primary government changes in net assets	<u>\$ 2,895,336</u>	<u>\$ 2,155,847</u>

<sup>1</sup> Sales tax increases relate to the growth in the District's retail base with the completion of Market Street and the Mall Expansion. Also in 2005, the District sold a parcel of the Convention Center land site for \$300,000.

\*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
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
1996	2,852,354	-	2,852,354

**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									
	2005 <sup>1</sup>	2004	2003	2002	2001 <sup>2</sup>	2000	1999	1998	1997	1996
<b>General Fund</b>										
Unreserved	\$ 10,529,015	\$ 12,279,239	\$ 13,411,652	\$ 12,271,581	\$ 10,515,606	\$ 7,663,084	\$ 4,514,859	\$ 2,949,687	\$ 2,279,521	\$ 1,960,762
Total General Fund	<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>	<u>\$ 1,960,762</u>
<b>All other governmental funds</b>										
Reserved for Debt Service	\$ 1,996,742	\$ 1,979,088	\$ 3,017,479	\$ 3,072,139	\$ 4,146,410	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved for Capital Expenditures	68,256	66,340	1,421,022	-	-	-	-	-	-	-
Unreserved, designated reported in:										
Capital Projects	7,102,752	4,063,591	-	2,106,393	33,349,115	657,007	997,923	1,642,959	900,000	-
Special Revenue Funds	(627,429)	503,782	-	10,741	11,277	1,725,451	1,102,248	582,782	102,039	-
Total all other governmental funds	<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>	<u>\$ -</u>
Total all fund balances	<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>	<u>\$ 1,960,762</u>

<sup>1</sup>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.

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.

<sup>2</sup>Increases in Debt Service and Capital Projects relate to the bond issue and construction for the Convention Center.

**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									
	2005 <sup>1</sup>	2004	2003	2002	2001 <sup>2</sup>	2000	1999	1998	1997	1996
<b>Revenues</b>										
Sales tax	\$ 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	\$ 2,852,354
Hotel occupancy tax	2,568,060	2,279,445	1,803,198	1,446,148	838,324	560,064	478,801	467,147	101,981	-
Image enhancements	378,143	364,110	-	-	-	-	-	-	-	-
Investment earnings	614,609	422,541	454,100	1,100,577	1,551,796	506,357	318,881	240,126	145,455	67,468
Miscellaneous	60,137	39,538	53,437	113,801	266,262	133,989	69,969	1,705	1,240	1,705
<b>Total Revenues</b>	<b>\$ 13,957,824</b>	<b>\$ 12,195,287</b>	<b>\$ 9,711,900</b>	<b>\$ 10,059,434</b>	<b>\$ 9,641,621</b>	<b>\$ 7,907,723</b>	<b>\$ 5,726,736</b>	<b>\$ 4,937,333</b>	<b>\$ 3,595,742</b>	<b>\$ 2,921,527</b>
<b>Expenditures</b>										
Current:										
Security enhancements	\$ 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	\$ 1,061,070
Image enhancements	1,484,804	1,393,670	705,535	862,926	967,930	851,053	763,458	386,725	468,337	51,042
Economic development	506,998	198,637	302,189	214,437	181,732	275,134	194,927	183,185	-	-
Operations & maintenance	196,333	233,233	331,376	92,459	-	-	-	-	-	-
General and administrative	1,550,497	1,325,701	1,259,948	1,228,741	1,082,627	904,308	802,650	565,421	506,674	396,913
Capital outlay	2,513,673	565,352	726,862	32,634,034	21,645,270	408,560	870,560	471,913	53,504	72,984
Debt Service:										
Principal	1,279,919	1,220,374	94,707	-	-	-	-	-	-	-
Interest and fiscal charges	2,565,149	2,627,819	2,646,861	2,646,862	661,715	-	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 14,080,528</b>	<b>\$ 11,153,400</b>	<b>\$ 9,322,601</b>	<b>\$ 40,620,988</b>	<b>\$ 26,634,180</b>	<b>\$ 4,477,211</b>	<b>\$ 4,287,134</b>	<b>\$ 3,043,465</b>	<b>\$ 2,467,177</b>	<b>\$ 1,582,009</b>
Excess/(deficiency) of revenues over/(under) expenditures	\$ (122,704)	\$ 1,041,887	\$ 389,299	\$ (30,561,554)	\$ (16,992,559)	\$ 3,430,512	\$ 1,439,602	\$ 1,893,868	\$ 1,128,565	\$ 1,339,518
<b>Other Financing Sources/(Uses)</b>										
Transfers in/(out)	-	-	-	-	3,550,000	-	-	-	-	-
Proceeds from Bond Sale	-	-	-	-	51,419,425	-	-	-	-	-
Proceeds from Land Sale	300,000	-	-	-	-	-	-	-	-	-
<b>Total Financing Sources/(Uses)</b>	<b>\$ 300,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 54,969,425</b>	<b>\$ -</b>				
<b>Net change in fund balances</b>	<b>\$ 177,296</b>	<b>\$ 1,041,887</b>	<b>\$ 389,299</b>	<b>\$ (30,561,554)</b>	<b>\$ 37,976,866</b>	<b>\$ 3,430,512</b>	<b>\$ 1,439,602</b>	<b>\$ 1,893,868</b>	<b>\$ 1,128,565</b>	<b>\$ 1,339,518</b>
Debt service as a percentage of noncapital expenditures	33.3%	36.4%	31.9%	33.1%	13.3%	0.0%	0.0%	0.0%	0.0%	0.0%

