



Texas
CLASS[®]

Texas Cooperative Liquid Assets Securities System Trust



JUNE 30, 2016

Annual Report

Texas CLASS Rated S&P AAAm



Chairman's Letter

To the Participants of Texas CLASS:

On behalf of the Texas CLASS Board of Trustees, Advisor Board, and Public Trust Advisors, LLC, we are pleased to present the Audited Financials for the period ending June 30, 2016.

The start of 2016 marked an exciting time for Texas CLASS. After much anticipation, the Federal Open Market Committee (FOMC) finally increased the fed funds target rate by approximately 25 basis points. This increase played a crucial role in the significant upward adjustments in the Texas CLASS daily yield. Helping not only public entities in the State of Texas, but nationwide. The past seven years of economic turmoil and near-zero interest rates have tested the cash management capabilities of Texas public finance officials. To that end, we hope that Texas CLASS made your jobs a bit easier along the way.

This year marks the 20th year of safe operations at Texas CLASS. It also marked a new all-time high in assets under management, as the program peaked at over \$5.2 billion in early April. Texas CLASS is committed to staying personally connected with the more than 600 public entities who are active Texas CLASS Participants, as well as to its local government association partners statewide.

In late 2013, the Texas CLASS Board of Trustees awarded the Texas CLASS contract for investment advisory services and fund administration to Public Trust Advisors, LLC (Public Trust). From the onset, Public Trust has offered an alternative approach to local government investment pool (LGIP) management, they are committed to the LGIP space and have provided outstanding levels of service, administration, and operations coupled with above average returns. Their approach and business model, has resonated with local governments and LGIP boards across the country. Today Public Trust services eight local government investment pool clients nationally with total firm assets exceeding \$18 billion, with seven offices throughout the country.

As we turn the page on another successful year, the Texas CLASS Board of Trustees, Advisory Board, and team at Public Trust recognize that it is you, the Texas CLASS Participants, that are our greatest asset. As always, we will remain committed to the primary objectives of Texas CLASS: to provide a safe, liquid, and competitive cash management and investment option that delivers a high-level of transparency, customer support, and educational value.

Respectfully,

Steve Williams
Chairman, Texas CLASS Board of Trustees



Independent Auditors' Report



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Texas Cooperative Liquid Asset Securities System Trust
C/O Public Trust Advisors
Denver, Colorado

We have audited the accompanying financial statements of Texas Cooperative Liquid Asset Securities System Trust (Texas CLASS), which comprise the statement of net assets as of June 30, 2016, the statement of operations for the year then ended, the related statements of changes in net assets for the years ended June 30, 2016 and 2015, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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 financial position of Texas CLASS as of June 30, 2016, the results of its operations for the year then ended, and the changes in net assets for the years ended June 30, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial highlights included in Note 7 for the years 2012 and 2013, were audited by other auditors whose report dated September 27, 2013, expressed an unmodified opinion on the financial highlights.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
August 5, 2016



