

Texas Local Government Investment Pool

Annual Financial Report
August 31, 2020 and 2019

Texas Local Government Investment Pool

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18-19



RSM US LLP

Independent Auditor's Report

Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Local Government Investment Pool

Report on the Financial Statements

We have audited the accompanying financial statements of Texas Local Government Investment Pool (TexPool), an investment trust fund of the State of Texas, as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise TexPool'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Texas Local Government Investment Pool investment trust fund as of August 31, 2020 and 2019, and the changes in its net position for the years then ended in accordance 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 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, 2020 and 2019, and the changes in its financial position for the years then ended in accordance 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 audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2020, on our consideration of TexPool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TexPool's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TexPool's internal control over financial reporting and compliance.

RSM US LLP

San Antonio, Texas
November 5, 2020

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2020 and 2019

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, 2020 and 2019.

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 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:

	2020	2019	2018
Total assets	\$ 24,815,580,470	\$ 20,599,717,003	\$ 17,237,608,144
Total liabilities	(528,662,447)	(115,216,657)	(168,151,051)
Net position held in trust for pool participants	<u>\$ 24,286,918,023</u>	<u>\$ 20,484,500,346</u>	<u>\$ 17,069,457,093</u>

Additional participations in TexPool as well as competitive yield made TexPool a more attractive investment opportunity, which led to an increase in total assets under management.

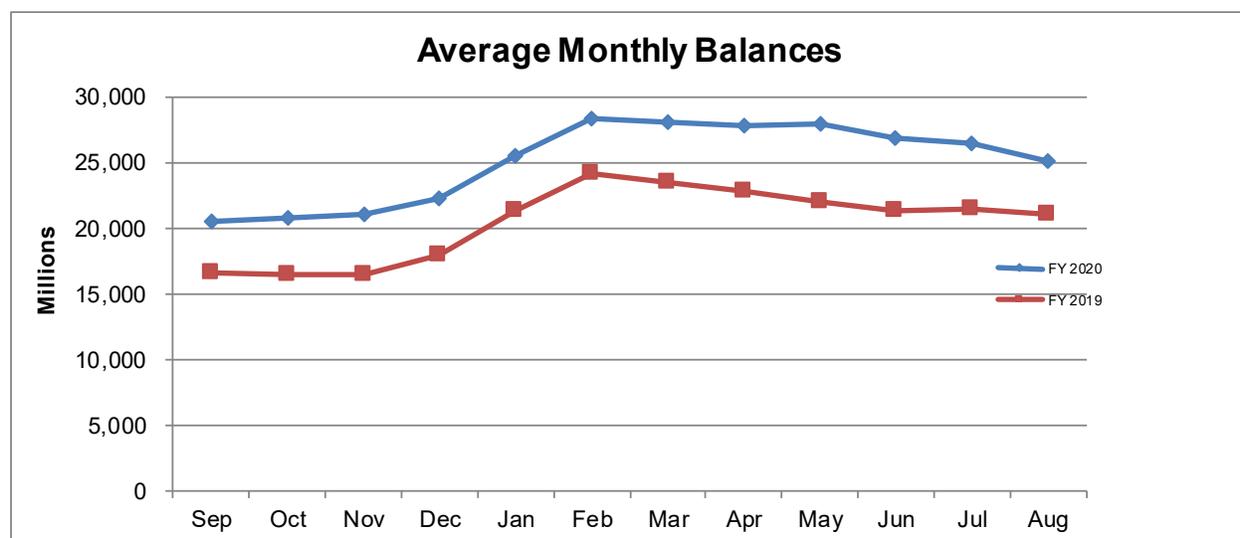
Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2020 and 2019

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, were as follows:

	2020	2019	2018
Net investment income	\$ 253,964,573	\$ 472,056,556	\$ 265,437,429
Earnings paid to investors from net investment income	(254,014,043)	(472,106,135)	(265,488,456)
Expense paid from management fees reserved for operating expenses	49,470	49,579	51,027
Net increase in participant investments	3,802,417,677	3,415,043,253	1,045,198,399
Net increase in net position	<u>\$ 3,802,417,677</u>	<u>\$ 3,415,043,253</u>	<u>\$ 1,045,198,399</u>

The average monthly balance in TexPool grew to \$28.3 billion in February 2020, up from \$24.2 billion in September 2019, in what is a typical seasonal pattern for the pool. The average monthly balance as of August 31, 2020, was \$25.1 billion.