<sup>1</sup> 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.

<sup>2</sup> 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.

**TOWN CENTER IMPROVEMENT DISTRICT  
COMPARATIVE SCHEDULE OF ACTUAL  
EXPENDITURES—GENERAL FUND  
Since Inception**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Current:</b>						
<b>Security enhancements</b>						
Mounted patrol	\$ 1,568,149	\$ 1,447,045	\$ 1,442,386	\$ 1,311,175	\$ 871,525	\$ 621,394
Public Safety/Ambassador Personnel	225,858	85,126	62,460	31,964	-	-
Private security - Waterway	91,945	117,799	-	-	-	-
Law enforcement - County	1,134,019	980,780	963,056	909,202	660,937	731,374
Law enforcement - Impact area	432,107	432,103	328,715	288,719	248,719	225,701
The Woodlands Fire Department	390,000	390,000	372,867	270,000	230,000	200,000
Special & Public Safety Operations	113,901	135,761	82,239	94,822	51,763	174,119
Equipment, patrol vehicles, and maintenance	27,177	-	3,400	35,647	31,962	85,568
	<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>
<b>Image enhancements</b>	<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>
<b>Economic development</b>	<u>506,998</u>	<u>198,637</u>	<u>302,189</u>	<u>214,437</u>	<u>181,732</u>	<u>275,134</u>
<b>Operations &amp; maintenance</b>	<u>196,333</u>	<u>233,233</u>	<u>331,376</u>	<u>92,459</u>	<u>-</u>	<u>-</u>
<b>General and administrative</b>						
Salaries and benefits	845,462	741,964	688,886	796,025	673,673	554,254
Office rent	269,396	89,717	173,424	147,106	133,099	92,258
Automobile expense	42,000	40,800	41,200	40,800	40,148	31,200
Office - General	27,392	30,478	77,231	29,761	35,613	27,377
Telephone	17,350	14,801	21,673	17,984	23,490	24,323
Office equipment leases	17,727	17,608	8,818	8,432	6,956	4,514
Professional fees and services	151,458	138,743	118,018	103,192	81,873	98,041
Bonds and insurance	17,211	12,831	18,576	5,054	4,634	7,480
Administrative and other	143,521	142,811	102,747	72,598	53,629	44,110
	<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>
<b>Capital outlay</b>	<u>59,819</u>	<u>45,608</u>	<u>61,950</u>	<u>-</u>	<u>34,770</u>	<u>68,452</u>
<b>Debt service - lease principal</b>	89,919	85,374	94,707	-	-	-
<b>Debt service - lease interest</b>	4,788	9,333	-	-	-	-
<b>Total Expenditures</b>	<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>