An independent member of Nexia International

STATEMENT OF NET ASSETS — June 30, 2016

| Investments, at value | Principal Amount | Coupon Rate | Maturity | Effective Yield | Market Value |
|--|------------------|-------------|----------|-----------------|--------------------|
| Overnight Repurchase Agreements (4%)* | | | | | |
| Wells Fargo Tri-Party (2%, respectively)* (Collateralized by a U.S. Government Agency Security with a coupon rate of 3.50% and maturing on 06/01/2046.) Market value plus accrued interest: \$122,771,061 | \$120,363,785 | 0.40% | 07/01/16 | 0.40% | \$120,363,785 |
| Wells Fargo (1%, respectively)* (Collateralized by a U.S. Government Agency Security with a coupon rate of 3.00% and maturing on 07/01/2042.) Market value plus accrued interest: \$31,103,056 | 30,493,192 | 0.15 | 07/01/16 | 0.15 | 30,493,192 |
| RBC Tri-Party (1%, respectively)* (Collateralized by U.S. Government Agency Securities with coupon rates between 2.00% and 5.50% and maturing between 03/01/2019 and 06/20/2046.) Market value plus accrued interest: \$46,031,972 | 45,129,384 | 0.40 | 07/01/16 | 0.40 | 45,129,384 |
| Cost of (\$195,986,361) | | | | | <u>195,986,361</u> |
| Certificates of Deposit (0%)* | | | | | |
| CDARS-ICS (0%)* | 10,013,381 | 0.40 | 07/01/16 | 0.40 | 10,013,381 |
| Cost of (\$10,013,381) | | | | | <u>10,013,381</u> |
| Commercial Paper (96%)* | | | | | |
| Credit Suisse New York | 50,000,000 | Disc** | 07/01/16 | 0.76 | 49,999,335 |
| Rabobank Nederland NV NY | 50,000,000 | Disc** | 07/01/16 | 0.83 | 49,999,335 |
| Autobahn Funding Co. LLC | 50,000,000 | Disc** | 07/05/16 | 0.40 | 49,997,155 |
| Credit Suisse New York | 50,000,000 | Disc** | 07/05/16 | 0.76 | 49,996,595 |
| Mitsubishi UFJ Trust & Banking Corp. | 50,000,000 | Disc** | 07/05/16 | 0.65 | 49,996,595 |
| Toronto Dominion Holding (USA) Inc. | 50,000,000 | Disc** | 07/05/16 | 0.82 | 49,997,985 |
| Bank of Tokyo - Mitsubishi UFJ Ltd. | 50,000,000 | Disc** | 07/06/16 | 0.64 | 49,995,915 |
| Bedford Row Funding Corp. | 50,000,000 | 0.82 - Var. | 07/07/16 | 0.82 | 50,007,000 |
| Jupiter Securitization Co. | 50,000,000 | 0.80 - Var. | 07/08/16 | 0.80 | 50,010,000 |
| Svenska Handelsbanken AB | 50,000,000 | Disc** | 07/08/16 | 0.64 | 49,996,780 |
| Chariot Funding LLC | 25,000,000 | 0.75 | 07/15/16 | 0.76 | 25,005,750 |
| Kells Funding LLC | 75,500,000 | Disc** | 07/18/16 | 0.66 | 75,483,013 |
| Old Line Funding LLC | 35,000,000 | Disc** | 07/18/16 | 0.86 | 34,992,125 |
| Nordea Bank AB | 45,000,000 | Disc** | 07/20/16 | 0.67 | 44,991,500 |
| Kells Funding LLC | 50,000,000 | Disc** | 07/25/16 | 0.59 | 49,983,335 |
| Svenska Handelsbanken AB | 35,000,000 | Disc** | 07/25/16 | 0.81 | 34,991,492 |
| Atlantic Asset Securitization LLC | 50,000,000 | Disc** | 07/27/16 | 0.60 | 49,981,625 |
| Anglesea Funding LLC | 45,000,000 | Disc** | 08/01/16 | 0.57 | 44,978,400 |
| Institutional Secured Funding LLC | 50,000,000 | Disc** | 08/01/16 | 0.60 | 49,978,220 |
| Rabobank Nederland NV NY | 50,000,000 | Disc** | 08/01/16 | 0.70 | 49,976,000 |
| Standard Chartered Bank | 50,000,000 | Disc** | 08/01/16 | 0.62 | 49,976,000 |
| Toyota Motor Credit Corp. | 50,000,000 | Disc** | 08/01/16 | 0.72 | 49,980,445 |
| LMA Americas LLC | 50,000,000 | Disc** | 08/02/16 | 0.62 | 49,977,085 |
| Commonwealth Bank of Australia | 40,000,000 | Disc** | 08/03/16 | 0.62 | 39,985,644 |
| Anglesea Funding LLC | 30,000,000 | Disc** | 08/04/16 | 0.65 | 29,985,417 |
| Bedford Row Funding Corp. | 50,000,000 | 0.81 - Var. | 08/08/16 | 0.81 | 50,017,500 |

The accompanying notes are an integral part of the financial statements.

