

**TEXAS LOCAL GOVERNMENT
INVESTMENT POOL**

Basic Financial Statements

August 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

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Independent Auditors' Report

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

We have audited the accompanying statements of pool net assets of the Texas Local Government Investment Pool (TexPool), an investment trust fund of the State of Texas, as of August 31, 2012 and 2011, and the related statements of changes in pool net assets for the years then ended. These financial statements are the responsibility of TexPool'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 misstatement. 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'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 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, 2012 and 2011, 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 investment trust fund as of August 31, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 7 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
October 22, 2012

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TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

Years Ended August 31, 2012 and 2011

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, 2012 and 2011.

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

	<u>2012</u>	<u>2011</u>
Total assets	\$ 13,644,924,228	14,448,456,000
Total liabilities	(2,145,118)	(235,671,067)
Net assets	<u>\$ 13,642,779,110</u>	<u>14,212,784,933</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, 2012, 2011 and 2010 were as follows:

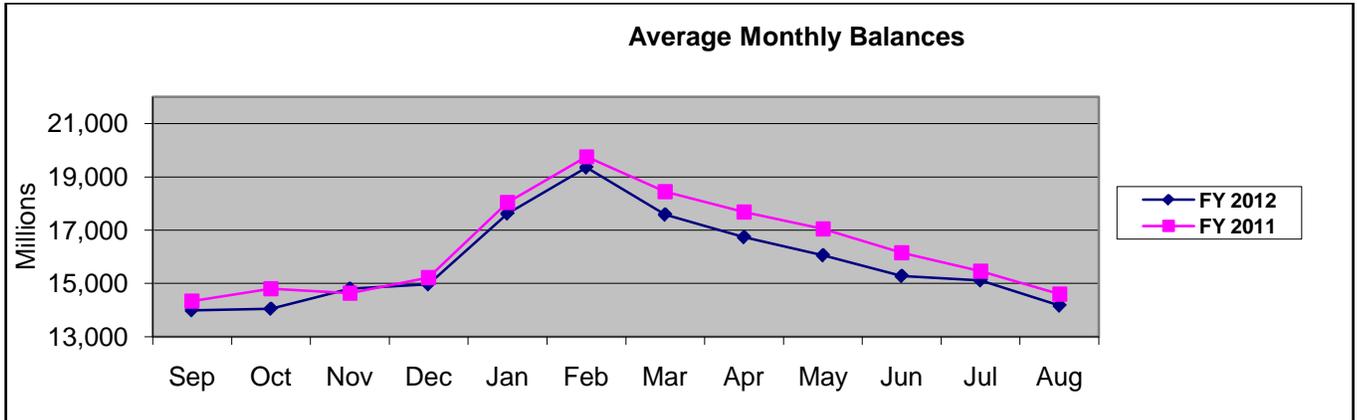
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net investment income	\$ 17,014,643	22,086,435	33,569,644
Earnings paid to investors from net investment income	(17,063,302)	(22,131,280)	(33,617,830)
Net decrease in participant investments	(570,005,823)	(528,067,430)	(1,466,547,350)
Net change in management fees reserved for operating expenses	48,659	44,845	48,186
Net decrease in net assets	<u>\$ (570,005,823)</u>	<u>(528,067,430)</u>	<u>(1,466,547,350)</u>

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

Years Ended August 31, 2012 and 2011

The average monthly balance in TexPool grew to \$19.3 billion in February 2012 up from \$14.0 billion in September 2011, in what is a typical seasonal pattern for the pool. The average monthly balance as of August 31, 2012 was \$14.2 billion.



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.

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.

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 this year. The Federal Reserve (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

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

Years Ended August 31, 2012 and 2011

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.