(continued on following page)

**TOWN CENTER IMPROVEMENT DISTRICT  
COMPARATIVE SCHEDULE OF ACTUAL  
EXPENDITURES—GENERAL FUND  
Since Inception**

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994*</u>
<b>Current:</b>						
<b>Security enhancements</b>						
Mounted patrol	\$ 642,753	\$ 579,955	\$ 627,965	\$ 456,942	\$ 365,603	\$ 97,286
Public Safety/Ambassador Personnel	-	-	-	-	-	-
Private security - Waterway	-	-	-	-	-	-
Law enforcement - County	618,047	607,405	555,084	410,376	331,301	91,887
Law enforcement - Impact area	181,589	133,257	147,006	123,644	85,630	7,082
The Woodlands Fire Department	96,435	-	-	-	-	-
Special & Public Safety Operations	70,964	76,276	79,153	47,775	32,872	669
Equipment, patrol vehicles, and maintenance	45,751	39,328	29,454	27,912	31,539	111,091
	<u>1,655,539</u>	<u>1,436,221</u>	<u>1,438,662</u>	<u>1,066,649</u>	<u>846,945</u>	<u>308,015</u>
<b>Image enhancements</b>	<u>763,458</u>	<u>386,725</u>	<u>468,337</u>	<u>126,476</u>	<u>31,171</u>	<u>-</u>
<b>Economic development</b>	<u>194,927</u>	<u>183,185</u>	<u>15,050</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Operations &amp; maintenance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>General and administrative</b>						
Salaries and benefits	431,316	341,624	290,298	248,727	174,314	61,217
Office rent	93,871	27,242	26,922	28,013	11,854	4,403
Automobile expense	30,800	24,600	18,600	11,400	8,200	3,600
Office - General	19,215	9,710	23,279	11,627	12,004	6,952
Telephone	28,817	17,070	12,792	11,254	7,569	3,133
Office equipment leases	4,336	4,844	5,120	4,215	3,272	924
Professional fees and services	147,367	88,168	86,649	63,201	68,228	72,990
Bonds and insurance	4,978	11,506	6,100	4,811	5,614	910
Administrative and other	41,923	40,657	36,914	22,017	16,197	4,528
	<u>802,623</u>	<u>565,421</u>	<u>506,674</u>	<u>405,265</u>	<u>307,252</u>	<u>158,657</u>
<b>Capital outlay</b>	<u>225,524</u>	<u>199,872</u>	<u>53,504</u>	<u>76,929</u>	<u>143,950</u>	<u>22,940</u>
<b>Debt service - lease principal</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Debt service - lease interest</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,301</u>	<u>6,500</u>
<b>Total Expenditures</b>	<u>\$ 3,642,071</u>	<u>\$ 2,771,424</u>	<u>\$ 2,482,227</u>	<u>\$ 1,675,319</u>	<u>\$ 1,332,619</u>	<u>\$ 496,112</u>

\* Initial accounting period from 5/26/93 through 12/31/94

**Town Center Improvement District  
General Governmental Tax Revenues & Rates By Source  
Last Two 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
2004	8,317,222	772,431	2,279,445	11,369,098
2005	9,171,856	1,165,019	2,568,060	12,904,935

Base Sales Tax Rate	Rates in Addition to Base	Hotel Tax Rate
1% (imposed 1994-present)	EDZ#1 - 1% (imposed 2001-present) EDZ#2 - 1% (imposed 2003-present) EDZ#3 - 1% (imposed 2003-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	2005 Rooms (approximate)	2004 Rooms (approximate)
Drury Inn	151	152
Courtyard by Marriott	90	90
Hilton Garden Inn	117	117
Residence Inn-Lake Front Circle	90	90
Residence Inn 2-Six Pines Drive	96	96
Fairfield Inn	83	83
Woodlands Resort & Conference Ctr	440	440
Woodlands Waterway Marriott	343	344
Total	1,410	1,412

