

CITY OF KILLEEN INVESTMENT ACTIVITY REPORT FISCAL YEAR ENDED SEPTEMBER 30, 2005

INVESTMENT OUTLOOK

Despite speculation that hurricanes Rita and Katrina would bring a halt to its current trend, the Federal Open Market Committee (FOMC) raised the targets for both the federal funds rate and the discount rate for the 11th consecutive time by an additional 25 basis point. As of September 20, 2005, the rates were 3.75% and 4.75% respectively. Public Investor's Analysts predict that the hurricanes will have a negative impact on Gross Domestic Product (GDP), reducing fourth quarter estimates by approximately 0.5% to 0.7%. In addition, high energy prices continue to worry investors with a 2.6% rise in consumer fuel expenditures relative to income, and contributing to a higher Consumer Price index (CPI). Even with this outlook, economists are optimistic that long term inflation will remain low.

Investment outlook provided courtesy of the GFOA Public Investor Report.

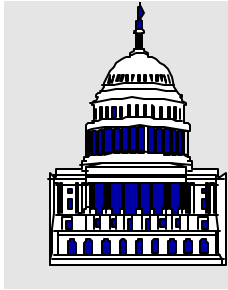
CASH BALANCES AT EXTRACO BANK



During the quarter, the average cash balance at the depository bank was \$2,577,183. Total interest earned for the quarter was \$8,325. Fees charged by the Bank total \$7,715 for the quarter. The gross yield for the quarter was 1.302%. The effective yield for the quarter was 0.092%. Gross interest earnings, less the bank fees equals the effective yield. If the effective yield is negative, it means that the bank fees have exceeded the interest earnings for the period. A recap of cash balances and investment activity follows:

<u>FY 04-05 MONTH</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST EARNED</u>	<u>GROSS YIELD</u>	<u>EFFECTIVE YIELD</u>
October	\$ 1,690,208	\$ 2,047	1.426%	(0.161%)
November	2,314,946	2,348	1.234%	0.063%
December	2,480,581	2,502	1.188%	(0.020%)
January	2,058,647	2,318	1.326%	(0.012%)
February	2,408,764	2,280	1.234%	0.069%
March	2,812,881	2,522	1.056%	0.111%
April	2,755,968	2,400	1.060%	0.117%
May	2,449,374	2,574	1.237%	0.214%
June	3,023,238	2,736	1.101%	0.163%
July	2,459,527	2,671	1.279%	0.022%
August	2,272,726	2,961	1.534%	0.112%
September	2,999,296	2,693	1.092%	0.141%
Totals	\$ 2,477,180	\$ 30,053	1.231%	0.068%

CASH BALANCES AT TEXPOOL, TEXSTAR & TEXASTERM



The average cash balance in TEXPOOL was \$57,826,390, the average balance in TEXSTAR was \$3,136,783, and the average balance in TEXASTERM was \$21,488,264 during the quarter. Total interest earned for the quarter was \$704,022. The yield as of September 30th was 3.61% for TEXPOOL, 3.55% for TEXSTAR, and 3.18% for TEXASTERM. This yield is net of the management fees charged for managing the funds. The following is a recap of the cash balances and investment activity in TEXPOOL, TEXSTAR and TEXASTERM for the fiscal year.

TEXPOOL CASH BALANCES

<u>FY 04-05</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 32,067,578	\$ 46,599	1.711%
November	72,524,038	111,348	1.868%
December	82,727,147	145,247	2.067%
January	67,768,619	130,841	2.273%
February	62,255,660	116,566	2.441%
March	62,896,891	137,560	2.575%
April	58,029,194	131,615	2.760%
May	58,286,123	146,336	2.956%
June	57,638,299	145,199	3.065%
July	60,120,785	167,027	3.271%
August	57,746,879	169,352	3.453%
September	55,611,505	164,816	3.606%
Totals	\$ 60,639,393	\$1,612,506	2.670%

Note - the above totals include \$36,509 in interest earned for KEDC.

