

**CITY OF KILLEEN
INVESTMENT ACTIVITY REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2007**

INVESTMENT OUTLOOK

Implementing firm monetary policy has remained a foremost strategy of the Federal Open Market Committee's (FOMC) commitment to improve the nation's economic outlook. In an October 31, 2007 statement released by the Committee, the targets for the federal funds and the discount rates were lowered by 25 basis points each to 4.50% and 5.00% respectively. Some economists are saying that the best investment strategy at this time is maintaining a higher concentration than average in short-term positions (overnight to 1 week). Highly-rated commercial paper from money center banks, agency discount notes, repurchase agreements, and highly-rated money market funds are good investments to diversify this exposure. For the near-term, safety and liquidity carry heightened importance until the market fully re-prices the risk liquidity of certain structured investments. After ensuring that liquidity needs are met, cautiously extending maturities can pay off. The favorable interest rate curve in the money market arena makes this opportunity possible for longer-term core monies. High-quality bank CDs and direct commercial paper present some opportunities in the six to twelve month time frame. It should be noted, however, that with an uncertain economic picture, future Fed rate eases are expected. Still, statistics from the Federal Funds Implied Probability (FFIP) chart show a 49.4% chance that the FOMC will leave the federal funds rate unchanged at 4.50 and a 40.5% chance of a 25 basis point reduction at the December 11, 2007 meeting. With housing markets across the nation seeing double figures in foreclosures, Killeen is still experiencing a relatively stable housing market and has been crowned the nation's most affordable studied market in a 2007 Coldwell Banker's Home Price Comparison. The WSJ says crude oil prices recently fell more than \$3 to \$91.17 after the International Energy Agency said it forgot to factor higher prices into its demand forecast. The new forecast is much lower than the old, suggesting adequate supply after all. OPEC met and decided not to boost output, but it didn't matter. The paper said that prices would fall this week because there are a ton of \$100 options set to expire this week.

Investment outlook provided courtesy of the GFOA Treasury Management Report and FTN Financial Analysts.

CASH BALANCES AT EXTRACO BANK



During the quarter, the average cash balance at the depository bank was \$2,258,474. Total interest earned for the quarter was \$10,155. Fees charged by the Bank total \$7,232 for the quarter. The gross yield for the quarter was 1.799%. The effective yield for the quarter was 0.524%. 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. Following is a recap of cash balances and investment activity:

<u>FY 06-07</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>GROSS</u> <u>YIELD</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 1,099,837	\$ 2,812	3.010%	0.492%
November	2,132,325	5,396	3.079%	1.739%
December	2,241,103	7,985	4.195%	2.996%
January	1,712,582	2,863	1.968%	0.347%
February	6,223,434	24,746	5.183%	4.730%
March	1,889,107	2,789	1.738%	0.355%
April	1,456,782	2,757	2.303%	0.495%
May	3,170,401	7,986	2.966%	2.072%
June	1,623,791	3,037	2.275%	0.359%
July	2,486,156	3,062	1.450%	0.291%
August	2,170,198	3,940	2.138%	0.763%
September	2,119,070	3,152	1.810%	0.518%

Totals

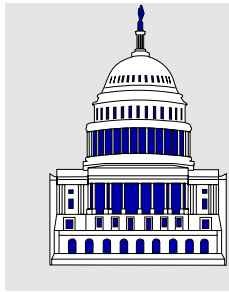
\$ 2,360,399

\$ 70,525

2.676%

1.263%

CASH BALANCES AT TEXPOOL, TEXSTAR & TEXASTERM



The average cash balance in TEXPOOL was \$90,185,728, the average balance in TEXSTAR was \$3,452,804, and the average balance in TEXASTERM was \$5,032,799 during the quarter. Total interest earned for the quarter was \$1,284,141. The yield as of September 30th was 5.232% for TEXPOOL, 5.363% for TEXSTAR, and 4.940% 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 06-07</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 84,475,248	\$ 378,984	5.282%
November	101,171,788	439,351	5.284%
December	109,752,656	493,708	5.296%
January	109,692,295	491,518	5.276%
February	105,184,951	431,749	5.351%
March	108,061,073	485,703	5.292%
April	107,456,492	461,064	5.220%
May	105,968,574	471,597	5.240%
June	98,031,989	421,128	5.058%
July	97,903,473	434,721	5.228%
August	88,019,921	387,866	5.188%
September	84,633,791	352,357	5.065%
Totals	\$ 100,029,354	\$5,249,746	5.232%

Note - the above totals include \$129,295 in interest earned for KEDC.