During fiscal year 2019 and 2020, prior to March 29, 2019, management and administrative fees to operate TexPool were set at 4.73 basis points (0.0473%). Effective March 29, 2019, a new contract was executed and the fees were set at 4.5 basis points (0.0450%). During both fiscal years 2020 and 2019, management fees were rebated on various occasions. During fiscal year 2020, the average net monthly fee ranged from a high of 4.26 basis points (0.0426%) to a low of 3.81 basis points (0.0381%). During fiscal year 2019, the average net monthly fee ranged from a high of 4.49 basis points (0.0449%) to a low of 4.12 basis points (0.0412%).

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

Management's Discussion and Analysis Years Ended August 31, 2020 and 2019

Fiscal Year 2020 Performance

The period began with the Federal Reserve tweaking monetary policy in an attempt to spur chronically low inflation, normalize an inverted Treasury yield curve and nip a potential recession in the bud. In July 2019, policymakers made the first cut in the fed funds rate range since the Great Recession, further reducing the range by 25 basis points in September to 1.75%-2% and then put a rate action on hold. Central to growing optimism was a truce in the U.S.-China trade dispute and signs that the President's impeachment trial proceedings would be short and that he would remain in office, which was the case. Gross Domestic Product grew in the last months of 2019 buoyed by the strength of the labor market that saw unemployment dropping to levels not seen since 1969. December and January data flowed in with positive reports on manufacturing, housing and retail sales, and the Fed reaffirmed it would refrain from policy moves unless there were "material" changes. Those came soon with the coronavirus pandemic.

At first seen by many as a local issue in China, it became clear in February and March that Covid-19 would spread across the globe and that measures to halt it would severely harm the global economy. An unprecedented flight-to-safety into Treasuries ensued. As it hit the U.S., policymakers slashed rates to a range of 0-0.25% and created programs to increase liquidity and address coronavirus-related disruptions, including the Money Market Mutual Fund Liquidity Facility (MMLF) and Commercial Paper Funding Facility (CPFF). They also increased purchases of government securities. These actions were widely credited for reducing strain on cash management operations and improving the functioning of the broad financial markets.

The scope of the economic damage from shutdown of the U.S. was laid bare by abysmal data in spring. The labor market tanked, as nonfarm payrolls plunged by 20.5 million jobs, the unemployment rate soared to 14.7% and continuing jobless claims climbed over 20 million. Manufacturing, the housing market, retail sales and many more indicators also plummeted. Despite this grim reality, and helped by fiscal stimulus, the equity market rebounded dramatically, eventually reaching new highs on hope for a quick recovery. As the summer progressed, the rebound seemed to be happening as many states and cities began to open up, business brought back employees and new coronavirus infections dropped. But a delay in additional fiscal support and resurgence of cases said otherwise.

While continuing to support the economy, the Fed announced a new policy framework that puts an emphasis on the labor market. The Fed said it will tolerate inflation temporarily rising above its 2% inflation target if it is caused by a strong labor market—effectively pledging to refrain from rate hikes until the economy is robust.

