

**Texas Local Government  
Investment Pool**

Basic Financial Statements

August 31, 2013 and 2012

# Texas Local Government Investment Pool

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## Independent Auditor's Report

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Texas Local Government Investment Pool (TexPool), an investment trust fund of the State of Texas, as of and for the years ended August 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise TexPool's basic financial statements.

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

TexPool's 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 of 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 investment trust fund as of August 31, 2013 and 2012, 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 Matters***

As described in Note 1 to the financial statements, these financial statements present only the TexPool 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, 2013 and 2012, 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 to the financial statements, effective September 1, 2012, TexPool implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

## ***Other Matter***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 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., LLP*

Certified Public Accountants  
Austin, Texas  
October 25, 2013

# Texas Local Government Investment Pool

## Management's Discussion and Analysis

Years Ended August 31, 2013 and 2012

The Texas Local Government Investment Pool's (TexPool) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of TexPool's operations for the years ended August 31, 2013 and 2012.

### 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 Position

Statement of Changes in Pool Net Position

Notes to the Financial Statements

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

	<u>2013</u>	<u>2012</u>
Total assets	\$ 14,379,925,553	13,644,924,228
Total liabilities	<u>(94,591,278)</u>	<u>(2,145,118)</u>
Net position held in trust for pool participants	<u>\$ 14,285,334,275</u>	<u>13,642,779,110</u>

# Texas Local Government Investment Pool

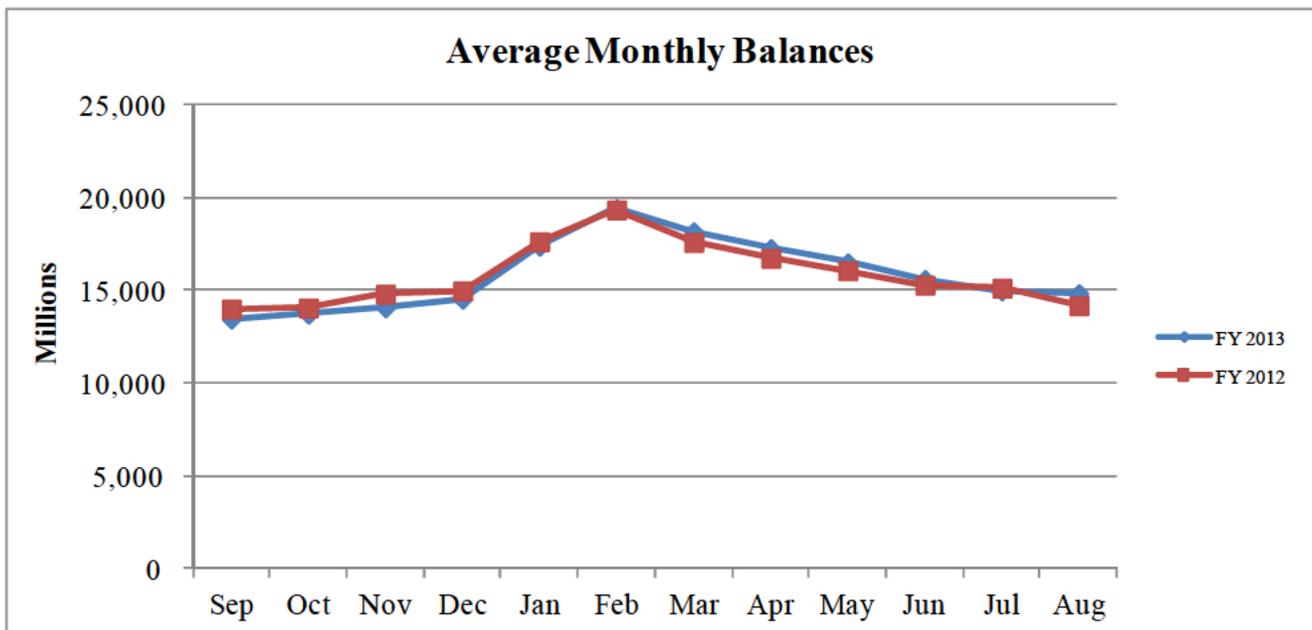
## Management's Discussion and Analysis

Years Ended August 31, 2013 and 2012

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, 2013, 2012 and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net investment income	\$ 16,137,537	17,014,643	22,086,435
Earnings paid to investors from net investment income	(16,182,580)	(17,063,302)	(22,131,280)
Net increase/(decrease) in participant investments	642,555,165	(570,005,823)	(528,067,430)
Net change in management fees reserved for operating expenses	<u>45,043</u>	<u>48,659</u>	<u>44,845</u>
Net increase (decrease) in net position	<u>\$ 642,555,165</u>	<u>(570,005,823)</u>	<u>(528,067,430)</u>

The average monthly balance in TexPool grew to \$19.4 billion in February 2013 up from \$13.4 billion in September 2012, in what is a typical seasonal pattern for the pool. The average monthly balance as of August 31, 2013 was \$14.8 billion.