TEXSTAR CASH BALANCES

<u>FY 06-07</u> <u>MONTH</u>	<u>AVERAGE</u> <u>BALANCE</u>	<u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 3,304,405	\$ 14,847	5.290%
November	3,319,252	14,401	5.279%
December	3,333,653	15,003	5.299%
January	3,348,656	15,051	5.292%
February	3,363,707	13,651	5.290%
March	3,209,043	15,203	5.578%
April	3,221,511	14,724	5.561%
May	3,234,136	15,226	5.543%
June	3,247,575	14,876	5.573%
July	3,437,386	15,423	5.283%
August	3,452,809	15,408	5.254%
September	3,468,216	14,588	5.117%
Totals	\$ 3,328,362	\$ 178,399	5.363%

TEXAS TERM CASH BALANCES

<u>FY 06-07 MONTH</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST EARNED</u>	<u>EFFECTIVE YIELD</u>
October	\$ 14,160,764	\$ 54,989	4.572%
November	10,155,951	31,222	3.740%
December	5,009,153	23,236	5.462%
January	5,032,389	21,827	5.107%
February	5,054,216	19,715	5.085%
March	5,073,932	21,827	5.065%
April	5,095,759	21,123	5.043%
May	5,116,882	21,231	4.885%
June	5,011,373	21,583	5.240%
July	5,032,956	22,210	5.196%
August	5,055,166	21,021	4.896%
September	5,010,274	20,548	4.990%
Totals	\$ 6,234,068	\$ 300,532	4.940%

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 \$21,808,724. The interest earned for the quarter was \$291,398. The effective yield on the average investment securities balance was 5.302% for the quarter. The weighted average maturity of the investment securities portfolio as of September 30, 2007 was 237 days.

<u>FY 06-07 MONTH</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST EARNED</u>	<u>EFFECTIVE YIELD</u>
October	\$ 23,548,389	\$ 110,350	5.518%
November	24,333,335	107,690	5.385%
December	17,661,292	83,750	5.583%
January	17,988,353	82,236	5.383%
February	16,846,159	48,299	3.737%
March	14,652,331	66,444	5.339%
April	14,194,445	62,292	5.339%
May	21,139,618	67,969	3.786%
June	22,305,557	97,208	5.302%
July	21,568,880	97,132	5.302%
August	21,568,878	97,132	5.302%
September	22,288,415	97,134	5.302%
Totals	\$ 19,841,304	\$ 1,017,637	5.107%

PERFORMANCE MEASUREMENTS

KEY RATES: Cash Market

RATE	Sept 07	Year Ago
Fed Funds	5.25 %	3.93 %
CDs: Three Months	4.28	2.22
CDs: Six Months	4.58	2.92
T-Bill: 91-day Yield	3.82	3.44
T-Bill: 52-week Yield	4.03	3.97
Tax-Exempt Notes	3.42	2.61
City of Killeen (overall)	5.05	4.71

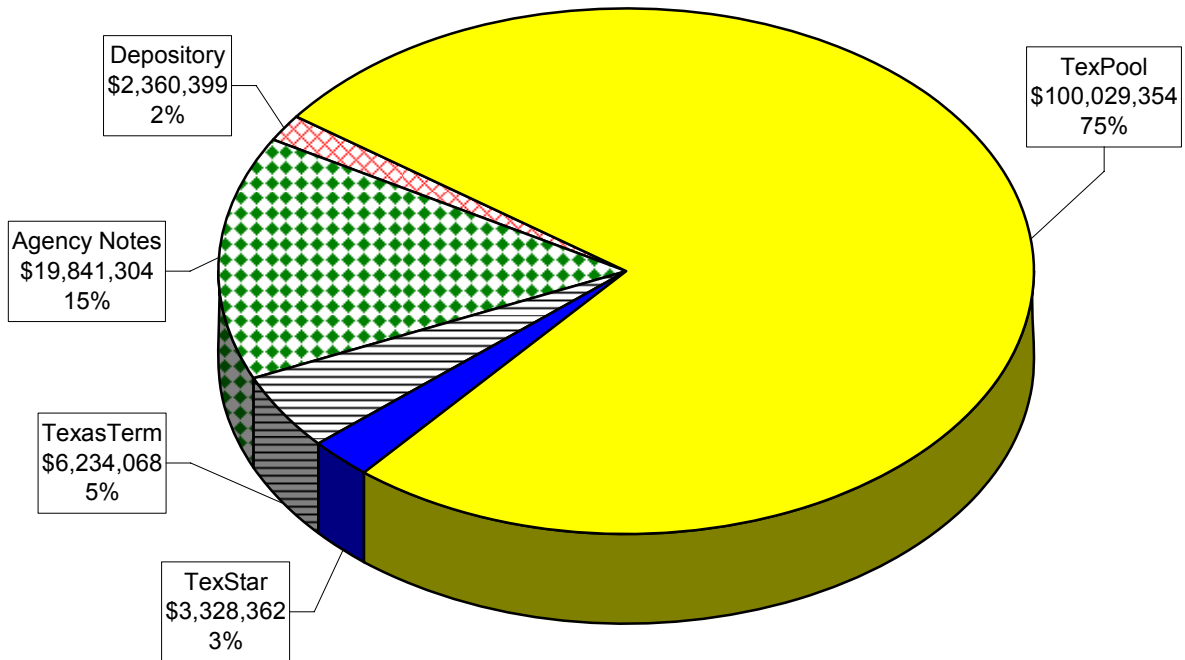
INTEREST RATE FORECAST

RATE	DEC-07	FEB-08	MAY-08
Fed Funds	4.75 %	4.75 %	4.63 %
30-day Prime Bank CD	4.83	4.83	4.68
3-Month T-Bill Yield	4.20	4.28	4.30