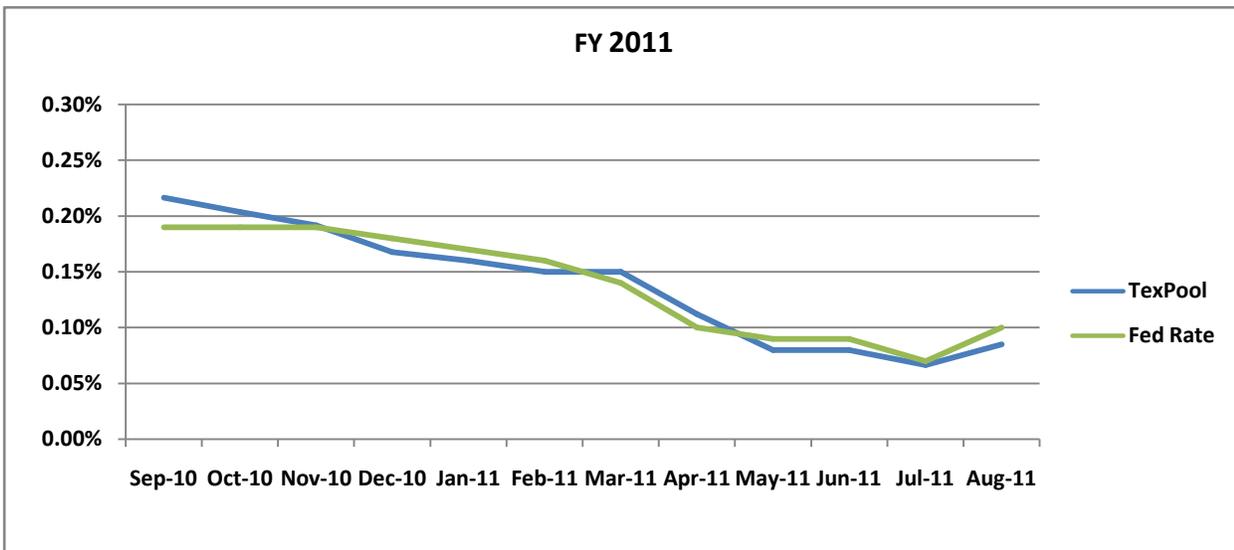
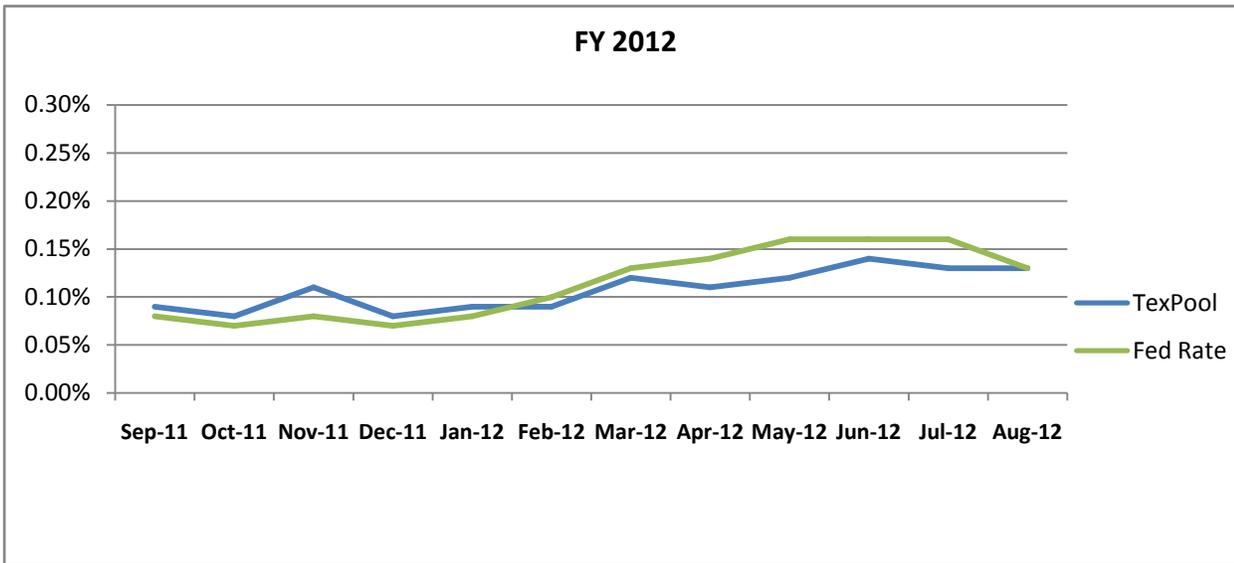
TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

Years Ended August 31, 2012 and 2011

The following charts graphically depict the TexPool yield and the Fed rate for 2012 and 2011.