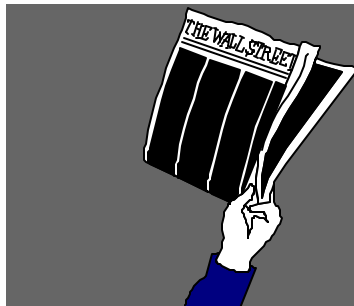
TEXSTAR CASH BALANCES

<u>FY 04-05</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 3,072,571	\$ 4,423	1.695%
November	3,076,993	4,641	1.835%
December	3,081,634	5,416	2.069%
January	3,087,050	5,811	2.216%
February	3,092,861	5,776	2.434%
March	3,098,637	6,776	2.575%
April	3,105,413	7,018	2.750%
May	3,112,431	7,765	2.937%
June	3,120,196	7,803	3.043%
July	3,127,999	8,613	3.242%
August	3,136,611	9,128	3.426%
September	3,145,739	9,189	3.554%
Totals	\$ 3,104,845	\$ 82,357	2.648%

TEXAS TERM CASH BALANCES

FY 04-05 MONTH	AVERAGE BALANCE	INTEREST EARNED	EFFECTIVE YIELD
October	\$ 0	\$ 0	0.000%
November	0	0	0.000%
December	0	0	0.000%
January	10,577,132	26,091	2.904%
February	18,121,345	39,778	2.861%
March	17,960,452	44,040	2.887%
April	23,004,910	55,072	2.913%
May	23,059,982	56,907	2.906%
June	23,116,899	54,765	2.882%
July	22,881,181	64,999	3.345%
August	20,763,519	56,571	3.208%
September	20,820,090	54,329	3.175%
Totals	\$ 20,033,946	\$ 452,554	3.009%

INVESTMENT SECURITIES



The investment policy of the City permits investments in U.S. Treasury securities maturing in less than two years, short-term obligations of U.S. Government Agencies, fully insured or collateralized certificates of deposit at commercial banks or savings and loans, and any other securities which may be added by the State of Texas as permissible investments for municipal government. A list of investment securities held by the City is included in this report. During the quarter, the weighted average balance of investment securities was \$20,779,780. The interest earned for the quarter was \$115,258. The effective yield on the average investment securities balance was 2.201% for the quarter. The weighted average maturity of the investment securities portfolio as of September 30, 2005 was 87 days.

FY 04-05 MONTH	AVERAGE BALANCE	INTEREST EARNED	YIELD
October	\$ 20,213,080	\$ 33,585	1.956%
November	20,866,772	33,555	1.957%
December	22,306,268	38,598	2.037%
January	24,137,811	42,985	2.097%
February	24,922,769	40,092	2.097%
March	25,707,618	42,985	1.969%
April	24,922,771	42,955	2.097%
May	24,137,813	42,985	2.097%
June	24,922,326	42,955	2.097%
July	21,259,674	39,318	2.178%
August	20,212,462	37,985	2.213%
September	20,867,205	37,955	2.213%