** Forecast provided by the Public Investors Panel*

PORTFOLIO COMPOSITION

CITY OF KILLEEN Investment Portfolio Mix



MATURITY STRUCTURES

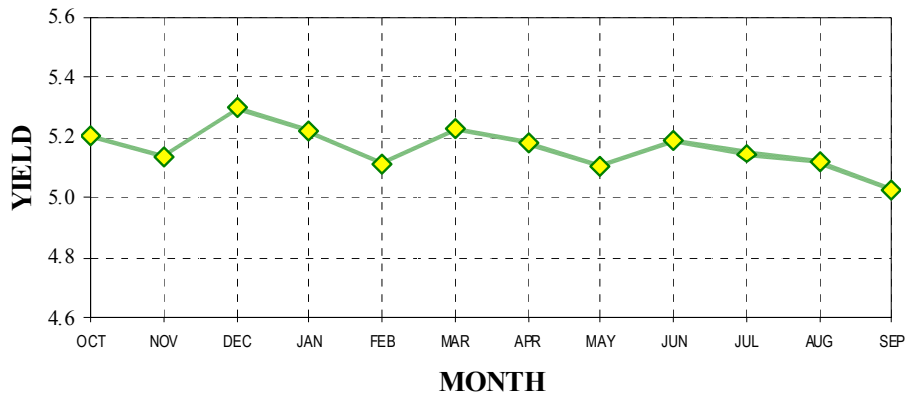
TEXASTERM

<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ -0-	0.00%
31-90 Days	5,000,000	100.00%
91-180 Days	-0-	0.00%
181-365 Days	-0-	0.00%
>365 Days	-0-	0.00%
TOTALS	\$5,000,000	100.00%

INVESTMENT SECURITIES

<u>MATURITY STRUCTURE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
0-30 Days	\$ -0-	0.00%
31-90 Days	-0-	0.00%
91-180 Days	9,000,000	40.91%
181-365 Days	8,000,000	36.36%
>365 Days	5,000,000	22.73%
TOTALS	\$22,000,000	100.00%

CITY OF KILLEEN
YIELD CURVE



TOTAL PORTFOLIO PERFORMANCE SUMMARY

<u>FY 06-07</u> <u>MONTH</u>	<u>TOTAL</u> <u>AVERAGE</u> <u>BALANCE</u>	<u>TOTAL</u> <u>INTEREST</u> <u>EARNED</u>	<u>EFFECTIVE</u> <u>YIELD</u>
October	\$ 126,588,643	\$ 561,982	5.205%
November	141,112,651	598,059	5.136%
December	137,997,858	623,682	5.302%
January	137,774,275	613,495	5.223%
February	136,672,467	538,160	5.112%
March	132,885,485	591,966	5.225%
April	131,424,989	561,960	5.182%
May	138,629,611	584,008	5.104%
June	130,220,285	557,832	5.188%
July	130,428,850	572,548	5.146%
August	120,266,971	525,367	5.119%
September	117,519,766	487,779	5.027%
Totals	\$131,793,488	\$ 6,816,839	5.164%

CHANGES IN INVESTMENTS DURING THE PERIOD

	Beg. Balances July 1, 2007	Increases	Decreases	Ending Balances Sept 30, 2007
TEXPOOL	\$ 97,409,171	\$ 5,290,708	(\$19,654,551)	83,045,328
TEXSTAR	3,437,386	45,418	-0-	3,482,804
TEXTERM	5,032,956	5,063,778	(5,065,912)	5,030,822
Investment Securities	22,000,000	0	-0-	22,000,000
TOTALS	\$ 127,879,513	\$10,399,904	(\$24,720,463)	\$ 113,558,954

MARKET VALUE INFORMATION

	Book Value Sept 30, 2007	Market Value Sept 30, 2007	Net Change
TEXPOOL	\$84,633,791	\$84,649,025	\$15,234
TEXSTAR	3,482,804	3,483,640	836
TEXASTERM	5,030,822	4,995,606	(35,216)
Investment Securities	22,000,000	22,331,429	331,429
TOTALS	\$ 115,147,417	\$ 115,459,700	\$312,283

SUMMARY



During the fourth quarter, the total average balance available for investment was \$122,738,529; total interest earned for the quarter was \$1,585,694. The overall yield on the portfolio for the quarter was 5.097%. These interest earnings figures include accrued interest earned on the investment securities of \$291,398. Total interest earned for the year of \$6,816,839 was up 18.04% over the prior year's earnings of \$5,774,793. The staff will continue to monitor the financial markets and seek the best investments considering current market conditions. As of September 30, 2007, the total market value of the portfolio was more than the book value by \$312,283. 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.

BARBARA A. GONZALES
DIRECTOR OF FINANCE
INVESTMENT OFFICER