

**TEXAS LOCAL GOVERNMENT  
INVESTMENT POOL PRIME**

Basic Financial Statements

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

# TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

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# Padgett Stratemann

## Independent Auditors' Report

The Honorable Susan Combs  
Comptroller of Public Accounts of the State of Texas  
Austin, Texas

We have audited the accompanying statements of pool net assets of the Texas Local Government Investment Pool Prime ("TexPool Prime"), an investment trust fund of the State of Texas, as of August 31, 2011 and 2010, and the related statements of changes in pool net assets for the years then ended. These financial statements are the responsibility of TexPool Prime's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TexPool Prime's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the TexPool Prime investment trust fund and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Local Government Investment Pool Prime investment trust fund as of August 31, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, TexPool Prime adopted Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, effective September 1, 2010.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Padgett, Stratemann & Co., LLP*

Certified Public Accountants  
October 17, 2011

**SAN ANTONIO**  
100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

**AUSTIN**  
811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

**TOLL FREE: 800 879 4966**  
**WEB: PADGETT-CPA.COM**

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Management's Discussion and Analysis

Years Ended August 31, 2011 and 2010

The Texas Local Government Investment Pool Prime's (TexPool Prime) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of TexPool Prime's operations for the years ended August 31, 2011 and 2010.

#### Overview of the Financial Statements and condensed Financial Information

This annual financial report consists of two parts:

- Management's discussion and analysis
- Basic financial statements

Statement of Pool Net Assets

Statement of Changes in Pool Net Assets

Notes to the Financial Statements

The Statement of Pool Net Assets presents the financial position of TexPool Prime at the end of the fiscal year and includes all assets and liabilities of TexPool Prime. The difference between total assets and total liabilities – net assets – equals the sum of all participants' interest in TexPool Prime. At August 31, net assets were calculated as follows:

	<u>2011</u>	<u>2010</u>
Total assets	\$ 1,016,664,327	1,257,674,421
Total liabilities	(10,131,573)	(10,361,702)
Net assets	<u>\$ 1,006,532,754</u>	<u>1,247,312,719</u>

The Statement of Changes in Pool Net Assets presents the activity within the Net Asset balance for the year ended. Significant activity accounts include net investment income, earnings distributions, and net contributions/withdrawals by participants. The changes in net assets for the years ended August 31, 2011, 2010 and 2009 were as follows:

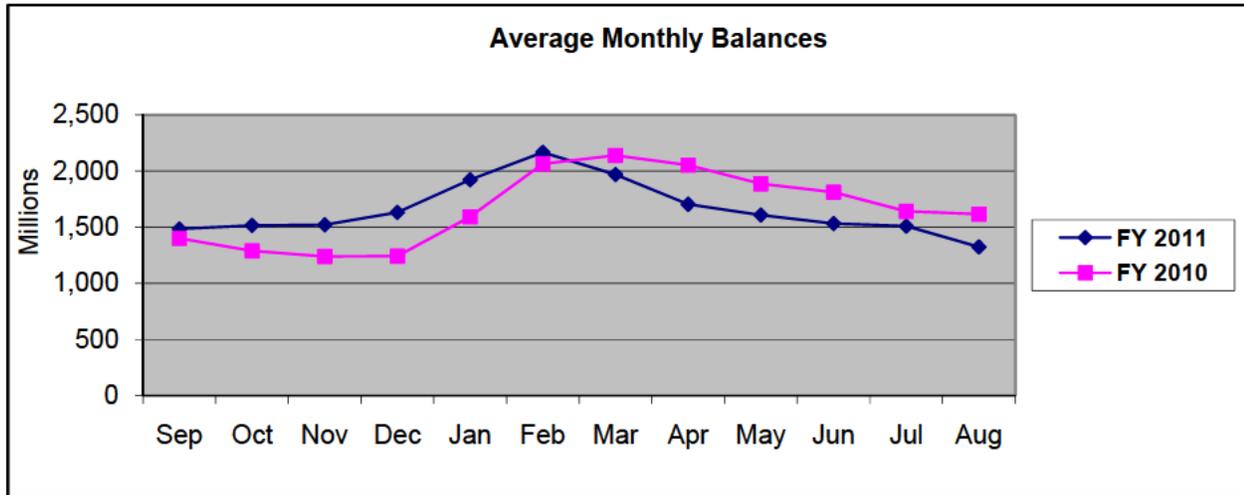
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net investment income	\$ 2,607,530	4,113,230	17,543,669
Earnings paid to investors from net investment income	(2,607,530)	(4,113,230)	(17,543,669)
Net decrease in participant investments	(240,779,965)	(321,580,327)	223,999,701
Net increase (decrease) in net assets	<u>\$ (240,779,965)</u>	<u>(321,580,327)</u>	<u>223,999,701</u>