# Texas Local Government Investment Pool

## Management's Discussion and Analysis

Years Ended August 31, 2013 and 2012

Management and administrative fees to operate TexPool were 4.73 basis points (0.0473%) during the year.

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.

### **Fiscal Year 2013 Performance**

TexPool's investments are limited by state law to high-quality obligations with limited maximum and average maturities, which minimizes market and credit risks. As a result of these restrictions, TexPool's investments earn a yield that is closely linked to the Federal Funds rate (Fed rate). The short maturity structure also means that TexPool's yield changes fairly quickly when the Federal Open Market Committee (FOMC) pronounces any change in the Fed rate. The goal in managing the TexPool portfolio is to lag the Fed rate as short as possible when rates rise, and as long as possible when rates fall. This is achieved by managing the average life of the assets in TexPool.

Navigating the murky political waters of a presidential election, a fiscal-cliff showdown and subsequent sequestration, the domestic economy grew just enough over the 12-month period to turn the conversation toward when Federal Reserve (Fed) policymakers will begin to reduce quantitative easing. While the policy-setting Federal Open Market Committee unexpectedly put off doing anything at its September meeting, an unexpected development that occurred after the portfolio's fiscal year-end, Fed authorities continue to signal they may soon start tapering the Fed's \$85 billion in monthly Treasury and agency securities purchases. The presupposition that the days of quantitative easing were coming to an end – initially raised by Fed Chairman Ben Bernanke in early May – caused yields on 10-year and 30-year Treasuries to jump from a respective 1.64% and 2.84% on May 1 to 2.75% and 3.68% as of August 30. Short rates, on the other hand, drifted lower over the same period, in part because the Fed took pains to divorce any action on longer rates from plans for short rates. Policymakers pledged to hold the benchmark funds rate at historic lows as long as core consumer inflation remains below 2.5%. The core rate on the Fed's preferred personal consumption expenditures gauge ran well below 2% throughout the reporting period and the unemployment rate remains above 6.5%. The official threshold is 6.5% but policymakers expressed flexibility, given that the decline in the jobless rate has as much to do with fewer people looking for work as it has to do with moderate employment gains. Still, with home prices, auto sales, consumer confidence, manufacturing and stock prices reaching pre-crisis levels, and with the Fed ready to be less accommodative going into 2014, the days of record-low short rates appear to be numbered.

Because very low short-term rates fell further the past 12 months, finding attractive opportunities along the cash curve remained highly challenging. Overnight repo rates offered some value for much of the reporting period, trading in the mid-teens to mid-20s range before plunging from late spring through summer. Improving credit conditions further out on the cash-yield curve also offered opportunities. During the one-year period, London interbank offered rates (Libor) fell across the board, with one-month Libor ending at 0.18% and one-year Libor ending at 0.67%. Treasury bills fell into the single digits, which is where overnight Treasury and mortgage-backed repos also were trading by August's end. From the beginning of the reporting period through the end of August 2013, the average maturity of the pool rose from 38 days to 56 days, assets under management increased from \$13.6 billion to \$14.3 billion, and the average monthly yield fell from 0.13% to 0.04%.