**Town Center Improvement District  
Major Sources of Revenue  
December 31, 2005**

The District 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 the sales tax revenues are from the 1.35 million square foot Woodlands Mall, and surrounding retail establishments totaling approximately 3 million square feet. The District has three Economic Development Zones. Town Center Economic Development Zone No. 1 is the Cynthia Woods Mitchell Pavilion, with a current seating capacity of 17,000. Economic Development Zone No. 2 is a 34 acre project which encompasses 480,000 square feet of mixed retail and office space, as well as the inclusion of a newly constructed 5-screen movie theater, at Market Street. And, Economic Development Zone No. 3 is the south mall expansion project that added 150,000 additional square feet of mixed retail and restaurant space.

On June 8, 2005, a groundbreaking ceremony was held to commemorate the newest construction project located within the District at 21 Waterway Avenue. This site features a 103,000 square-foot, seven-story office building overlooking The Woodlands Waterway in Town Center. This prime location is next to The Woodlands Waterway Marriott Hotel and Convention Center, a four-diamond hotel. The lower two levels are intended for retail shops and restaurants. Three other mixed use buildings totaling 36,123 square feet are slated to open in the summer of 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.

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

**Town Center Improvement District  
Top Sales Tax Sources  
December 31, 2005**

The following schedule illustrates the degree of dependence of the District upon its largest sales tax generators.

Tax Payer Class	Category	% of Total District Sales Tax
Largest Sales Tax Payer	Retail	Less than 10%
Top 5 Sales Tax Payers	Retail 22.1% Non-Retail 4.2%	26.3%
Top 10 Sales Tax Payers	Retail 32.8% Non-Retail 6.5%	39.3%

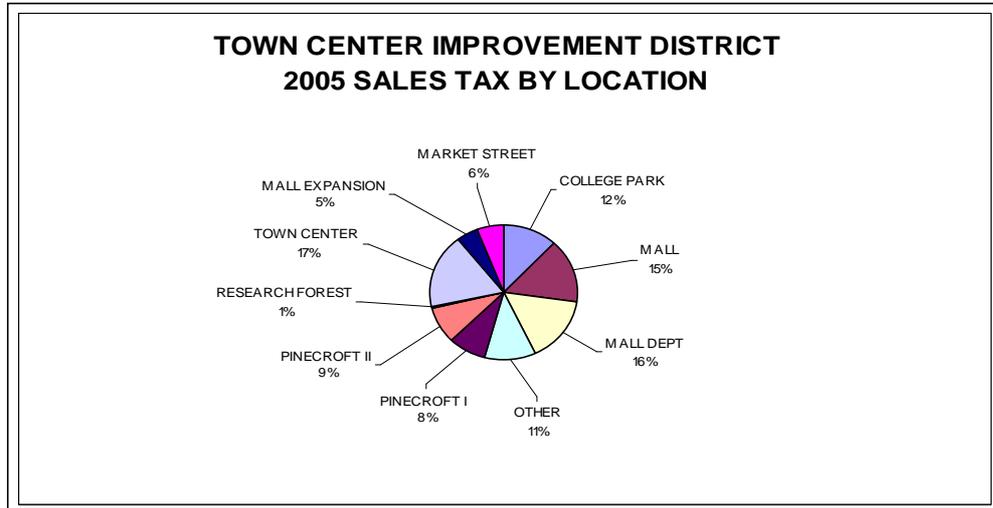
**Prior Year  
Top Sales Tax Sources  
December 31, 2004**

Tax Payer Class	Category	% of Total District Sales Tax
Largest Sales Tax Payer	Retail	Less than 10%
Top 5 Sales Tax Payers	Retail 23.3% Non-Retail 4.0%	27.3%
Top 10 Sales Tax Payers	Retail 35.2% Non-Retail 6.8%	42.0%