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Management's Discussion and Analysis

Years Ended August 31, 2011 and 2010

The average monthly balance in TexPool Prime grew to \$1.8 billion in March 2011 up from \$1.2 billion in September 2010. The average monthly balance as of August 31, 2011 was approximately \$1.1 billion.



Management and administration fees to operate TexPool Prime are set at 6.38 basis points (0.0638%).

During fiscal year 2011, the fees were waived on various occasions. The actual fee ranged from a high of 6.38 basis points (0.0638%) to 0.47 basis points (0.0047%). On August 31, 2011, the fee was 4.41 basis points (0.0441%).

The notes to the financial statements provide narrative explanations of accounting policies and additional data needed for full disclosure as required by accounting principles generally accepted in the United States of America.

### Performance

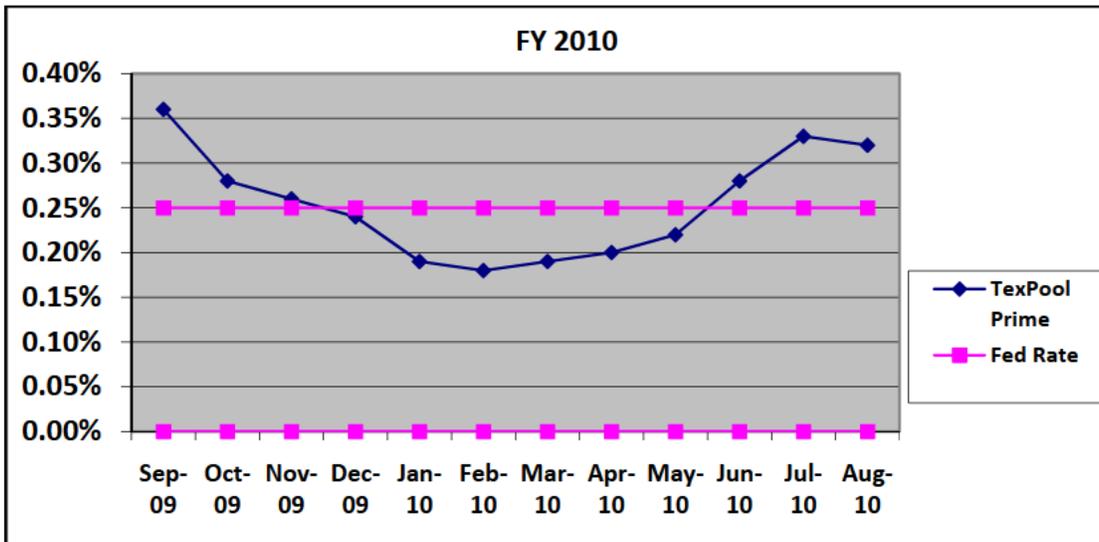
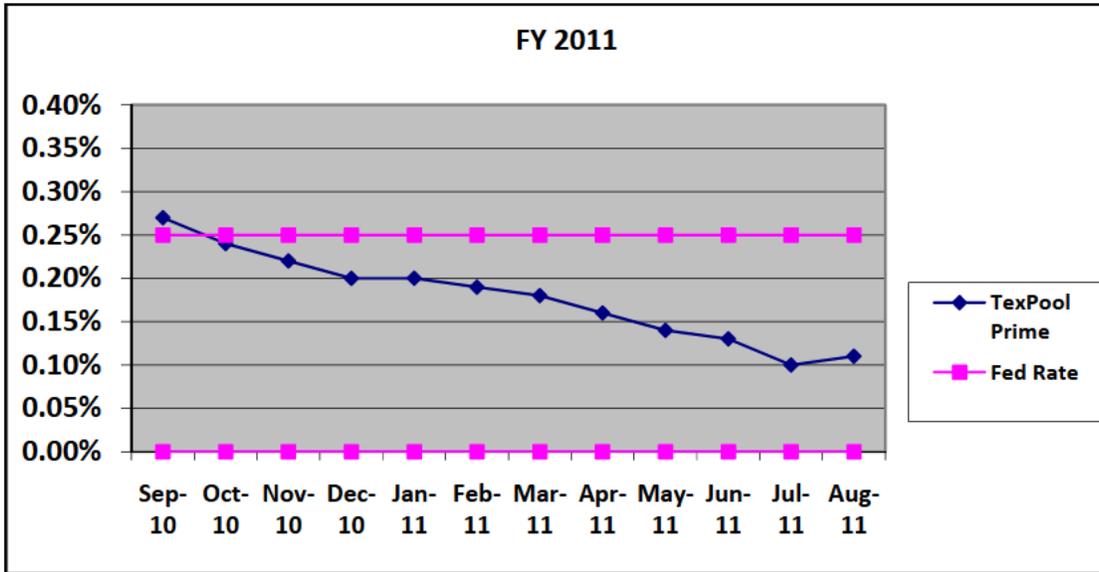
Continuing an easy money policy begun during the darkest days of the global financial crisis in December 2008, the Federal Reserve (Fed) held benchmark interest rates at virtually zero as evidence accumulated that the pace of domestic economic activity was decelerating, if not stalling altogether. Like many private sector economists, the deterioration in housing, employment, and consumer sentiment took Fed policymakers by surprise. Fast-rising food and energy prices, along with the earthquake and tsunami in Japan, are believed to have accounted for only some of the weakness. Besides the tepid U.S. data, the Fed also was concerned about the effects on the global financial system of the ongoing sovereign debt crisis in the eurozone. With no scope to lower benchmark rates further, the Fed in August 2011 promised to keep the Fed funds target rate at between zero and 0.25% through at least mid-2013, a move that quickly pushed the yield on the closely watched two-year Treasury note to a record low of 0.157%. However, three members of the central bank's rate-setting committee dissented from the easy-for-longer policy stance, even as political pressure grew on Chairman Ben Bernanke to abstain from employing additional monetary policy tools to stimulate deteriorating economic growth.

# TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

Management's Discussion and Analysis

Years Ended August 31, 2011 and 2010

## TexPool Prime vs. Fed Funds Rate



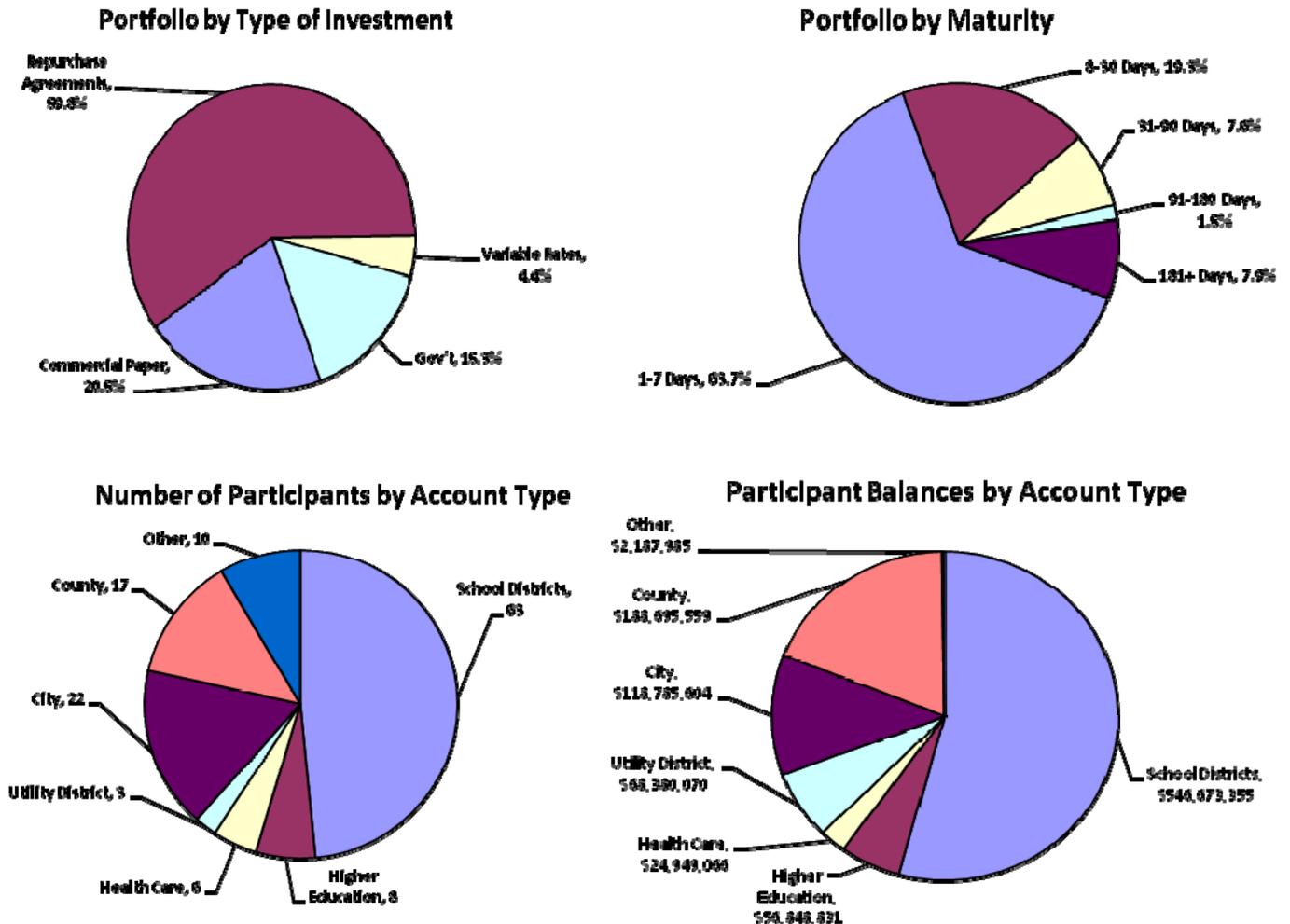
## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

Management's Discussion and Analysis

Years Ended August 31, 2011 and 2010

### TexPool Prime Information as of August 31, 2011

Additional information about the TexPool Prime's portfolio and its participants is reflected in the following graphics, which are available at [www.texpool.com](http://www.texpool.com):



With short-term interest rates at record lows — some overnight yields actually dropped into negative territory for brief periods — finding attractive opportunities along the cash curve remained highly challenging. On relatively infrequent occasions, portfolio managers were able to exploit what was viewed as inefficient pricing; overall, however, value in the cash market was limited. Managers also were mindful of the need to maintain adequate liquidity as a buffer against potential withdrawals that could have been triggered by another global financial crisis. As the period of this report ended, stress levels in some European funding markets were being closely monitored amid growing investor unease over the chronic sovereign debt issues still plaguing the eurozone and, more specifically, some major European banks.

## **TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

Management's Discussion and Analysis

Years Ended August 31, 2011 and 2010

### **TexPool Prime Information as of August 31, 2010**

As of August 31, 2010, 48.1% of pool assets were invested in repurchase agreements, 48.0% in commercial paper, 3.1% in variable rate securities, and 0.8% in government debt. Over half of the pool assets are positioned in securities scheduled to mature within seven days and nearly three quarters will mature in 30 days. Some reasonable values were found somewhat farther out the non-government cash yield curve, with about one-quarter of assets invested in securities maturing between 31 days and 90 days.

Looking ahead, the Fed is expected to remain on hold until it is absolutely clear that a sustainable recovery has begun. But given the persistent weakness in the domestic labor market, it is difficult to know when Chairman Bernanke will feel confident that the threat of deflation has passed and that an official policy response more consistent with a normal business cycle is warranted.

# TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

## Statements of Pool Net Assets

August 31, 2011 and 2010

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Investments, at amortized cost (fair value of \$1,016,623,520 in 2011 and \$1,257,833,508 in 2010) (note 3):		
Securities purchased under agreement to resell	\$ 607,841,000	604,738,000
Commercial paper	233,779,719	603,745,186
U.S. government agency securities	159,978,399	49,179,627
U.S. treasury securities	15,016,457	-
	<u>1,016,615,575</u>	<u>1,257,662,813</u>
 Accrued interest receivable	 48,752	 11,608
Total assets	<u>1,016,664,327</u>	<u>1,257,674,421</u>
<b>Liabilities</b>		
Trades pending settlement	10,000,000	10,000,000
Amounts payable to participants	103,091	361,538
Accounts payable	28,482	164
	<u>10,131,573</u>	<u>10,361,702</u>
Total liabilities	<u>10,131,573</u>	<u>10,361,702</u>
 Net assets held in trust for pool participants	 \$ <u>1,006,532,754</u>	 <u>1,247,312,719</u>

See accompanying notes to financial statements.

**TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

Statements of Changes in Pool Net Assets

Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Investment income:		
Interest income	\$ 3,489,463	4,958,390
Expenses:		
Management fees and expenses (note 2)	<u>(881,933)</u>	<u>(845,160)</u>
Net investment income	<u>2,607,530</u>	<u>4,113,230</u>
Earnings paid to investors from net investment income	(2,607,530)	(4,113,230)
Net decrease in participant investments	<u>(240,779,965)</u>	<u>(321,580,327)</u>
Net decrease in net assets	(240,779,965)	(321,580,327)
Net assets:		
Beginning of period	<u>1,247,312,719</u>	<u>1,568,893,046</u>
End of period	\$ <u><u>1,006,532,754</u></u>	<u><u>1,247,312,719</u></u>

See accompanying notes to financial statements.

# TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

Notes to Financial Statements

August 31, 2011 and 2010

## (1) Summary of Significant Accounting Policies

### (a) *Background and Reporting Entity*

On September 1, 1989, local government investment pools became authorized investments for the majority of public entities in Texas. The Interlocal Cooperation Act was amended by the 71st Texas Legislature to facilitate the creation of local government investment pools in Texas. This act permits the creation of investment pools to which any political subdivision (local government) in Texas may delegate, by contract, the authority to make investments purchased with local investment funds and to hold legal title as custodian of the investment securities.

The Texas Legislature authorized the State Treasurer to incorporate a special-purpose corporation in 1986 called the Texas Treasury Safekeeping Trust Company (Texas Trust). The Texas Trust has direct access to the services of the Federal Reserve Bank and performs other activities. It is specifically authorized to manage, disburse, transfer, safekeep, and invest public funds and securities. On September 1, 1996, the operations of the State Treasury, including the Texas Trust, were merged with the State Comptroller of Public Accounts (State Comptroller).

The Texas Trust created the Texas Local Government Investment Pool Prime (TexPool Prime) as a public funds investment pool. Eligible participants include, but may not be limited to, incorporated cities, counties, villages, certain types of water districts, school districts, junior college districts, community college districts, and certain other special districts in the State of Texas. TexPool Prime began operations on December 27, 2002.

The administrative and investment services to TexPool Prime are provided by Federated Investors, Inc. (Federated) under an agreement with Texas Trust effective September 1, 2007. The original contract was extended through August 31, 2009 and again through August 31, 2011, and has an additional renewal option through August 2012.

Federated is the investment manager and State Street Bank and Trust is the custodian for TexPool Prime. Federated provides fund accounting and transfer agency services to TexPool Prime. Effective July 1, 2004, Federated outsourced the transfer agent function to Boston Financial Data Services. Federated is the administrator for the TexPool Prime program providing Participant Services and Marketing functions to TexPool Prime participants. Federated is the participant contact point for account maintenance, assistance with transactions and other administrative information.

TexPool Prime is established as an investment trust fund with the Texas Trust as trustee, segregated from all other trustors, investments, and activities of the Texas Trust. Only local governments having contracted to participate in TexPool Prime (Participants) have an undivided beneficial interest in its pool of assets. TexPool Prime is not registered with the Securities and Exchange Commission (SEC) as an investment company.