Totals

\$ 22,873,047
PERFORMANCE MEASUREMENTS

\$ 475,955

2.084%

KEY RATES: Cash Market

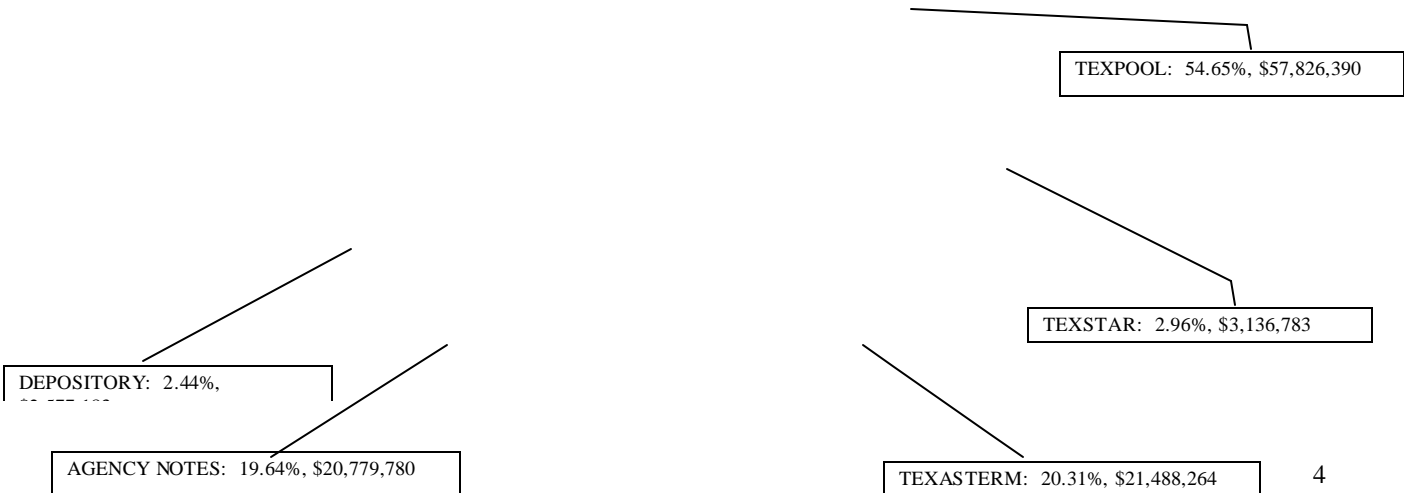
RATE	September 05	Year Ago
Fed Funds	3.93 %	1.76 %
CDs: Three Months	2.22	0.90
CDs: Six Months	2.92	0.95
T-Bill: 91-day Yield	3.44	1.69
T-Bill: 52-week Yield	3.97	2.16
Tax-Exempt Notes	2.61	1.60
City of Killeen (overall)	3.16	1.61

INTEREST RATE FORECAST

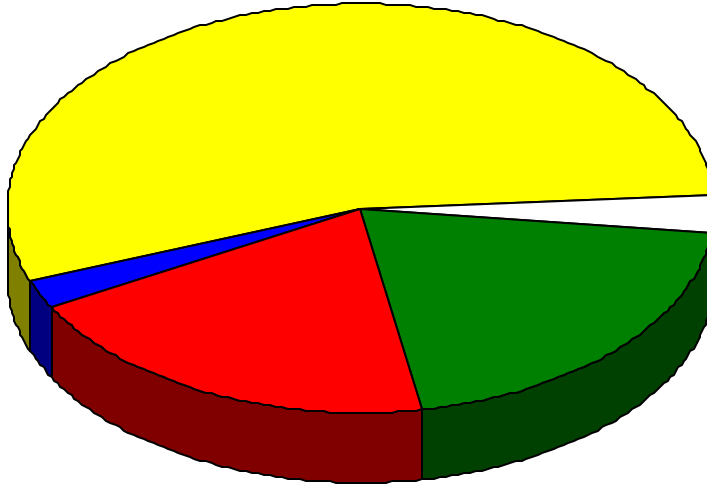
RATE	NOV05	JAN06	APR06
Fed Funds	3.90 %	4.10 %	4.40 %
30-day Prime Bank CD	3.90	4.10	4.30
3-Month T-Bill Yield	3.90	4.20	4.50

** Forecast provided by the Public Investors Panel*

PORTFOLIO COMPOSITION



CITY OF KILLEEN
Investment Portfolio Mix



MATURITY STRUCTURES

TEXASTERM

<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ -0-	0.00%
31-90 Days	5,000,000	24.69%
91-180 Days	11,250,000	55.56%
181-365 Days	4,000,000	19.75%
>365 Days	-0-	0.00%
TOTALS	\$20,250,000	100.00%