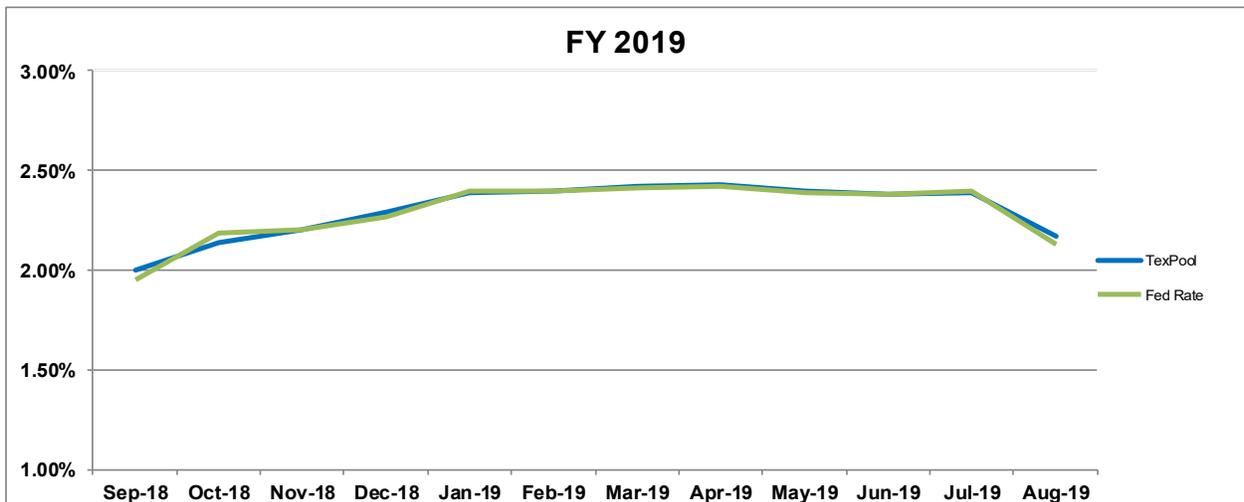
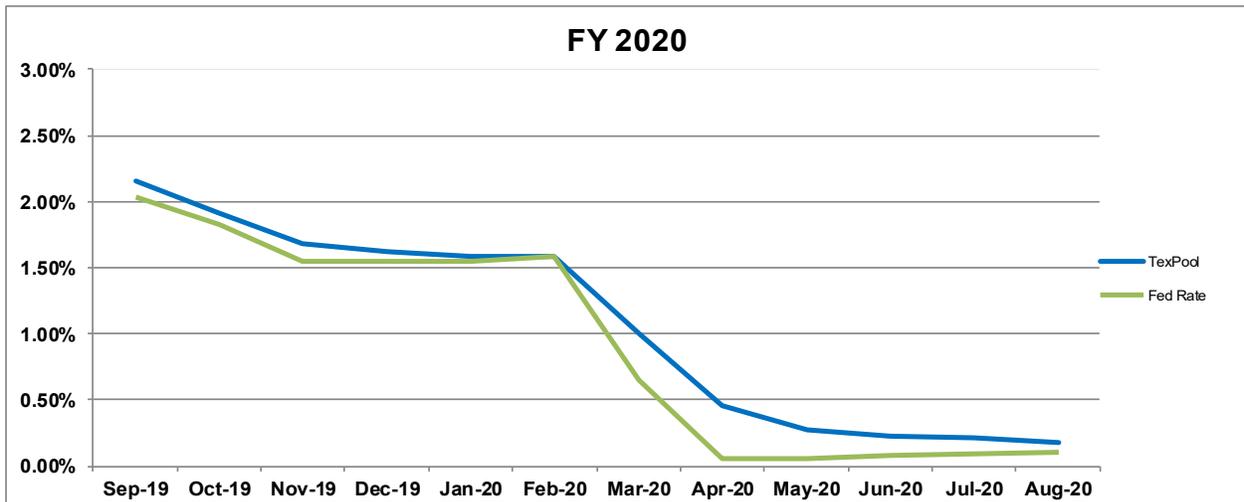
TexPool's average maturity ended the reporting period at 32 days, assets under management were approximately \$24 billion and the average monthly yield was 0.18% in August 2020. TexPool had a 1-year return of 1.08%, compared with 0.83% for the iMoneyNet Government & Agencies Institutional Category Average. Treasury yields ended the reporting period with 1-month at 0.09%, 3-month at 0.10%, 6-month at 0.12% and 12-month at 0.14%.

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2020 and 2019

TexPool vs. Fed Funds Rate

The following charts graphically depict the TexPool yield and the Fed rate for 2020 and 2019.



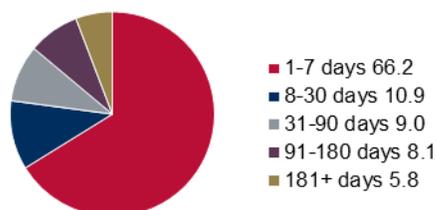
Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2020 and 2019

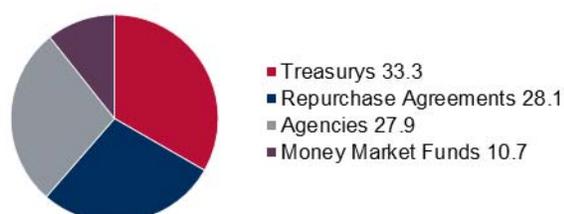
TexPool Information as of August 31, 2020

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, 2020



Portfolio by Type of Investment (%)
As of August 31, 2020



Participant Summary		
	Number of Participants	Balance
School District	598	\$6,470,096,408
Higher Education	59	\$1,365,946,222
Healthcare	89	\$1,380,471,601
Utility District	833	\$2,991,246,874
City	481	\$6,871,707,668
County	190	\$2,684,071,899
Other	375	\$2,522,157,321

Fiscal Year 2019 Performance

The 12-month reporting period was marked by a major shift in United States (U.S.) monetary policy. In the first half, the U.S. Federal Reserve (Fed) continued on a path of normalizing interest rate policy by hiking the federal funds rate; in the second half, it reversed course by cutting it. The Fed primarily made this reversion to boost low inflation, but worsening trade conflicts and an inverting yield curve played a role.