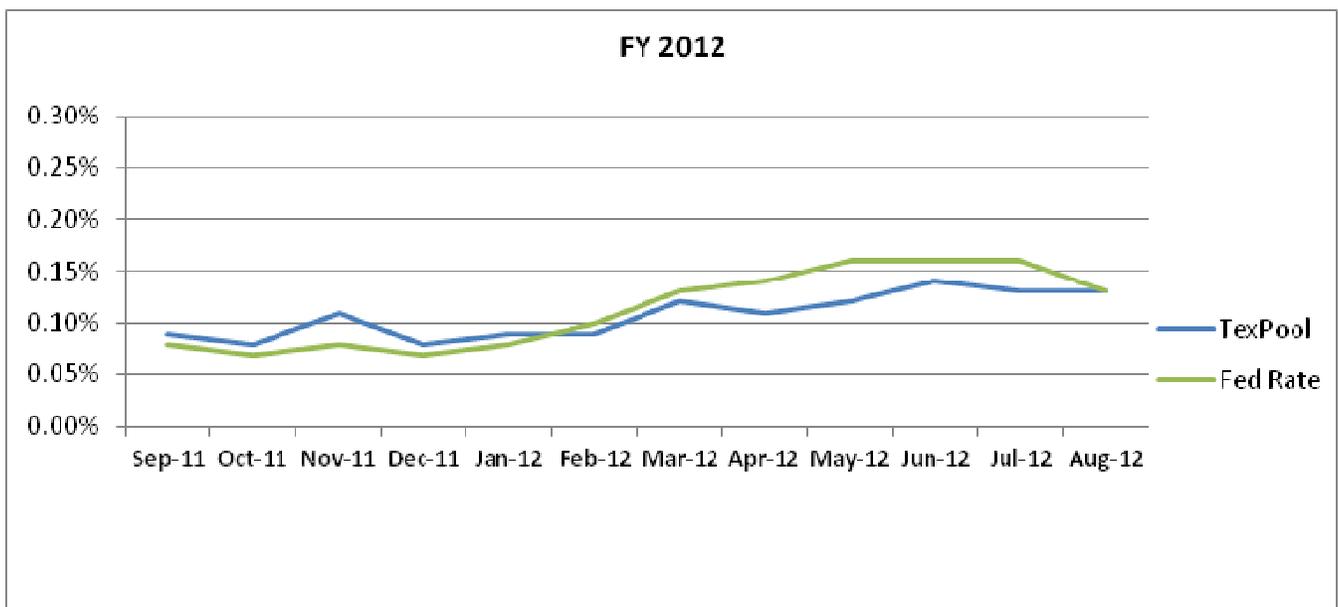
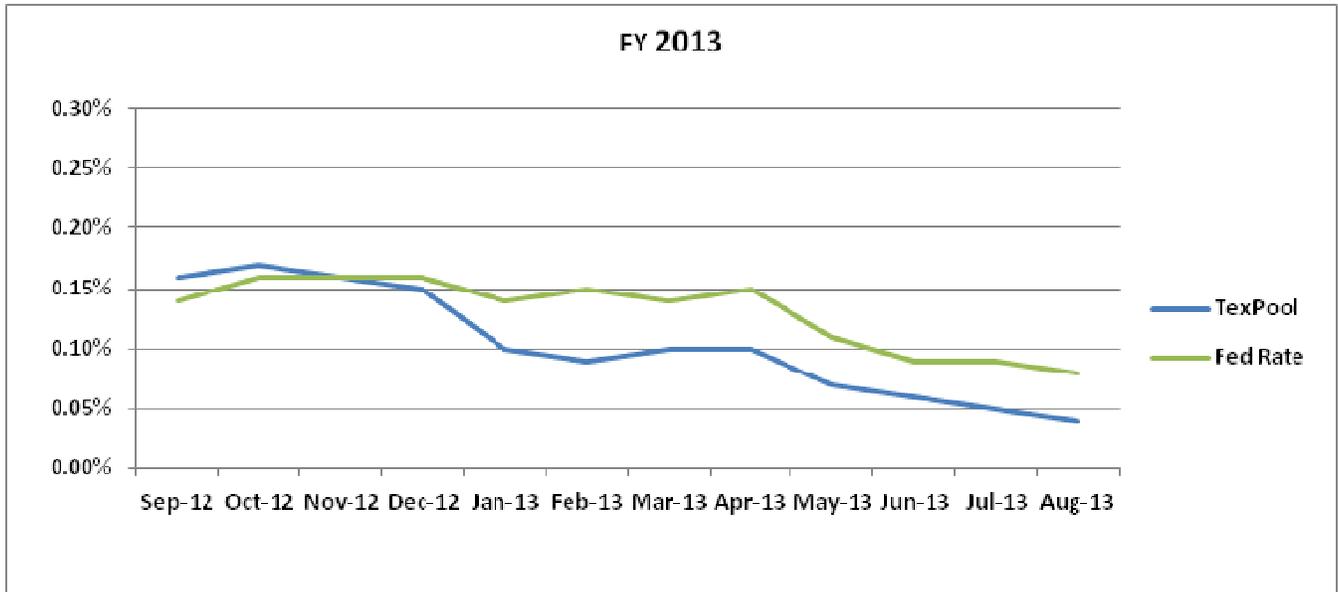
# Texas Local Government Investment Pool

## Management's Discussion and Analysis

Years Ended August 31, 2013 and 2012

### TexPool vs. Fed Funds Rate

The following charts graphically depict the TexPool yield and the Fed rate for 2013 and 2012.