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

**Town Center Improvement District  
Sales Tax By Location  
December 31, 2005**

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



**LOCATION FOOTNOTES:**

- 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.
- MALL** Includes retail stores, kiosks, carts and food court merchants located at 1201 Lake Woodlands Drive inside The Woodlands Mall.
- MALL DEPT** Includes only the major anchor department stores (Dillards, Foley's, JC Penney, Mervyn's, Sears) located inside The Woodlands Mall at 1201 Lake Woodlands Drive.
- PINECROFT 1** Includes retail stores and restaurants located in the Pincroft 1 Shopping Center generally bounded on the east by I-45, on the south by Lake Woodlands Drive, on the west by Pincroft Drive and on the north by Lake Front Circle.
- PINECROFT 2** Includes retail stores and restaurants located in the Pincroft 2 Shopping Center generally bounded on the east by Pincroft Drive, on the south by Lake Woodlands Drive, on the west by Six Pines Drive and on the north by Lake Front Circle.
- RESEARCH FOREST** Includes restaurants and retail establishments located in a small area west of I-45 along Research Forest Drive.
- 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.
- MALL EXPANSION** Includes retail stores and restaurants newly constructed on the southside of The Woodlands Mall. Economic Development Zone No. 3 encompasses this area.
- 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.
- 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.

**Ratios of Outstanding Debt by Type  
Last Two 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	Outstanding Debt Per		Outstanding Debt Per	
	Obligation Bonds	Capital Leases			# Hotels	Hotel	# Rooms	Room
2004	\$50,115,000	\$89,919	\$50,204,919	154%	8	\$6,275,615	1412	\$35,556
2005	\$48,925,000	-	\$48,925,000	133%	8	\$6,115,625	1410	\$34,699

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 Two 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
2004	50,115,000	1,979,080	48,135,920	416,020,661	11%
2005	48,925,000	1,996,742	46,928,258	495,279,371	9%

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 Two Fiscal Years**  
**(amounts expressed in whole dollars)**

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

Notes:

<sup>1</sup> 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 Government Tax Rates  
Last Ten Fiscal Years  
(amounts expressed in whole dollars)**

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
<b>Sales Tax <sup>1</sup></b>										
State of Texas	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500	\$ 6.2500
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	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Town Center Economic Development Zone No. 1	1.0000	1.0000	1.0000	1.0000	1.0000	n/a	n/a	n/a	n/a	n/a
<b>Or: Town Center Economic Development Zone No. 2</b>	1.0000	1.0000	1.0000	n/a						
<b>Or: Town Center Economic Development Zone No. 3</b>	1.0000	1.0000	1.0000	n/a						
<b>Total Direct and Overlapping Sales Tax</b>	\$ 10.2500	\$ 10.2500	\$ 10.2500	\$ 8.2500	\$ 8.2500	\$ 7.2500	\$ 7.2500	\$ 7.2500	\$ 7.2500	\$ 7.2500
	*	*	*							

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
<b>Hotel Occupancy Tax <sup>2</sup></b>										
State of Texas	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000	\$ 6.0000
Montgomery County	n/a	n/a								
Town Center Improvement District	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000	7.0000
Town Center Economic Development Zone No. 1	n/a	n/a								
Town Center Economic Development Zone No. 2	n/a	n/a								
Town Center Economic Development Zone No. 3	n/a	n/a								
<b>Total Direct and Overlapping Hotel Occupancy Tax</b>	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 13.0000	\$ 6.0000

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
<b>Property Tax <sup>3</sup></b>										
State of Texas	n/a									
Town Center Improvement District	n/a									
Town Center Economic Development Zone No. 1	n/a									
Town Center Economic Development Zone No. 2	n/a									
Town Center Economic Development Zone No. 3	n/a									
Montgomery County	\$ 0.4963	\$ 0.4828	\$ 0.4710	\$ 0.4710	\$ 0.4747	\$ 0.4747	\$ 0.4897	\$ 0.4897	\$ 0.4927	\$ 0.4927
Conroe Independent School District	1.7600	1.7325	1.7325	1.7225	1.7025	1.7025	1.6905	1.7505	1.6355	1.5955
North Harris Montgomery Community College District	0.1207	0.1145	0.1145	0.1055	0.1100	0.1100	0.1174	0.1198	0.1228	0.1012
Montgomery County Hospital District	0.0850	0.0999	0.1082	0.1338	0.1378	0.1378	0.0785	0.0785	0.0885	0.0885
The Woodlands Metro Center MUD	0.2700	0.3000	0.3000	0.3200	0.4000	0.4000	0.4500	0.4500	0.4600	0.5400
The Woodlands Road Utility District #1	0.4817	0.5000	0.5000	0.5000	0.5000	0.4925	0.5000	0.5000	0.4900	0.4900
<b>Total Direct and Overlapping Property Tax</b>	\$ 3.2137	\$ 3.2297	\$ 3.2262	\$ 3.2528	\$ 3.3250	\$ 3.3175	\$ 3.3261	\$ 3.3885	\$ 3.2895	\$ 3.3079