In September 2018, the Fed raised the target range of the fed funds rate to 2.00-2.25%. The move tracked the solid domestic economy that was fueled by job growth, consumer confidence, retail sales and more. Policymakers were more cautious in the fourth quarter amid heightened equity market volatility, increasing signs of a global slowdown, and the U.S. government's escalating tariffs on Chinese imports. They enacted another 25 basis-point hike but lowered expectations for rates and growth for 2019. The discrepancy unsettled investors and businesses as it seemed at odds with the constructive, if slowing, state of the domestic economy.

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2020 and 2019

In the second half of the reporting period, increased signs of a U.S. economic slowdown, a federal government shutdown, drawn-out Chinese trade negotiations, uncertain Brexit process and other issues put interest rates in a holding pattern. The Fed said it expected the economy to continue to grow, only at a very modest pace. Consumer confidence dropped after poor holiday retail sales, but recovered to moderate levels. Leading economic indicators treaded water and manufacturing and service readings were volatile but still expansionary. Only the robust labor market was unequivocal.

The environment changed in May when the U.S. and China failed to resolve the trade dispute after U.S. negotiators pulled a nearly finished deal off the table, claiming China had reneged on several key points. This shocked the markets, cooled business confidence and raised expectations that the U.S. economy would stall. Seeming to support this notion was the inversion of the U.S. Treasury yield curve—often indicative of a coming recession. In July, the Fed enacted its first rate cut in more than a decade, moving the fed funds target range back to 2.00-2.25%. But as the reporting period came to a close, the majority of economic indicators, while moderating, did not point to a contraction.

TexPool's average maturity increased from 28 days to 38 days, assets under management increased from \$17.1 billion to \$20.5 billion, and the average monthly yield from 1.92% in August 2018 to 2.17% in August 2019. TexPool had a 1-year return of 2.32%, compared with 2.03% for the iMoneyNet Government & Agencies Institutional Category Average. During the reporting period, short-term Treasury yields moved in different directions: 1-month Treasuries rose from 1.93% to 2.07%; 3-month fell from 2.08% to 1.98%; and 6-month decreased from 2.21% to 1.88%. Overnight Treasury and mortgage-backed repo rates rose from 1.96% and 1.97% to 2.15% and 2.16%, respectively.

Texas Local Government Investment Pool

**Statements of Pool Net Position
August 31, 2020 and 2019**

	2020	2019
Assets:		
Investments, at amortized cost:		
Securities purchased under agreement to resell	\$ 6,980,159,608	\$ 8,947,015,294
Money market mutual funds	2,654,074,000	618,074,000
United States government agency securities	6,907,842,621	7,708,204,206
United States treasury securities	8,262,778,145	3,301,391,277
	<u>24,804,854,374</u>	<u>20,574,684,777</u>
Accrued interest receivable	10,725,421	25,032,226
Cash	675	-
Total assets	<u>24,815,580,470</u>	<u>20,599,717,003</u>
Liabilities:		
Trades pending settlement	524,694,770	75,000,000
Amounts payable to participants	3,758,312	38,652,520
Accrued expenses	24,756	1,331,816
Management fees reserved for operating expenses	184,609	232,321
Total liabilities	<u>528,662,447</u>	<u>115,216,657</u>
Net position held in trust for pool participants	<u><u>\$ 24,286,918,023</u></u>	<u><u>\$ 20,484,500,346</u></u>

See accompanying notes to financial statements.