TexPool vs. Fed Funds Rate



TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management’s Discussion and Analysis

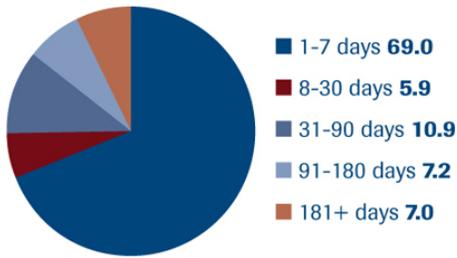
Years Ended August 31, 2012 and 2011

TexPool Information as of August 31, 2012

Additional information on the TexPool portfolio is reflected in the following graphics, which are available at www.texpool.com :

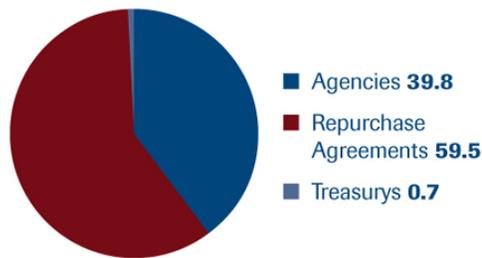
Portfolio by Maturity (%)

As of August 31, 2012



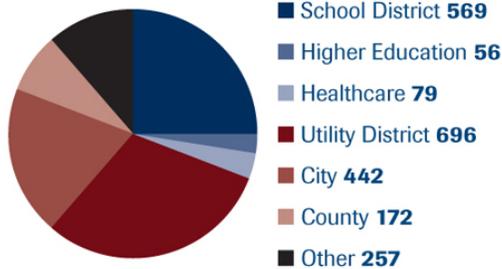
Portfolio by Type of Investment (%)

As of August 31, 2012



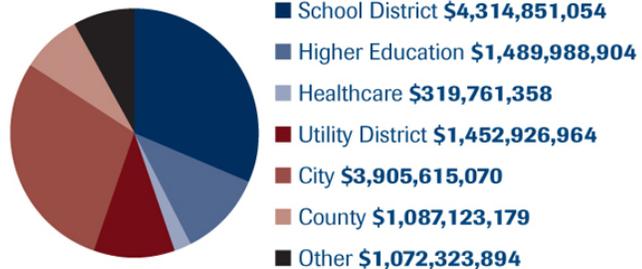
Number of Participants by Account Type

As of August 31, 2012



Participant Balances by Account Type

As of August 31, 2012



TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

Years Ended August 31, 2012 and 2011

TexPool Information as of August 31, 2011

Amid serious growth and debt concerns on both sides of the Atlantic, the Fed kept benchmark interest rates within the zero to 0.25% target range that it had initially set during the global financial crisis in December 2008. The nearly three-year period of stable policy rates is the longest such stretch in history — and arguably the most frustrating for savers as well, since cash yields are scaled off the Fed's benchmark rate. As the 2011 period covered by this report began, Fed Chairman Ben Bernanke had just signaled that the Fed would ease monetary policy further in response to a deepening sovereign debt crisis in Greece. However, with U.S. benchmark interest rates already as low as they could go, policymakers opted to push intermediate-term yields down through so-called quantitative easing, or the purchase of Treasury notes and bonds using newly printed money. Dubbed QE2, the purchases had the indirect effect of keeping a lid on yields at the longer end of the cash curve, yields that were further restrained by the Fed's announcement in August 2011 that it would keep its benchmark rate at virtually zero for at least another two years in response to mounting evidence that the domestic economic recovery was stalling and that the chances for another global recession had risen significantly.