# Texas Local Government Investment Pool

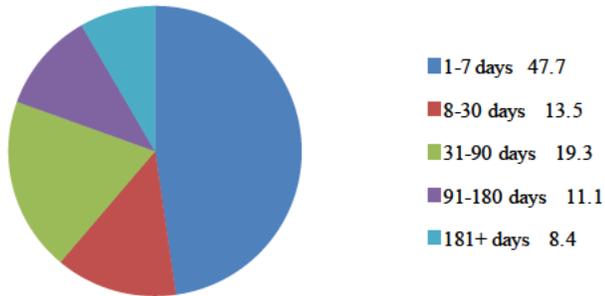
## Management's Discussion and Analysis

Years Ended August 31, 2013 and 2012

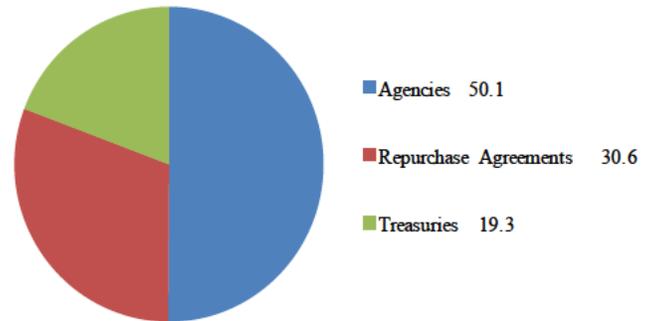
### TexPool Information as of August 31, 2013

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

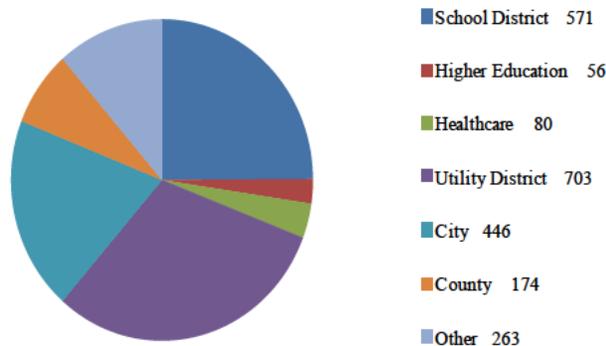
**Portfolio by Maturity (%)**  
*As of August 31, 2013*



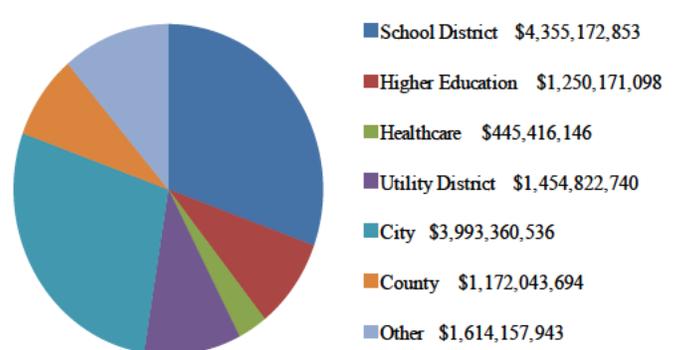
**Portfolio by Type of Investment (%)**  
*As of August 31, 2013*



**Number of Participants by Account Type**  
*As of August 31, 2013*



**Participant Balances by Account Type**  
*As of August 31, 2013*



# Texas Local Government Investment Pool

## Management's Discussion and Analysis

Years Ended August 31, 2013 and 2012

### **Fiscal Year 2012 Performance**

After a promising fourth quarter in 2011, and an even better first quarter in 2012, the economic recovery ran into a series of speed bumps in the second quarter of fiscal year 2012. The Fed responded to the softening recovery by extending its "Operation Twist" program, under which the Fed purchases longer-term Treasury securities with the proceeds from the sale of short-term Treasuries, through the end of the year, and by maintaining benchmark interest rates within the zero to 0.25% target range that it had initially set during the global financial crisis in December 2008. Given that cash yields are scaled off the Fed's benchmark rate, this era of stable and low policy rates has put a ceiling on returns for four years running. The European sovereign debt crisis continued to act as a dark cloud on the horizon throughout the 2012 year period covered in this report, always threatening, but never actually crossing the Atlantic in any meaningful way. As of the end of the third quarter of 2012, the economic recovery seemed to continue on a path of slow growth, in a period that saw encouraging economic releases followed almost immediately with conflicting numbers that put the recovery back into doubt. Given the Fed's commitment to keep rates low until the economy showed signs it could breathe on its own, the low rate period seemed destined to continue for some time.