These financial statements include only the operations of TexPool Prime. The State Comptroller has established an eight member TexPool Advisory Board (Advisory Board) composed equally of Participants in the TexPool portfolios (TexPool and TexPool Prime) and other persons who do not have a business relationship with TexPool Prime. Advisory Board members review TexPool Prime's investment policy and management fee structure.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

Notes to Financial Statements

August 31, 2011 and 2010

### (1) Summary of Significant Accounting Policies (Continued)

#### (a) *Background and Reporting Entity (Continued)*

The State Comptroller exercises oversight responsibility over all other aspects of TexPool Prime including investment and accounting activity, development plans, etc. Oversight responsibility is demonstrated by financial interdependency, ability to significantly influence operations, designation of management and accountability for fiscal matters. As a result, the financial statements of TexPool Prime are included in the financial statements of the Texas Trust as an investment trust fund, which are ultimately included in the financial statements of the State of Texas.

#### (b) *Basis of Accounting*

The accounting and reporting policies of TexPool Prime relating to the accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) in its publication Codification of Governmental Accounting and Financial Reporting Standards (Codification).

As provided for in the Codification, Section 1300, the financial statements of TexPool Prime are presented as a fiduciary fund type-investment trust fund. The economic resources measurement focus and accrual basis of accounting is followed as required by Codification, Section 1600.

TexPool Prime accounts for its operations on the accrual basis of accounting. Investment income is recorded when earned and expenses are recorded when incurred. Net investment income is allocated to Participant accounts monthly on a pro-rata basis. All gains and losses from the sale of securities are distributed among TexPool Prime participants, and will be amortized over the remaining term to maturity of the liquidated securities. Participants may redeem their accounts at any time based on the previous day's balance of their account. Unrealized gains or losses are not allocated to Participant accounts.

Investments are carried at amortized cost, which approximates fair value, as provided for by Codification, Section In5. Investments are priced daily and compared to TexPool Prime's carrying value. If the ratio of the fair value of the portfolio of investments to the carrying value of investments is less than 0.995 or greater than 1.005, TexPool Prime will sell investment securities, as required, to maintain the ratio at a point between 0.995 and 1.005.

Effective September 1, 2010, TexPool Prime adopted GASB Statement No. 59, *Financial Instruments Omnibus*, which revised the reporting and disclosure for certain types of financial instruments. The adoption of this standard did not have an impact on TexPool Prime's financial statements.

#### (c) *Expenses*

Expenses applicable to all Participants, paid in the form of a management fee to Federated, were allocated between all Participants as an adjustment to the daily investment yield so that only net investment income is credited to Participants accounts. The Advisory Board has the responsibility under the provisions of the TexPool Prime Participation Agreement to approve any modifications or other amendments of the management fee structure.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Notes to Financial Statements

August 31, 2011 and 2010

#### (2) Management Fees and Other Transactions With Affiliates

The Texas Trust, in order to recover its costs of operating TexPool Prime, established a management fee for basic services provided to the Participants. Effective January 1, 2007, the fee was set at six and one-half basis points (0.065%). Effective October 18, 2008, the fee was amended to 6.38 basis points (0.0638%). Federated earns 5.88 basis points (0.0588%) as its management fee and the Texas Trust earns one-half basis points (0.005%) as its management fee.

During fiscal years 2011 and 2010, fees were waived on several occasions. During fiscal year 2010, the fee ranged from a high of 6.38 basis points (0.0638%) to a low of 0.58 basis points (0.0058%). On August 31, 2010 the fee was 6.38 basis points (0.0638%). During fiscal year 2011, the fee ranged from a high of 6.38 basis points (0.0638%) to 0.47 basis points (0.0047%). The fee on August 31, 2011 was 4.41 basis points (0.0441%).