Texas Local Government Investment Pool

**Statements of Changes in Pool Net Position
Years Ended August 31, 2020 and 2019**

	2020	2019
Additions:		
Investment income:		
Interest income	\$ 264,114,197	\$ 480,878,397
Expenses:		
Management fees and expenses	(10,149,624)	(8,821,841)
Net investment income	253,964,573	472,056,556
Earnings paid to investors from net investment income	(254,014,043)	(472,106,135)
Expense paid from management fees reserved for operating expenses	49,470	49,579
Individual participant investment account transactions:		
Subscriptions	51,558,416,550	44,147,096,622
Reinvestments	287,471,777	460,075,773
Redemptions	(48,043,470,650)	(41,192,129,142)
Net increase in participant investments	3,802,417,677	3,415,043,253
Net increase in net position	3,802,417,677	3,415,043,253
Net position at beginning of year	20,484,500,346	17,069,457,093
Net position at end of year	\$ 24,286,918,023	\$ 20,484,500,346

See accompanying notes to financial statements.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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 the Texas Trust effective April 8, 2002. The previous contract, which was effective through 2018, was renewed on September 1, 2018, and the terms of the agreement were extended through March 31, 2019. The current contract was executed on March 29, 2019, effective through December 31, 2024.

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 DST Asset Manager Solutions, Inc. 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.

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.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 applicable to state and local governments. Accounting principles generally accepted in the United States of America 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* (the Codification).

The financial statements of TexPool are presented as an investment trust fund (a type of fiduciary fund) using the economic resources measurement focus and 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 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.

In accordance with GASB requirements applicable to investment pools, 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.

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.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 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. During fiscal year 2019, prior to March 29, 2019, the total fee was 4.73 basis points which consist of 4.23 basis points (0.0423%) for Federated's management fee and one-half basis point (0.0050%) for Texas Trust's administrative fee. Effective March 29, 2019 (at the execution of a new contract), the total fee rate was 4.5 basis points (0.0450%), including one-half basis point (0.0050%) of Texas Trust's administrative fee. Under the current contract with Federated, the management fee may not be raised for the duration of the contract. The current contract was executed March 29, 2019, and is effective through December 31, 2024.

During fiscal year 2020 and 2019, the fees were reduced from the maximum allowed under the contract on various occasions. Fees are rebated when TexPool is invested in an affiliated money market product. During fiscal year 2020, the average net monthly fee ranged from a high of 4.26 basis points (0.0426%) to a low of 3.81 basis points (0.0381%). During fiscal year 2019, the average net monthly fee ranged from a high of 4.49 basis points (0.0449%) to a low of 4.12 basis points (0.0412%).

Texas Local Government Investment Pool

Notes to Financial Statements

Note 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, 2020 and 2019. 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 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 of Government Code.

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.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

The State Comptroller approved the current TexPool investment policy effective August 2019 and 2018, 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, including the Federal Home Loan Banks, 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 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 dealers, or a state or national bank doing business in the State of Texas.
- Money market mutual funds which are no-load, registered with and regulated by the SEC, provide a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Company Act of 1940, complies with federal Securities and Exchange Commission rule 2a-7, as promulgated under the Investment Company Act of 1940, maintain a dollar-weighted average stated maturity of 90 days or fewer, and which include in its investment objectives the maintenance of a stable net asset value (NAV) of \$1.00 for each share.

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 60 days. At August 31, 2020 and 2019, the approximate weighted average maturity of the portfolio was 32 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% of the resale price of the repurchase agreement. The August 2019 investment policy states that collateral on repurchase agreements will be equal to at least 102% of the total market value of the repurchase agreements, including accrued interest.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

In accordance with GASB requirements applicable to investment pools, investments are carried at amortized cost, which approximates fair value, as provided for by the Codification. However, GASB also requires fair value measurement disclosures. TexPool categorizes its fair value measurement disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability in three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

Level 1: Inputs using unadjusted quoted prices in active markets or exchanges in identical assets or liabilities.

Level 2: Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. TexPool's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

TexPool has the following recurring fair value measurements as of August 31, 2020 and 2019:

2020	Par Value	Carrying Value	Fair Value	Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:						
Debt securities:						
Securities purchased under agreement to resell	\$ 6,980,159,608	\$ 6,980,159,608	\$ 6,980,159,608	\$ -	\$ 6,980,159,608	\$ -
United States government agency securities	6,907,215,000	6,907,842,621	6,910,085,515	-	6,910,085,515	-
United States treasuries	8,258,040,000	8,262,778,145	8,266,441,335	-	8,266,441,335	-
Money market mutual funds	2,654,074,000	2,654,074,000	2,654,074,000	2,654,074,000	-	-
Total investments by fair value level	<u>\$ 24,799,488,608</u>	<u>\$ 24,804,854,374</u>	<u>\$ 24,810,760,458</u>	<u>\$ 2,654,074,000</u>	<u>\$ 22,156,686,458</u>	<u>\$ -</u>
2019	Par Value	Carrying Value	Fair Value	Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:						
Debt securities:						
Securities purchased under agreement to resell	\$ 8,947,015,294	\$ 8,947,015,294	\$ 8,947,015,294	\$ -	\$ 8,947,015,294	\$ -
United States government agency securities	7,718,015,000	7,708,204,206	7,709,468,432	-	7,709,468,432	-
United States treasuries	3,311,190,000	3,301,391,277	3,302,386,663	-	3,302,386,663	-
Money market mutual funds	618,074,000	618,074,000	618,074,000	618,074,000	-	-
Total investments by fair value level	<u>\$ 20,594,294,294</u>	<u>\$ 20,574,684,777</u>	<u>\$ 20,576,944,389</u>	<u>\$ 618,074,000</u>	<u>\$ 19,958,870,389</u>	<u>\$ -</u>

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Debt securities and repurchase agreements classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs, including but not limited to, quoted prices for similar securities, interest rates and a fixed-income pricing model. Money market mutual funds classified as Level 1 of the fair value hierarchy are valued using a published net asset value per share of \$1.00.

The following table provides additional information about TexPool's investment portfolio as of August 31, 2020 and 2019:

	August 31, 2020	
	Ranges of	
	Interest Rates	Maturity Dates
Securities purchased under agreement to resell	0.060% to 0.090%	09/01/2020-09/01/2020
United States government agency securities	0.010% to 2.500%	09/03/2020-08/03/2022
United States treasuries	0.010% to 2.875%	09/01/2020-07/31/2022
Money market mutual funds	0.037% to 0.051%	09/01/2020-09/01/2020
	August 31, 2019	
	Ranges of	
	Interest Rates	Maturity Dates
Securities purchased under agreement to resell	2.100% to 2.180%	09/03/2019-09/04/2019
United States government agency securities	0.000% to 2.580%	09/03/2019-07/23/2021
United States treasuries	0.010% to 3.500%	10/17/2019-04/30/2021
Money market mutual funds	1.973% to 2.024%	09/02/2019-09/03/2019

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, 2020 and 2019, 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, 2020 and 2019, TexPool had a cash balance of \$675 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 (NRSRO). As of August 31, 2020 and 2019, TexPool investments in U.S. government securities and the underlying securities of the Repurchase Agreements were rated A-1+ by Standard & Poor's, P1 by Moody's and F-1+ by Fitch. Money market mutual funds were rated AAAM by Standard & Poor's, Aaa-mf by Moody's and AAAMmf by Fitch as of August 31, 2020 and 2019.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

Concentration of credit risk: Up to 100.0% of TexPool assets may be invested in government obligations of the United States, its agencies or instrumentalities. However, no more than 60.0% of the portfolio may be invested in variable rate notes. Up to 100.0% of TexPool assets may be invested in direct repurchase agreements. TexPool may enter into reverse repurchase agreements for up to one third (1/3) of the value of the TexPool assets. No more than 10.0% of the TexPool assets may be invested in a single money market fund. The money market mutual fund must be rated AAA or its equivalent by at least one NRSRO. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise (GSE). As of August 31, 2020, TexPool had more than 5.0% of the pool's investments in the following GSEs: 18.1% with the Federal Home Loan Bank. As of August 31, 2019, TexPool had more than 5.0% of the pool's investments in the following GSEs: 26.2% with the Federal Home Loan Bank and 7.8% with the Federal Farm Credit Bank.

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)	
	2020	2019
Securities purchased under agreement to resell	1	4
United States government agency securities	25	51
United States treasuries	75	102
Money market mutual funds	1	4
TexPool's weighted-average maturity	32	38

Note 4. Impact of COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which TexPool operates. On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be. To date, TexPool has not experienced any significant changes in the fair value of assets or liabilities as a result of the pandemic.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Independent Auditor's Report

Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Local Government Investment Pool

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Texas Local Government Investment Pool (TexPool), an investment trust fund of the State of Texas, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise TexPool's basic financial statements, and have issued our report thereon dated November 5, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TexPool's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TexPool's internal control. Accordingly, we do not express an opinion on the effectiveness of TexPool's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of TexPool's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TexPool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TexPool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TexPool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Antonio, Texas
November 5, 2020

