

**Texas Local Government  
Investment Pool Prime**

Basic Financial Statements

August 31, 2015 and 2014

# Texas Local Government Investment Pool Prime

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# Padgett Stratemann

## Independent Auditor's Report

To the Honorable Glenn Hegar  
Comptroller of Public Accounts of the State of Texas  
Austin, Texas

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Texas Local Government Investment Pool Prime (TexPool Prime), an investment trust fund of the State of Texas, as of and for the years ended August 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise TexPool Prime's basic financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### ***Opinion***

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, 2015 and 2014, 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.

### ***Emphasis of Matter***

As described in Note 1 to the financial statements, these 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, 2015 and 2014, 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. Our opinion is not modified with respect to this matter.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Padgett, Stratemann + Co., L.L.P.*

Austin, Texas  
November 11, 2015

# Texas Local Government Investment Pool Prime

## Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

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, 2015 and 2014.

### 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

Statements of Pool Net Position

Statements of Changes in Pool Net Position

Notes to the Financial Statements

The Statement of Pool Net Position 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 position – equals the sum of all participants' interest in TexPool Prime. At August 31, net position was calculated as follows:

	<u>2015</u>	<u>2014</u>
Total assets	\$ 1,006,849,300	\$ 842,702,424
Total liabilities	<u>(25,167,312)</u>	<u>(44,018)</u>
Net position held in trust for pool participants	<u>\$ 981,681,988</u>	<u>\$ 842,658,406</u>

# Texas Local Government Investment Pool Prime

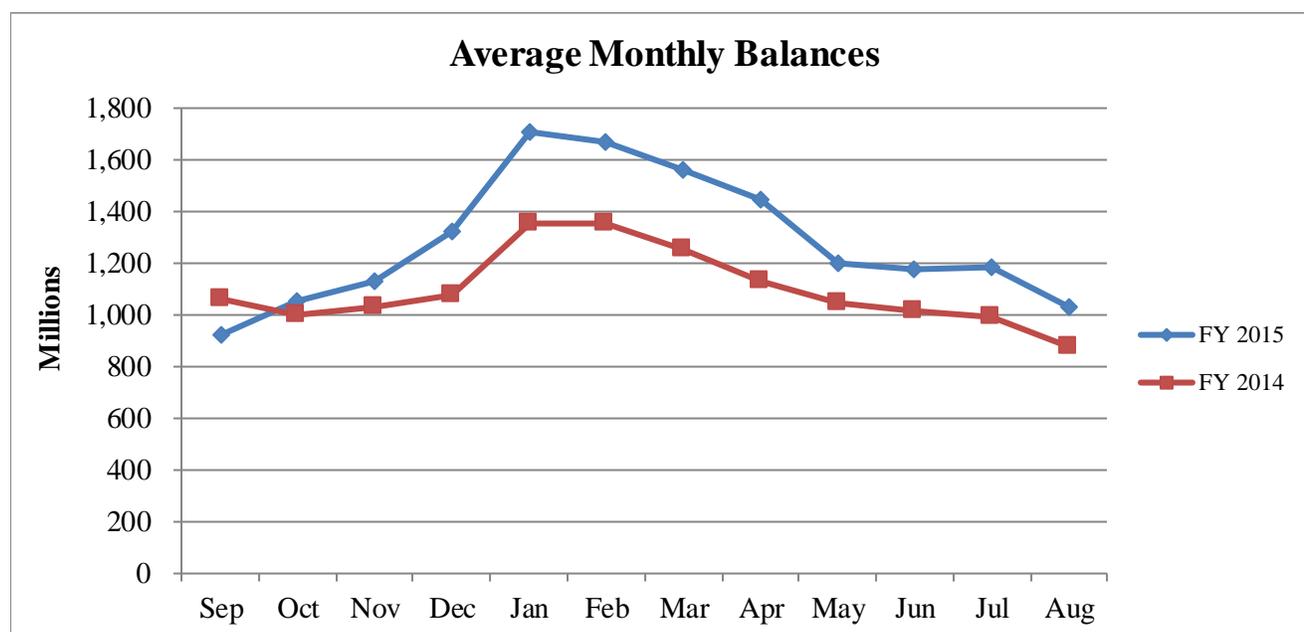
## Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