<sup>1</sup> Per \$100 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.

<sup>2</sup> Per \$100 of taxable room revenue.

<sup>3</sup> Per \$100 of assessed valuation.

Sources: Montgomery County Central Appraisal District, Montgomery County Auditor

**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
<b>Direct Debt repaid with sales tax (blended component units):</b>							
Town Center Economic Development Zone No. 1	\$ -	12/31/05	14	940	100.00%	100.00%	\$ -
Town Center Economic Development Zone No. 2	\$ -	12/31/05	47	940	100.00%	100.00%	\$ -
Town Center Economic Development Zone No. 3	\$ -	12/31/05	17	940	100.00%	100.00%	\$ -
<b>Direct Debt repaid with hotel occupancy tax and sales tax:</b>							
Town Center Improvement District	\$ 48,925,000	12/31/05	940	940	100.00%	100.00%	\$ 48,925,000
<b>Overlapping Debt:</b>							
Montgomery County	\$ 147,910,676	12/31/05	668,160	940	0.14%	100.00%	\$ 208,088
Conroe Independent School District	\$ 629,656,464	12/31/05	220,800	940	0.43%	100.00%	\$ 2,680,603
North Harris Montgomery Community College District	\$ 213,310,163	12/31/05	935,680	940	0.10%	100.00%	\$ 214,295
Montgomery County Hospital District	\$ -	12/31/05	668,160	940	0.14%	100.00%	\$ -
The Woodlands Metro Center MUD	\$ 24,500,000	12/31/05	1,648	940	57.04%	98.00%	\$ 13,695,024
The Woodlands Road Utility District #1	\$ 57,950,000	12/31/05	2,348	940	40.03%	95.00%	\$ 22,039,757
<b>Total Direct and Overlapping Debt</b>	<b><u>\$ 1,122,252,303</u></b>						<b><u>\$ 87,762,767</u></b>

Source: First Southwest, financial advisors to the District

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

Fiscal Year	Population <sup>1</sup>	Median		Employers <sup>1</sup>	Jobs <sup>1</sup>	Unemployment Rate <sup>2</sup>	School Enrollment <sup>3</sup>
		Household Income <sup>1</sup>	Age <sup>1</sup>				
1996	47,346	\$100,000	38	741	17,284	3.7	not available
1997	50,789	\$100,000	39	787	18,524	3.3	not available
1998	55,063	\$105,000	39	842	20,804	2.8	32,290
1999	59,138	\$120,000	40	896	22,629	3.3	33,286
2000	63,203	\$115,000	39	984	25,270	2.9	35,105
2001	67,054	\$115,000	39	1,030	26,686	4.3	36,775
2002	70,050	\$110,000	40	1,112	30,096	4.8	38,016
2003	74,358	\$127,900	39	1,140	31,500	4.8	39,246
2004	77,128	\$135,000	40	1,219	37,175	4.8	40,432
2005	80,659	\$136,000	42	1,310	39,541	3.9	42,613

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

Sources:

<sup>1</sup>The Woodlands Development Company/The Woodlands, Texas

<sup>2</sup>Economagic.com/Montgomery County, Texas

<sup>3</sup>Texas Education Agency/Conroe Independent School District

**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\**

<b>Fiscal Year</b>	<b>Taxable Sales Generated</b>	<b>Sales Tax Collected</b>	<b># of Taxpayers</b>	<b>Per Taxpayer</b>	<b>Median Deposit</b>	<b>Average Deposit</b>	<b>Min Deposit</b>	<b>Max Deposit</b>	<b>Max as % of Total District Sales Tax</b>	<b>Largest Industry by SIC</b>	<b>2nd Largest Industry by SIC</b>	<b>3rd Largest Industry by SIC</b>
2000	\$670,731,300	\$6,707,313	969	\$6,922	\$119	\$5,214	\$ (20,632)	\$531,679	8%	5311	5399	5722
2001	689,011,200	6,890,112	1,048	6,575	152	5,901	\$ (1,090)	574,911	8%	5311	5399	5722
2002	730,362,100	7,303,621	1,506	4,850	74	4,759	\$ (25,300)	560,211	8%	5311	5172	7011
2003	725,468,300	7,254,683	1,582	4,586	82	4,578	\$ (63,825)	572,929	8%	5311	5172	5399
2004	831,722,200	8,317,222	1,756	4,736	87	4,382	\$ (26,299)	591,773	7%	5311	5399	5722
2005	917,185,600	9,171,856	1,954	4,694	109	4,567	\$ (29,101)	629,205	7%	5311	5722	5172

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.

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

\*Based on actual cash deposits for January through December of fiscal year indicated.

**STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES 1987**

Standard Industrial Classification (SIC) codes are four digit numerical codes assigned by the U.S. government to business establishments to identify the primary business of the establishment. The classification was developed to facilitate the collection, presentation, and analysis of data; and to promote uniformity and comparability in the presentation of statistical data collected by various agencies of the federal government, state agencies, and private organizations. The classification covers all economic activities: agriculture, forestry, fishing, hunting, and trapping; mining; construction; manufacturing; transportation; communications, electric, gas, and sanitary services; wholesale trade; retail trade; finance, insurance, and real estate; personal, business, professional, repair, recreation, and other services; and public administration.

<b>All Industry Codes</b>	
0111-0971	Agriculture, Forestry, & Fishing
1011-1499	Mining
1521-1799	Construction
2011-3999	Manufacturing
4011-4971	Transportation, Communications, & Utilities
5012-5199	Wholesale Trade
5211-5999	Retail Trade
6011-6799	Finance, Insurance, & Real Estate
7011-8999	Services
9111-9721	Public Administration
9999	Nonclassifiable Establishments

<b>Town Center Improvement District - industry codes from analysis above</b>	
5172	Petroleum and Petroleum Products Wholesalers, Except Bulk Stations and Terminals
5311	Department Stores
5399	Miscellaneous General Merchandise Stores
5722	Household Appliance Stores
7011	Hotels and Motels

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

Employer	2005			2001		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Conroe Independent School District	2,271	1	6%	2100	1	8%
Anadarko Petroleum Corporation	1,900	2	5%	600	4	2%
Hewitt Associates, LLC	1,800	3	5%	1,300	2	5%
Memorial Hermann The Woodlands Hospital	1,050	4	3%	560	5	2%
Montgomery College	751	5	2%	-	-	-
Lexicon Genetics	710	6	2%	-	-	-
Woodlands Resort & Conference Center	611	7	2%	-	-	-
Chevron Phillips Chemical Co.	600	8	2%	-	-	-
Huntsman Company, LLC	600	9	2%	-	-	-
Hughes Christensen	573	10	1%	900	3	3%
Maersk Sealand	-	-	-	500	6	2%
CVS Corporation (previously Eckerd Drug)	-	-	-	450	7	2%
Mitchell Energy & Development	-	-	-	410	8	2%
Sadler Clinic	-	-	-	380	9	1%
Entergy	-	-	-	275	10	1%
	<u>10,866</u>		<u>27%</u>	<u>7,475</u>		<u>28%</u>
	39,541	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**