INVESTMENT SECURITIES

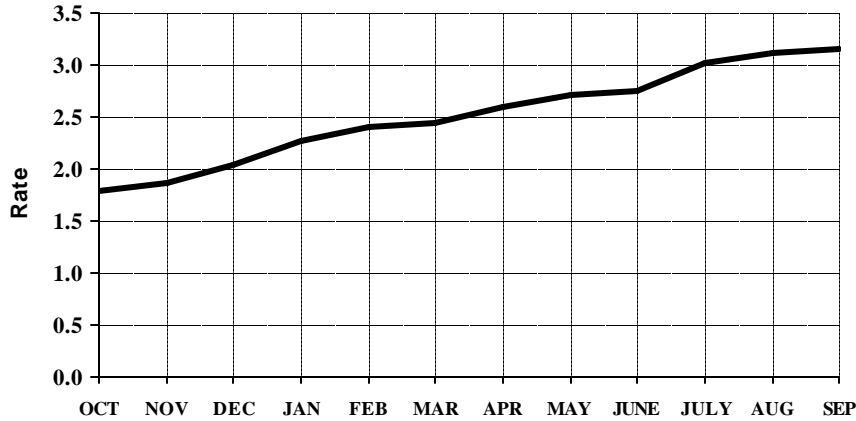
<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ -0-	0.00%
31-90 Days	12,000,000	60.00%
91-180 Days	8,000,000	40.00%
181-365 Days	-0-	0.00%

>365 Days -0- 0.00%

TOTALS \$ 20,000,000 100.00%

CITY OF KILLEEN

YIELD CURVE



TOTAL PORTFOLIO PERFORMANCE SUMMARY

FY 04-05 MONTH	TOTAL	TOTAL	YIELD
	AVERAGE BALANCE	INTEREST EARNED	
October	\$ 57,043,437	\$ 86,653	1.789%
November	98,782,749	151,893	1.871%
December	110,595,630	191,763	2.014%
January	107,629,260	208,045	2.276%
February	110,801,399	204,493	2.406%
March	112,476,479	233,883	2.448%
April	111,818,256	239,061	2.601%
May	111,045,723	256,567	2.720%
June	111,820,958	253,459	2.758%
July	109,849,166	282,627	3.029%
August	104,132,197	275,996	3.121%
September	103,443,835	268,982	3.164%
Totals	\$104,119,924	\$ 2,653,424	2.519%

CHANGES IN INVESTMENTS DURING THE PERIOD

Beg. Balances	Ending Balances	
July 1, 2005	Increases	Decreases
		September 30, 2005

TEXPOOL	\$ 56,856,651	\$ 16,356,900	\$ 19,126,648	\$ 54,086,903
TEXSTAR	3,127,999	26,929	-0-	3,154,928
TEXTERM	22, 881,181	4,175,899	6,488,247	20, 568,833
Investment Securities	24,000,000	-0-	4,000,000	20,000,000
TOTALS	\$106,865,831	\$20,559,728	\$ 29,614,895	\$ 97,810,664

MARKET VALUE INFORMATION

	Book Value Sept. 30, 2005	Market Value Sept. 30, 2005	Net Change
TEXPOOL	\$54,086,903	\$54,084,199	(\$ 2,704)
TEXSTAR	3,154,928	3,152,407	(2,521)
TEXASTERM	20,568,833	20,465,989	(102,844)
Investment Securities	20,000,000	19,984,975	(15,025)
TOTALS	\$ 97,810,664	\$ 97,687,570	(\$123,094)

SUMMARY



During the quarter, the total average balance available for investment was \$105,808,399; total interest earned for the quarter was \$827,606. The overall yield on the portfolio for the quarter was 3.105%. These interest earnings figures include accrued interest earned on the investment securities of \$115,258. Total interest earned for the year of \$2,653,424 was up 181% over the prior years earnings of \$943,761. The staff will continue to monitor the financial markets and seek the best investments considering current market conditions. As of September 30, 2005, the total market value of the portfolio was less than the book value by \$123,094. All investment securities purchased pay full face value at maturity.

The City's investment policy has received certification from the Government Treasurers' Organization of Texas. This report complies with the relevant provisions of the City's investment policy and the Public Funds Investment Act.

RANA LACER, CPA

DIRECTOR OF FINANCE
INVESTMENT OFFICER