The Statement of Changes in Pool Net Position presents the activity within the Net Position balance for the year ended. Significant activity accounts include net investment income, earnings distributions, and net contributions/withdrawals by participants. The changes in net position for the years ended August 31, 2015, 2014, and 2013 were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net investment income	\$ 1,134,242	\$ 680,748	\$ 1,384,890
Earnings paid to investors from net investment income	(1,134,242)	(680,748)	(1,384,890)
Net increase (decrease) in participant investments	<u>139,023,582</u>	<u>(214,290,864)</u>	<u>75,445,193</u>
Net increase (decrease) in net position	<u>\$ 139,023,582</u>	<u>\$ (214,290,864)</u>	<u>\$ 75,445,193</u>

The average monthly balance in TexPool Prime grew to \$1.7 billion in January 2015 up from \$0.9 billion in September 2014. The average monthly balance as of August 31, 2015 was approximately \$1.0 billion.



Management and administration fees to operate TexPool Prime are set at 6.38 basis points (0.0638%). During fiscal year 2015, the fees were waived on various occasions. The actual fee ranged from a high of 6.38 basis points (0.0638%) to 4.96 basis points (0.0496%). On August 31, 2015, the fee was 5.22 basis points (0.0522%).

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.

# Texas Local Government Investment Pool Prime

## Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

### Fiscal Year 2015 Performance

The reporting period opened with the beginning of what would become a downward trend in crude oil prices. Per-barrel prices dropped more than 60% before stabilizing. The decrease dampened U.S. inflation and expectations for the Federal Reserve to raise rates, despite the fact that the Federal Reserve ended its \$85 billion in monthly purchases of government and agency bonds, known as quantitative easing (QE), in October and that the domestic economy was beginning to improve modestly.

Significant snowfall and colder than average temperatures impacted the economy of much of the northern U.S. at the beginning of 2015. Several factors slowed the expected economic rebound from the difficult winter: a strengthening dollar, a West Coast port strike, geopolitical conflicts, and the threat of a Greek debt default. While the London interbank offered rates (Libor) generally rose throughout the year, these issues—along with the persistently low inflation and uneven domestic economic data—pushed the Fed to take a more cautious approach to raising the target federal funds rate for the first time since late 2008. A rebound arrived in late spring based in large part by the pent-up demand. As employment, consumer confidence, the housing market, and retail sales improved, the economy once again gained momentum, though inflation remained low.

As the reporting period came to an end, concerns over a major slowdown in China, further decline in the price of oil and new geopolitical events in the Middle East led to volatility in the markets that threatened to be the latest issue to postpone a Fed move that many had expected to occur in September.

Over the course of the reporting period, money markets benefited from the modifications that the New York Fed did to its reverse repurchase program. Created to establish a floor for overnight short-term rates, the facility allows approved counterparties to engage in Treasury repurchase agreements with the Fed instead of with the market. As the period progressed, the Fed experimented with adding term repo at month and quarter-ends to the process, which helped to better match supply to cash managers' needs.

During the one-year reporting period, the Libor rose across the spectrum. One-month Libor rose from 16 basis points to 20 basis points, 3-month from 23 basis points to 33 basis points and 6-month from 33 basis points to 53 basis points, respectively.

Short-term Treasury bills rose over the period, with 1-month rising from 3 basis points to 5 basis points, 3-month from 3 basis points to 10 basis points and 6 month from 5 basis points to 27 basis points. Overnight Treasury and mortgage-backed repo rates moved from 5 and 6 basis points to 8 and 10 basis points, respectively.

From the beginning of the reporting period through the end of August 2015, the average maturity of the pool decreased from 41 days to 25 days, assets under management increased from \$843 million to \$982 million and the average monthly yield rose from 0.06% to 0.14%.