<b>Function</b>	<b>Full-time Equivalent Employees as of December 31</b>									
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>1999</u></b>	<b><u>1998</u></b>	<b><u>1997</u></b>	<b><u>1996</u></b>
Security Enhancements										
Public Safety Department Personnel	1	1	1	1	0	0	0	0	0	0
Town Center Ambassador Personnel	5	5	0	0	0	0	0	0	0	0
Image Enhancements (Marketing & Public Affairs)	3	2	2	1	1	1	1	0	0	0
Economic Development	0	0	0	0	0	0	0	0	0	0
Operations & Maintenance	2	2	2	2	2	2	1	1	1	1
General & Administrative (Accounting, Finance, Admin, Executive)	11	10	10	9	7	6	6	4	4	3
	<b>22</b>	<b>20</b>	<b>15</b>	<b>13</b>	<b>10</b>	<b>9</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>4</b>

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

	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2004</b>
<b>Security Enhancements <sup>1</sup></b>		
Patrol Cars & Equipment - Sheriff's Department	\$ 55,145	\$ -
Patrol Bicycles & Equipment - Sheriff's Department	\$ 25,833	\$ -
Rescue & Haz-Mat Vehicles - Fire Department	\$ -	\$ 52,000
Special Equipment - Fire Department	\$ 29,904	\$ 19,462
Communications Equipment - Fire Department	\$ 7,929	\$ 5,562
Traffic Controllers - Fire Department	\$ 54,645	\$ -
# of Traffic Controllers	10	0
# of Patrol Cars	2	0
# of Patrol Bicycles	9	0
<b>Image Enhancements (Marketing &amp; Public Affairs)</b>		
Holiday Lighting Displays & Décor	592	592
<b>Economic Development <sup>2</sup></b>		
Hotel Rooms Booked for Conventions - Actual	10,140	n/a
Total Square Feet Booked - Actual	3,268,930	n/a
<b>Operations &amp; Transportation</b>		
# of Wayfinding Signs	92	92
# of Monument Signs	6	6
Sculptures & Public Art - Construction in Progress	1	0
Park Acreage - Construction in Progress	2.6	0

<sup>1</sup> The 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.

<sup>2</sup> Annual Booking Report for The Woodlands Waterway Marriott Hotel & Convention Center

Other sources not specifically noted include various government departments.

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

	Fiscal Year 2005	Fiscal Year 2004
<b>Security Enhancements <sup>1</sup></b>		
# of Full-Time Officers Funded	16	13
# of Private Security Hours Contracted	53,697	45,336
Traffic Citations	1,320	795
Total Sheriff Dept Calls	5,912	5,348
Total Fire Calls	611	455
Montgomery County Sheriff's Department	\$ 889,114	\$ 744,680
Constable Precinct 3	\$ 95,050	\$ 85,696
Justice of the Peace Precinct 3	\$ 50,332	\$ 48,876
City of Oak Ridge North	\$ 215,635	\$ 215,635
City of Shenandoah	\$ 216,472	\$ 216,468
The Woodlands Fire Department	\$ 390,000	\$ 390,000
<b>Image Enhancements (Marketing &amp; Public Affairs) <sup>2</sup></b>		
Events Produced	5	5
# of Articles Published	1,106	273
Website Hits	10,900,632	3,069,000
Sponsorships Sold	\$ 199,175	\$ 189,547
<b>Economic Development</b>		
Convention Center Bookings - Actual <sup>3</sup>	240	n/a
# of Jobs <sup>4</sup>	39,541	37,175
Funding Requests <sup>5</sup>	45,000	50,000
CAP Index Rating <sup>6</sup>	53	53
ISO Rating <sup>7</sup>	3	4
<b>Operations &amp; Transportation</b>		
Transportation - Shuttle Trips <sup>8</sup>	13,219	13,091

<sup>1</sup> Derived from interlocal contracts and actual expenses incurred.

<sup>2</sup> Various government departments. Formal records maintained beginning 2005. May include some estimates.

<sup>3</sup> Annual Booking Report for The Woodlands Waterway Marriott Hotel & Convention Center

<sup>4</sup> The Woodlands Development Company

<sup>5</sup> Each year community organizations apply for funding through a committee process.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> Contract compliance reports provided by The Friendship Center