#### (3) Investments

Investments of TexPool Prime are only those authorized by the Texas Public Funds Investment Act governing pools for local governments which was in effect as of and prior to August 31, 2011 and 2010. The portfolio may include the following:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
4. Other obligations, for which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or its agencies and instrumentalities;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by nationally recognized investment rating firms and having received a rating of not less than "A" or its equivalent;
6. Bonds issued, assigned, or guaranteed by the State of Israel;
7. Certificates of deposit issued by state and national banks domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas that are:
  - a. Guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Share Insurance Fund or its successor;
  - b. Secured by obligations as described in items 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage-backed securities that have a market value of not less than the principal amount of the certificates, but excluding mortgage-backed securities described by Section 2256.009(b) of the Texas Public Funds Investment Act; and
  - c. Secured in any other manner and amount provided by law for deposits of the investing entity.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Notes to Financial Statements

August 31, 2011 and 2010

#### (3) Investments (Continued)

8. Fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by item 1 above, pledged with a third party selected or approved by TexPool Prime, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; and
9. Such other investments as may be authorized by the Texas Public Funds Investment Act, Chapter 2256.

The above investments are the legally permitted investments; however, the TexPool Advisory Board has reviewed an investment policy which further limits TexPool Prime's portfolio to certain of the investments listed above. The investment policy does not allow for derivative securities.

The State Comptroller approved the current TexPool Prime investment policy effective September 2010, which has been reviewed by the TexPool Advisory Board. Under this investment policy, the following are authorized investments:

- Obligations of the United States, its agencies or instrumentalities, except for
  - Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
  - Obligations whose payments represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
  - Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
  - Collateralized mortgage obligations, the interest rate of which, is determined by an index that adjusts opposite to the changes in a market index.
- Fully collateralized repurchase and reverse repurchase agreements having a defined termination date, secured by any obligation of the United States, its agencies, or its instrumentalities, to include certain mortgage-backed securities of the United States. The repurchase and reverse repurchase agreements are placed only with a primary government securities dealer, or a state or national bank doing business in the State of Texas;
- Money market mutual funds which are no-load, regulated by the Securities and Exchange Commission and rated AAA by at least one nationally recognized investment rating firm.
- Certificates of deposit issued by national or state banks or credit unions, including savings banks, provided that such bank or credit union is domiciled in Texas. The certificates of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund and secured by obligations of the United States, its agencies or instrumentalities or as otherwise required by law.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Notes to Financial Statements

August 31, 2011 and 2010

#### (3) Investments (Continued)

- Commercial paper that matures in 270 days or less from the date of its issuance, rated at least A-1 or P-1 (or the equivalent thereof) by either two nationally recognized statistical rating organizations (NRSROS) or one NRSRO and is fully secured by an irrevocable letter of credit by a national or state bank.

TexPool Prime is designed to be highly liquid in order to give Participants immediate access to their account balance. Therefore, the weighted average maturity of the investments (calculated using the reset date for variable rate notes) of TexPool Prime cannot exceed sixty days. However, it is policy to strive for full investment of all available balances. At August 31, 2011 and 2010, the approximate weighted average maturity of the portfolio was thirty-one and twenty-three days, respectively.

Securities transactions are recorded on a trade date basis. Interest income, adjusted for amortization of premiums and accretion of discounts on investments, is accrued daily. Income to participants is accrued daily and distributions or reinvestment of the income is made monthly.

Securities purchased under agreements to resell (repurchase agreements) are treated as investments, are collateralized by negotiable and eligible government securities, and are carried at the amounts at which the securities were purchased as specified in the respective agreements.

Collateral on repurchase agreements is maintained in a segregated account by a third party custodian upon entering into the repurchase agreement. The collateral is marked to market daily to ensure its market value as being at least equal to 100 percent of the resale price of the repurchase agreement. The September 2010 investment policy states that collateral on repurchase agreements will be equal to at least 102 percent of the total market value of the repurchase agreements, including accrued interest.

