

**TEXAS LOCAL GOVERNMENT
INVESTMENT POOL PRIME**

Letter on Conduct of Audit

August 31, 2012

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

This letter is intended to communicate to you significant matters related to the conduct of the annual audit of the Texas Local Government Investment Pool Prime (TexPool Prime) for the year ended August 31, 2012, so you can appropriately discharge your oversight responsibility, and so that we can comply with our professional responsibilities.

We have included various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

This report is intended solely for the information and use of the Comptroller of Public Accounts of the State of Texas, management of TexPool Prime, and the State Auditor of Texas and is not intended to be, and should not be, used by anyone other than the specified parties.

We will be pleased to respond to any questions you may have, and we appreciate the opportunity to continue to be of service.

Padgett, Stratemann + Co., LLP

Certified Public Accountants
October 22, 2012

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The Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America

As communicated in the arrangement letter dated May 29, 2012, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of TexPool Prime solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing previously communicated to Paul Ballard.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by TexPool Prime is included in Note 1 of the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended August 31, 2012.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of Significant Accounting Practices (continued)

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is the estimated fair value of investments. Management's estimate is based on information currently available, and the process used to calculate this estimate should be monitored throughout the year. This estimate was reviewed and it was determined to be reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting TexPool Prime's financial statements relates to investments.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine such financial information was not materially inconsistent with the audited financial statements of TexPool Prime.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those we believe are trivial, and communicate them to the appropriate level of management.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of the audit procedures.

In connection with our audit of the financial statements, we did not identify any corrected or uncorrected financial statement misstatements.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to TexPool Prime's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested From Management

We have requested and have received certain written representations from management in our standard representation letter dated October 22, 2012.

Management's Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with TexPool Prime, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting TexPool Prime, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as TexPool Prime's auditors.