With rates at the front end of the yield curve at record low levels, finding relative value opportunities remained a challenge. TexPool continued to invest in callable and floating rate agency securities that were expected to provide a yield advantage relative to short-term investment alternatives. The pool's average maturity remained in a neutral stance in light of the Fed's commitment to keeping interest rates low for an extended period of time. Additional collateral available for repurchase agreements, courtesy of the Fed's "Operation Twist," provided a modest support level to the market in the second half of fiscal year 2012.

# Texas Local Government Investment Pool

## Statements of Pool Net Position

August 31, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Investments, at amortized cost (fair value of \$14,367,318,877 in 2013 and \$13,636,852,588 in 2012) (note 3):		
Securities purchased under agreement to resell	\$ 4,397,636,653	8,109,400,695
United States government agency securities	7,198,272,953	5,426,624,750
United States government treasury securities	<u>2,770,363,340</u>	<u>100,046,380</u>
	14,366,272,946	13,636,071,825
Accrued interest receivable	13,652,607	8,851,458
Cash (note 3)	<u>-</u>	<u>945</u>
Total assets	<u>14,379,925,553</u>	<u>13,644,924,228</u>
<b>Liabilities</b>		
Trades pending settlement	82,500,000	-
Amounts payable to participants	549,168	1,578,421
Accounts payable	11,020,456	-
Management fees reserved for operating expenses (note 2)	<u>521,654</u>	<u>566,697</u>
Total liabilities	<u>94,591,278</u>	<u>2,145,118</u>
Net position held in trust for pool participants	<u>\$ 14,285,334,275</u>	<u>13,642,779,110</u>

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

# Texas Local Government Investment Pool

## Statements of Changes in Pool Net Position

Years Ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Additions:		
Investment income:		
Interest income	\$ 23,651,552	24,530,048
Expenses:		
Management fees and expenses (note 2)	<u>(7,514,015)</u>	<u>(7,515,405)</u>
Net investment income	<u>16,137,537</u>	<u>17,014,643</u>
Earnings paid to investors from net investment income	(16,182,580)	(17,063,302)
Net change in management fees reserved for operating expenses (note 2)	45,043	48,659
Net increase (decrease) in participant investments	<u>642,555,165</u>	<u>(570,005,823)</u>
Net increase (decrease) in net position	642,555,165	(570,005,823)
Net position at beginning of year	<u>13,642,779,110</u>	<u>14,212,784,933</u>
Net position at end of year	<u>\$ 14,285,334,275</u>	<u>13,642,779,110</u>

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

# Texas Local Government Investment Pool

## 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, safekeep, and invest public funds and securities.

The Texas Trust created the Texas Local Government Investment Pool (TexPool) 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 began operations on December 6, 1989. On September 1, 1996, the operations of the State Treasury, including the Texas Trust and TexPool, were merged with the State Comptroller of Public Accounts (State Comptroller).

The administrative and investment services to TexPool 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.

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

TexPool 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 (Participants) have an undivided beneficial interest in its pool of assets. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

# Texas Local Government Investment Pool

## 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. 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. Advisory Board members review TexPool's investment policy and management fee structure.

The State Comptroller exercises oversight responsibility over all other aspects of TexPool 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 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 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 state and 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 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 the Codification, Section 1600.

TexPool 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 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'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 will sell investment securities, as required, to maintain the ratio at a point between 0.995 and 1.005.

# Texas Local Government Investment Pool

## Notes to the Financial Statements

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

#### (b) Basis of Accounting (Continued)

Effective September 1, 2012, TexPool implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement No. 62), and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (Statement No. 63). Statement No. 62 incorporates 1) FASB Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins, issued on or before November 30, 1989 that do not conflict or contradict GASB pronouncements into GASB's authoritative literature. Statement No. 63 renames the statement of net assets as the statement of net position and provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. The adoption of these standards did not have a significant impact on TexPool'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 Participation Agreement to approve any modifications or other amendments of the management fee structure.