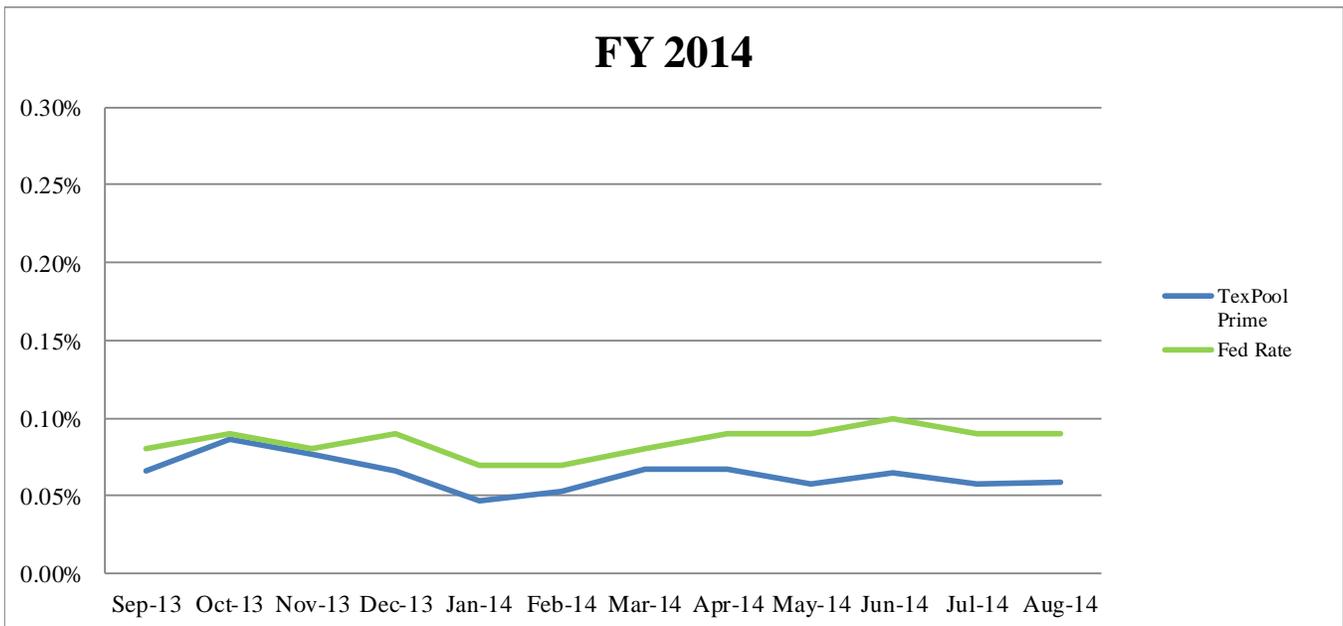
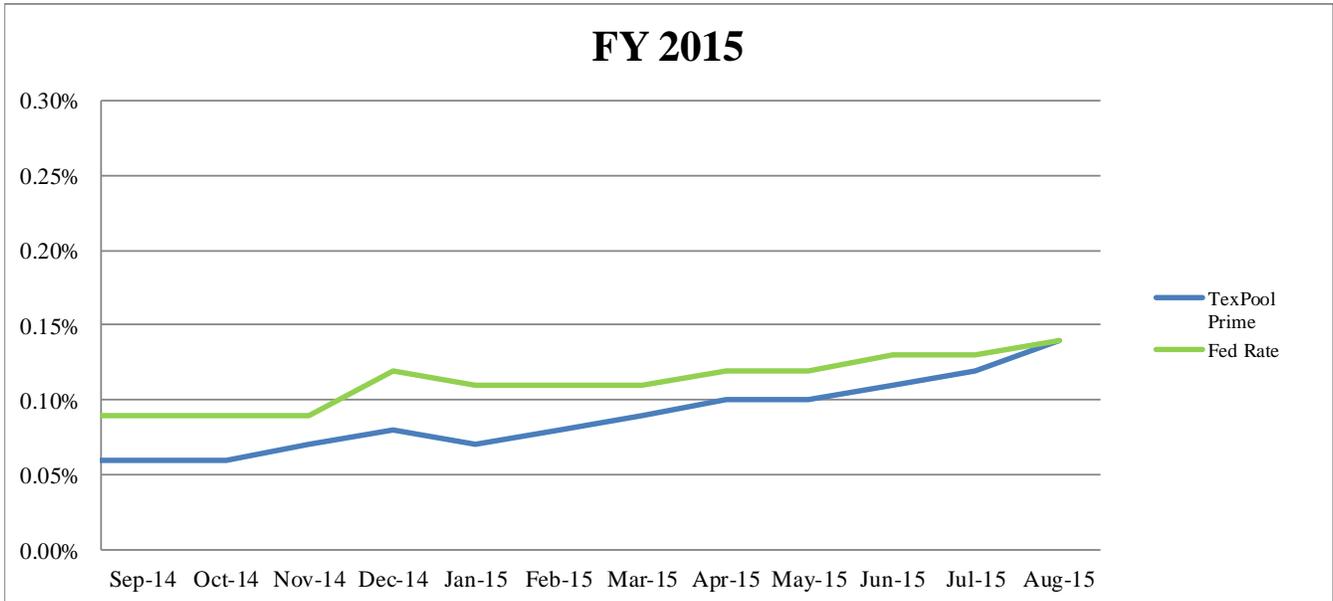
# Texas Local Government Investment Pool Prime

## Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

### TexPool Prime vs. Fed Funds Rate

The following graphs depict the TexPool Prime yield and the Fed rate for 2015 and 2014:



# Texas Local Government Investment Pool Prime

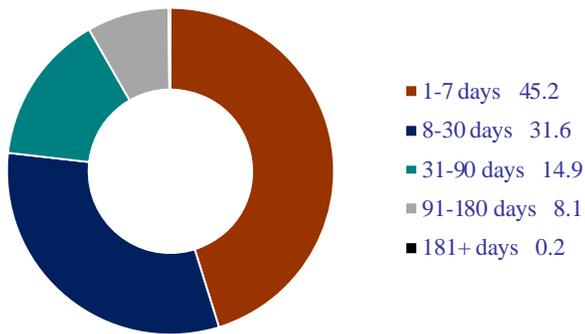
## Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

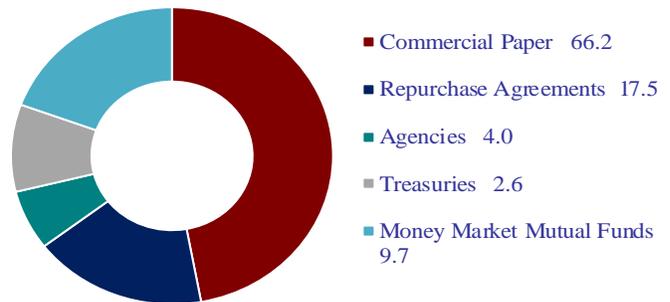
### TexPool Prime Information as of August 31, 2015

Additional information on the TexPool Prime portfolio is reflected in the following graphics, which are available at [www.texpool.com](http://www.texpool.com):

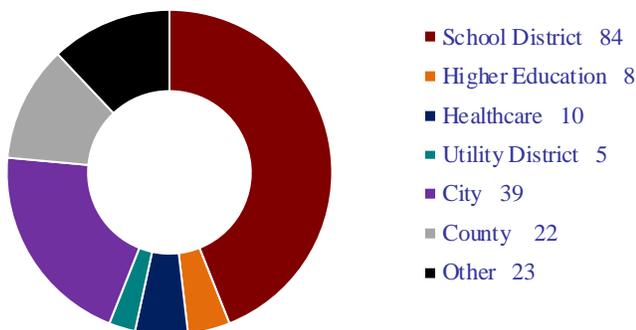
**Portfolio by Maturity (%)**



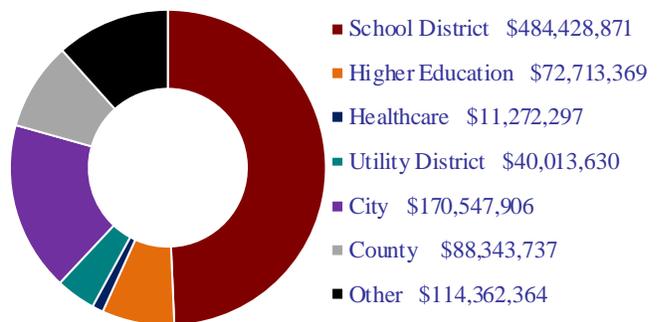
**Portfolio by Type of Investment (%)**



**Number of Participants by Account Type**



**Participant Balances by Account Type**



# Texas Local Government Investment Pool Prime

## Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

### **Fiscal Year 2014 Performance**

In August of 2013, the U.S. economy was improving to the point that the market began to anticipate that the Federal Open Market Committee (FOMC) would begin to reduce its monthly purchases of Treasuries and asset backed securities, which it had been buying at a pace of \$85 billion a month. However, Fed Chair Ben Bernanke announced after the policymakers' meeting in September that it would not begin to taper the stimulus, confusing and frustrating the market. The tapering finally came in January of 2014, when it was announced that the FOMC would reduce its monthly purchases by \$10 billion per month.