A summary of investments and related fair values at August 31, 2011 and 2010 follows:

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities purchased under agreement to resell	\$ 607,841,000	607,841,000	604,738,000	604,738,000
Commercial paper	233,779,719	233,776,770	603,745,186	603,892,979
U.S. government agency securities	159,978,399	159,979,380	49,179,627	49,202,529
U.S. treasury securities	15,016,457	15,026,370	-	-
	<u>\$ 1,016,615,575</u>	<u>1,016,623,520</u>	<u>1,257,662,813</u>	<u>1,257,833,508</u>

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

Notes to Financial Statements

August 31, 2011 and 2010

### (3) Investments (Continued)

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, TexPool Prime would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. As of August 31, 2011 and 2010, all of TexPool Prime's investments are held by the Federal Reserve or the custodian in TexPool Prime's name.

TexPool Prime's bank balances are fully collateralized by Federal depository insurance. At August 31, 2011 and 2010, TexPool Prime had a cash balance of \$0 and \$0, respectively.

*Credit Risk:* The TexPool Prime portfolio is designed and managed to ensure that it maintains its AAAM rating (or the equivalent) by a nationally recognized statistical rating organization. As of August 31, 2011, the short-term rates for TexPool Prime's investments in U.S. government securities, commercial paper and the underlying securities of the Repurchase Agreements were rated A-1+ by Standard and Poor's, P1 by Moody's and F-1+ by Fitch. As of August 31, 2010, the long-term rates for TexPool Prime's investments in U.S. government securities and the underlying securities of the Repurchase Agreements were rated AAA by Standard and Poor's, Aaa by Moody's and AAA by Fitch. TexPool Prime's investments in commercial paper were rated A1 by Standard and Poor's, P-1 by Moody's and F-1 by Fitch.

Standard and Poor's downgrade of the long-term creditworthiness of the United States had no effect on TexPool Prime. The U.S. Securities and Exchange Commission, which governs money market funds, does not require U.S. Treasury or government agency securities to have a long-term rating.

*Concentration of Credit Risk:* Up to 100% of TexPool Prime assets may be invested in government obligations of the United States, its agencies, or instrumentalities. However, no more than 60% of the portfolio may be invested in variable rate notes. Up to 100% of TexPool Prime assets may be invested in direct repurchase agreements. However, no more than 25% of TexPool Prime assets may be invested in term repurchase agreements and no more than 5% of TexPool Prime assets may be invested in term repurchase agreements with maturities exceeding 90 days. Up to 75% of TexPool Prime assets may be invested in commercial paper. However, no more than 25% of TexPool Prime assets may be invested in a single industry or business sector, provided that this limitation does not apply to securities issued or guaranteed by companies in the financial services industry. No more than 5% of TexPool Prime assets at the time of purchase may be invested in a single corporate entity. As of August 31, 2011 7.45% of the TexPool Prime assets were invested in commercial paper issued by BASF Aktiengesellsch. The percentage ownership was below 5% at the time of purchase. As of August 31, 2011, more than 5% of the TexPool Prime investments are with the Federal Home Loan Bank and the Straight A Funding LLC. These investments are 9.93%, and 5.96% respectively, at August 31, 2011. As of August 31, 2010, 6.25% of the TexPool Prime assets were invested in commercial paper issued by Societe Generale North America Inc., 6.01% were invested in commercial paper issued by ING (US) Funding LLC, 6.01% were invested in commercial paper issued by Barclays U.S. FDG LLC, 6.01% were invested in commercial paper issued by Edison Asset Securitization, 5.61% were invested in commercial paper issued by Credit Agricole North America Inc, and 5.21% were invested in commercial paper issued by Fairway Finance Corporation. The percentage ownership was below 5% at the time of purchase.

**TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

Notes to Financial Statements

August 31, 2011 and 2010

**(3) Investments (Continued)**

*Interest Rate Risk:* The weighted average maturity of the portfolio is limited to 60 days calculated using the reset date for variable rate notes (VRNs) and 90 days or fewer using the final maturity date for VRNs, with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rate securities and 24 months for VRNs. The following schedule reflects the weighted average maturity by investment type and TexPool Prime's portfolio as a whole:

<b>Investment Type</b>	<b>Weighted Average</b>	
	<b><u>Maturity (Days)</u></b>	
	<b>2011</b>	<b>2010</b>
Repurchase agreements	1	1
Commercial Paper	23	37
U.S. Government agencies	152	112
U.S. Government treasuries	91	112
TexPool Prime's Weighted Average Maturity	31	23