Not surprisingly, value was usually in short supply across the cash yield curve. Opportunities to exploit what was viewed as the inefficient pricing of some cash securities were relatively few and fleeting. Maturities were extended slightly to lock in the marginally higher rates available at the longer end of the cash curve while still maintaining adequate liquidity to protect the pool from the negative impact of forced liquidations in the event of another global financial crisis. As cash managers operating in an environment in which savers have borne the brunt of central bank efforts to revive the economy, those are some of the few factors that can be controlled.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Statements of Pool Net Assets

August 31, 2012 and 2011

Assets	2012	2011
Investments, at amortized cost (fair value of \$13,636,852,588 in 2012 and \$14,442,000,866 in 2011) (note 3):		
Securities purchased under agreement to resell	\$ 8,109,400,695	7,665,896,356
U.S. government agency securities	5,426,624,750	6,443,530,839
U.S. treasuries	100,046,380	332,111,607
	13,636,071,825	14,441,538,802
Accrued interest receivable	8,851,458	6,917,198
Cash (note 3)	945	-
Total assets	13,644,924,228	14,448,456,000
Liabilities		
Trades pending settlement	-	234,000,000
Amounts payable to participants	1,578,421	1,055,325
Accounts payable	-	386
Management fees reserved for operating expenses (note 2)	566,697	615,356
Total liabilities	2,145,118	235,671,067
Net assets held in trust for pool participants	\$ 13,642,779,110	14,212,784,933

See accompanying notes to financial statements.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Statements of Changes in Pool Net Assets

Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Additions:		
Investment income:		
Interest income	\$ 24,530,048	29,862,386
Expenses:		
Management fees and expenses (note 2)	<u>(7,515,405)</u>	<u>(7,775,951)</u>
Net investment income	<u>17,014,643</u>	<u>22,086,435</u>
Earnings paid to investors from net investment income	(17,063,302)	(22,131,280)
Net change in management fees reserved for operating expenses (note 2)	48,659	44,845
Net decrease in participant investments	<u>(570,005,823)</u>	<u>(528,067,430)</u>
Net decrease in net assets	(570,005,823)	(528,067,430)
Net assets:		
Beginning of period	<u>14,212,784,933</u>	<u>14,740,852,363</u>
End of period	<u>\$ 13,642,779,110</u>	<u>14,212,784,933</u>

See accompanying notes to financial statements.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2012 and 2011

(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, 2010 effective through August 31, 2011, and renewed through August 2012.

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.

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.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2012 and 2011

(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 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.

(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.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2012 and 2011

(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, 2012 and 2011 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 an initial term through August 31, 2010 and is renewable annually through August 31, 2012.

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, 2012 and 2011, the reserve amount of \$566,697 and \$615,356, respectively, was invested in securities purchased under an agreement to resell (Repurchase Agreement) which is an authorized investment per TexPool's investment policy. Investment earnings of \$441 and \$655 for the fiscal years ended August 31, 2012 and 2011, respectively, are included in the reserve account as of August 31, 2012 and 2011, respectively. Ultimately, the reserve for operating expenses and related investment earnings will be used for the operating benefit of TexPool. During 2012 and 2011, the Texas Trust expensed \$49,100 and \$45,500, 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, 2011 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;

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2012 and 2011

(3) Investments (Continued)

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, 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.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2012 and 2011

(3) Investments (Continued)

- 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.

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, 2012 and 2011, the approximate weighted average maturity of the portfolio was thirty-eight days and forty-six 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, 2012 and 2011 follows:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities purchased under agreement to resell	\$ 8,109,400,695	8,109,400,695	7,665,896,356	7,665,896,356
U.S. government agency securities	5,426,624,750	5,427,416,693	6,443,530,839	6,443,799,011
U.S. treasuries	100,046,380	100,035,200	332,111,607	332,305,499
Net investment position	\$ <u>13,636,071,825</u>	<u>13,636,852,588</u>	<u>14,441,538,802</u>	<u>14,442,000,866</u>

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, TexPool had a cash balance of \$945 and \$0, 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, 2012 and 2011 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, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Straight A Funding LLC. These investments are 15.14%, 9.13%, 7.77%, and 5.21% respectively, at August 31, 2012. TexPool had 20.15% with the Federal Home Loan Bank, 11.79% with the Federal Home Loan Mortgage Corporation, 6.21% with the Federal National Mortgage Association, and 5.04% with the Straight A Funding LLC at August 31, 2011.

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:

	Weighted Maturity	Average (Days)
Investment Type	2012	2011
Securities purchased under agreement to resell	4	1
U.S. government agency securities	88	95
U.S. treasuries	15	118
TexPool's weighted average maturity	38	46