A harsh winter caused the economy to contract in the first three months of 2014, threatening to pull the nation back into recession. The underlying economic data however, continued to indicate a recovering economy. Geopolitical conflicts and conflicting economic indicators prevented the Fed from raising rates. Each month brought new inconsistency in data, with one positive economic report coupled with a negative one. For instance, manufacturing might post a solid number while retail sales disappointed. The area of greatest concern for the new Fed Chair Janet Yellen was the labor market. Despite a falling unemployment rate and decreasing jobless claims, Yellen continually brought attention to the amount of "slack" remaining, as evidenced by the historically low labor participation rate. She said that the Fed would risk growing inflation in order to allow the labor market to succeed. As a result, the reporting period closed with the Fed likely half a year from raising rates. Nevertheless, the Fed did alleviate cash management somewhat with the expansion of the overnight reverse repo, a new tool that allowed financial participants to lend to the Fed in exchange for a modest return. During the one-year reporting period, the London interbank offered rates (Libor) fell across the spectrum. One-month Libor ended at 16 basis points, 3-month at 23 basis points, and 1-year at 56 basis points, respectively. Treasury bills were in the single digits, hovering around 3-5 basis points, as were overnight Treasury and mortgage-backed repo rates.

From the beginning of the reporting period through the end of August 2014, the average maturity of the pool declined from 49 days to 41 days, assets under management decreased from \$1.1 billion to \$843 million and the average monthly yield fell from 0.07% to 0.06%.

# Texas Local Government Investment Pool Prime

## Statements of Pool Net Position

August 31, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Investments, at amortized cost (fair value of \$981,770,782 in 2015 \$842,565,588 in 2014):		
Securities purchased under agreement to resell	\$ 171,655,000	\$ 198,833,000
Commercial paper	649,613,742	590,646,103
Money market mutual funds	95,014,193	-
United States government agency securities	39,997,401	42,999,429
United States government treasury securities	25,481,561	10,084,063
	<u>981,761,897</u>	<u>842,562,595</u>
Trades pending settlement	25,005,471	-
Accrued interest receivable	81,932	139,456
Cash	-	373
	<u>1,006,849,300</u>	<u>842,702,424</u>
<b>Liabilities</b>		
Trades pending settlement	25,000,000	-
Amounts payable to participants	121,807	44,018
Accounts payable	45,505	-
	<u>25,167,312</u>	<u>44,018</u>
Net position held in trust for pool participants	<u>\$ 981,681,988</u>	<u>\$ 842,658,406</u>

*Notes to the financial statements form an integral part of these statements.*

# Texas Local Government Investment Pool Prime

## Statements of Changes in Pool Net Position

Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions:		
Investment income:		
Interest income	\$ 1,844,343	\$ 1,381,827
Expenses:		
Management fees and expenses	<u>(710,101)</u>	<u>(701,079)</u>
Net investment income	<u>1,134,242</u>	<u>680,748</u>
Earnings paid to investors from net investment income	(1,134,242)	(680,748)
Net increase (decrease) in participant investments	<u>139,023,582</u>	<u>(214,290,864)</u>
Net increase (decrease) in net position	139,023,582	(214,290,864)
Net position at beginning of year	<u>842,658,406</u>	<u>1,056,949,270</u>
Net position at end of year	<u>\$ 981,681,988</u>	<u>\$ 842,658,406</u>

*Notes to the financial statements form an integral part of these statements.*

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

### (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 trust 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, safe keep, 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 April 8, 2002. The current contract was executed on September 1, 2012 effective through August 31, 2015 and is renewable annually one year at a time for three years through August 31, 2018.

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.

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

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

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

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.

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 accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. GAAP 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).

The financial statements of TexPool Prime are presented as a fiduciary fund type-investment trust fund using the economic resources measurement focus and accrual basis of accounting.

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 the Codification. 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.

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

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

#### (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.

#### (d) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and fund net position at the date of the financial statements. Actual results could differ from those estimates.