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

The Texas Trust, in order to recover its costs of operating TexPool, established a management fee for basic services provided to the Participants. As of August 31, 2013 and 2012 the fee was 4.73 basis points. Federated earns 4.23 basis points (0.0423%) as their management fee and the Texas Trust earns one-half basis point (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.

Prior to the inception of the administrative and investment services contracts as described above, TexPool reimbursed the Texas Trust for the actual cost of the operations of TexPool, which was calculated on an annual basis. Any direct charges such as professional fees were recorded as a credit to a reserve for operating expenses and management fees refundable to Participants. In accordance with a resolution of the Advisory Board dated March 16, 1994, the reserve for operating expenses was set at \$1,000,000. As of August 31, 2013 and 2012, the reserve amount of \$521,654 and \$566,697, respectively, was invested in securities purchased under an agreement to resell (Repurchase Agreement) which is an authorized investment per TexPool's investment policy.

# Texas Local Government Investment Pool

## Notes to the Financial Statements

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

Investment earnings of \$457 and \$441 for the fiscal years ended August 31, 2013 and 2012, respectively, are included in the reserve account as of August 31, 2013 and 2012, respectively. Ultimately, the reserve for operating expenses and related investment earnings will be used for the operating benefit of TexPool. During 2013 and 2012, the Texas Trust expensed \$45,500 and \$49,100, respectively for charges for the benefit of TexPool which were paid from the management fees reserved for operating expenses account.

### (3) Investments

Investments of TexPool 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, 2013 and 2012, 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

# Texas Local Government Investment Pool

## Notes to the Financial Statements

### (3) Investments (Continued)

- 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, 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 ratified an investment policy which further limits TexPool's portfolio to certain of the investments listed above. The investment policy does not allow for derivative securities, commercial paper, or certificates of deposit.

The State Comptroller approved the current TexPool investment policy effective September 2011, 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 represent 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 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 dealers, 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.

# Texas Local Government Investment Pool

## Notes to the Financial Statements

### (3) Investments (Continued)

TexPool 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 cannot exceed sixty days. However, it is Advisory Board policy to strive for full investment of all available balances. At August 31, 2013 and 2012, the approximate weighted average maturity of the portfolio was 56 days and 38 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 2011 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, 2013 and 2012 follows:

	<b>2013</b>		<b>2012</b>	
	<b>Carrying</b>	<b>Fair Value</b>	<b>Carrying</b>	<b>Fair Value</b>
Securities purchased under agreement to resell	\$ 4,397,636,653	4,397,601,218	8,109,400,695	8,109,400,695
United States government agency securities	7,198,272,953	7,199,375,865	5,426,624,750	5,427,416,693
United States treasuries	2,770,363,340	2,770,341,794	100,046,380	100,035,200
	\$ 14,366,272,946	14,367,318,877	13,636,071,825	13,636,852,588

# Texas Local Government Investment Pool

## Notes to the Financial Statements

### (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 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, 2013 and 2012, all of TexPool's investments are held by the Federal Reserve or the custodian in TexPool's name. TexPool's bank balances are fully collateralized by Federal depository insurance. The amounts that exceed the Federal depository insurance coverage are collateralized by the institution holding the funds. At August 31, 2013 and 2012, TexPool had a cash balance of \$0 and \$945, respectively.

*Credit Risk:* The TexPool 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, 2013 and 2012 TexPool investments in U.S. government securities 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.

*Concentration of Credit Risk:* Up to 100% of TexPool 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 assets may be invested in direct repurchase agreements. However, no more than 25% of TexPool assets may be invested in term repurchase agreements and no more than 5% of TexPool assets may be invested in term repurchase agreements with maturities exceeding 90 days. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise. More than 5% of the TexPool investments are with the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments are 27.09% and 12.21%, respectively, at August 31, 2013. TexPool had 15.14% with the Federal Home Loan Bank, 9.13% with the Federal Home Loan Mortgage Corporation, 7.77% with the Federal National Mortgage Association, and 5.21% with the Straight A Funding LLC at August 31, 2012.

*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's portfolio as a whole:

Investment Type	Weighted Average Maturity (Days)	
	2013	2012
Securities purchased under agreement to resell	6	4
United States government agency securities	95	88
United States treasuries	33	15
TexPool's weighted average maturity	56	38