### (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.

Under the current contract with Federated, the management fee may not be raised for the duration of the contract, which has a term effective September 1, 2012 through August 31, 2015 and is renewable annually one year at a time for three years through August 31, 2018.

During fiscal years 2015 and 2014, fees were waived on several occasions. During fiscal year 2014, the fee ranged from a high of 6.38 basis points (0.0638%) to 5.77 basis points (0.0577%). The fee on August 31, 2014 was 6.38 basis points (0.0638%). During fiscal year 2015, the fee ranged from a high of 6.38 basis points (0.0638%) to 4.96 basis points (0.0496%). The fee on August 31, 2015 was 5.22 basis points (0.0522%).

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

### (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, 2015 and 2014, respectively. 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.
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.

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

### (3) Investments (continued)

The above investments are the legally permitted investments; however, the TexPool Advisory Board has ratified 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 2014, 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.
- 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.

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

### (3) Investments (continued)

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 Advisory Board policy to strive for full investment of all available balances. At August 31, 2015 and 2014, the approximate weighted average maturity of the portfolio was 25 days and 41 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 2014 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, 2015 and 2014 follows:

	<b>2015</b>		<b>2014</b>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Securities purchased under agreement to resell	\$ 171,655,000	\$ 171,655,000	\$ 198,833,000	\$ 198,833,000
Commercial paper	649,613,742	649,623,136	590,646,103	590,648,873
Money market mutual funds	95,014,193	95,014,193	-	-
United States government agency securities	39,997,401	39,999,928	42,999,429	42,999,735
United States government treasury securities	<u>25,481,561</u>	<u>25,478,525</u>	<u>10,084,063</u>	<u>10,083,980</u>
	<u>\$ 981,761,897</u>	<u>\$ 981,770,782</u>	<u>\$ 842,562,595</u>	<u>\$ 842,565,588</u>

**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, 2015 and 2014, 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, 2015 and 2014, TexPool Prime had a cash balance of \$0 and \$373, respectively.

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

### (3) Investments (continued)

*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, 2015 and 2014 TexPool Prime investments in U.S. government securities, commercial paper and the underlying securities of the Repurchase Agreements were rated A-1 by Standard & Poor's, P-1 by Moody's Investors Service, and F-1 by Fitch ratings. Money market mutual funds were rated AAA by Standard and Poor's, Aaa by Moody's and AAA by Fitch ratings as of August 31, 2015.

*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. Up to 15% of the TexPool Prime assets may be invested in approved money market mutual funds. However, no more than 10% of the TexPool Prime assets may be invested in a single money market mutual fund.

As of August 31, 2015 and 2014, the following commercial paper investments represented more than 5% of net position held in trust for pool participants:

	August 31,	
	2015	2014
Fairway Finance Company	5.04%	5.83%
Bedford Row Fdg. Corp.	-	5.57%
BMW US Capital	5.09%	-
Coca-Cola	-	5.56%
General Electric Corp.	5.09%	5.34%
Icici Bank Lmt.	-	5.10%
Manhattan Asset Fdg.	5.09%	5.10%
National Australia Fdg.	-	5.10%
Sanofi-Aventis	-	5.57%
Toyota Motor Credit	5.00%	5.10%

The percentage of ownership of each was below 5.00% at the time of purchase.

# Texas Local Government Investment Pool Prime

## Notes to the Financial Statements

### (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 Maturity (Days)</b>	
	<b>2015</b>	<b>2014</b>
Securities purchased under agreement to resell	1	4
Commercial paper	29	49
Money market mutual funds	1	-
United States government agency securities	29	88
United States government treasury securities	168	78
TexPool Prime's weighted average maturity	25	41

### (4) Subsequent Events

On October 7, 2015, Standard & Poor's downgraded the short term rating of DuPont (E.I.) de Nemours & Company (DuPont) from A1 to A2 officially making DuPont a Tier 2 issuer. As of August 31, 2015, TexPool Prime's investment in DuPont commercial paper represented less than 5% of total investments. As of the date of this report the securities held at August 31, 2015 have matured and the DuPont issuer name has been removed from the TexPool Prime approved list. Management has evaluated the estimates and conditions at the reporting date and determined this matter has no material effect on the statements as presented on August 31, 2015.