* Denotes percentage of market value

** Denotes securities purchased at a discount from par

STATEMENT OF NET ASSETS — June 30, 2016 continued

| Investments, at value (cont.) | Principal Amount | Coupon Rate | Maturity | Effective Yield | Market Value |
|--|------------------|-------------|----------|-----------------|--------------|
| Nordea Bank AB | \$50,000,000 | Disc** | 08/08/16 | 0.61% | \$49,978,335 |
| Versailles Com Paper LLC | 50,000,000 | Disc** | 08/08/16 | 0.63 | 49,972,375 |
| Bank of Tokyo - Mitsubishi UFJ Ltd. | 50,000,000 | Disc** | 08/12/16 | 0.64 | 49,966,555 |
| Chevron Corp. | 50,000,000 | Disc** | 08/12/16 | 0.59 | 49,975,515 |
| Dexia Credit Local SA NY | 23,600,000 | Disc** | 08/16/16 | 0.82 | 23,582,437 |
| Rabobank Nederland NV NY | 26,500,000 | Disc** | 08/18/16 | 0.81 | 26,479,081 |
| Versailles Com Paper LLC | 50,000,000 | Disc** | 08/18/16 | 0.65 | 49,963,250 |
| Gotham Funding Corp. | 42,000,000 | Disc** | 08/22/16 | 0.60 | 41,966,610 |
| Old Line Funding LLC | 33,750,000 | Disc** | 08/22/16 | 0.82 | 33,721,677 |
| Collateralized Commercial Paper II Co. | 50,000,000 | 0.79 - Var. | 08/23/16 | 0.79 | 50,020,000 |
| Nordea Bank AB | 50,000,000 | Disc** | 08/23/16 | 0.80 | 49,966,250 |
| Anglesea Funding LLC | 50,000,000 | Disc** | 08/25/16 | 0.74 | 49,957,220 |
| Kells Funding LLC | 50,000,000 | Disc** | 08/25/16 | 0.61 | 49,954,890 |
| Autobahn Funding Co. LLC | 50,000,000 | Disc** | 08/26/16 | 0.54 | 49,954,085 |
| Caisse des Depot et Consignations | 50,000,000 | Disc** | 08/29/16 | 0.66 | 49,960,835 |
| ABN AMRO Funding USA LLC | 50,000,000 | Disc** | 09/01/16 | 0.67 | 49,947,500 |
| Bank of Tokyo - Mitsubishi UFJ Ltd. | 50,000,000 | Disc** | 09/01/16 | 0.69 | 49,947,500 |
| Commonwealth Bank of Australia | 36,780,000 | Disc** | 09/01/16 | 0.81 | 36,749,748 |
| Svenska Handelsbanken AB | 50,000,000 | Disc** | 09/01/16 | 0.82 | 49,958,875 |
| Toronto Dominion Holding (USA) Inc. | 50,000,000 | Disc** | 09/01/16 | 0.81 | 49,958,875 |
| Institutional Secured Funding LLC | 50,000,000 | Disc** | 09/02/16 | 0.81 | 49,949,335 |
| Bank of Tokyo - Mitsubishi UFJ Ltd. | 50,000,000 | Disc** | 09/06/16 | 0.67 | 49,942,390 |
| Credit Agricole CIB NY | 50,000,000 | Disc** | 09/06/16 | 0.63 | 49,953,720 |
| Australia & New Zealand Banking Group Ltd. | 50,000,000 | Disc** | 09/07/16 | 0.64 | 49,953,040 |
| Chevron Corp. | 50,000,000 | Disc** | 09/12/16 | 0.65 | 49,948,610 |
| Ontario Teacher's Finance Trust | 50,000,000 | Disc** | 09/12/16 | 0.85 | 49,948,610 |
| LMA Americas LLC | 25,000,000 | Disc** | 09/14/16 | 0.67 | 24,968,333 |
| Dexia Credit Local SA NY | 50,000,000 | Disc** | 09/15/16 | 0.86 | 49,945,460 |
| Caisse des Depot et Consignations | 50,000,000 | Disc** | 09/16/16 | 0.62 | 49,944,750 |
| Coca-Cola Co. | 50,000,000 | Disc** | 09/20/16 | 0.67 | 49,940,780 |
| Institutional Secured Funding LLC | 50,000,000 | Disc** | 09/22/16 | 0.75 | 49,926,500 |
| Toronto Dominion Holding (USA) Inc. | 50,000,000 | Disc** | 09/23/16 | 0.91 | 49,937,430 |
| Macquarie Bank Ltd. | 50,000,000 | Disc** | 09/26/16 | 0.70 | 49,920,555 |
| Ontario Teacher's Finance Trust | 50,000,000 | Disc** | 09/26/16 | 0.84 | 49,934,000 |
| Ontario Teacher's Finance Trust | 50,000,000 | Disc** | 09/28/16 | 0.85 | 49,932,500 |
| Bedford Row Funding Corp. | 35,000,000 | 0.80 - Var. | 10/03/16 | 0.76 | 35,009,800 |
| Liberty Street Funding LLC | 40,000,000 | Disc** | 10/11/16 | 0.71 | 39,922,176 |
| Toyota Motor Credit Corp. | 35,000,000 | 0.70 - Var. | 10/13/16 | 0.68 | 35,012,495 |
| Anglesea Funding LLC | 50,000,000 | 0.69 - Var. | 10/17/16 | 0.70 | 50,000,000 |
| Chariot Funding LLC | 50,000,000 | 0.82 - Var. | 10/17/16 | 0.82 | 50,031,000 |
| Kells Funding LLC | 50,000,000 | Disc** | 10/20/16 | 0.72 | 49,889,555 |
| Jupiter Securitization Co. | 50,000,000 | Disc** | 10/21/16 | 0.95 | 49,888,570 |
| Caisse des Depot et Consignations | 50,000,000 | Disc** | 10/24/16 | 0.72 | 49,901,720 |
| Collateralized Commercial Paper II Co. | 50,000,000 | Disc** | 10/24/16 | 0.88 | 49,884,000 |
| Crown Point Capital Co. | 50,000,000 | 0.95 - Var. | 10/24/16 | 0.95 | 50,000,000 |
| Jupiter Securitization Co. | 50,000,000 | 0.85 - Var. | 10/28/16 | 0.85 | 50,036,000 |
| Chevron Corp. | 50,000,000 | Disc** | 10/31/16 | 0.74 | 49,894,085 |
| LMA Americas LLC | 30,000,000 | Disc** | 11/02/16 | 0.93 | 29,921,874 |
| LMA Americas LLC | 40,000,000 | Disc** | 11/03/16 | 0.95 | 39,895,000 |

The accompanying notes are an integral part of the financial statements.

* Denotes percentage of market value

** Denotes securities purchased at a discount from par

STATEMENT OF NET ASSETS — June 30, 2016 continued

| Investments, at value (cont.) | Principal Amount | Coupon Rate | Maturity | Effective Yield | Market Value |
|---|---------------------|----------------|----------|--------------------|------------------------|
| Old Line Funding LLC | \$50,000,000 | 0.85% - Var. | 11/07/16 | 0.85% | \$ 49,997,690 |
| LMA Americas LLC | 50,000,000 | Disc** | 11/08/16 | 0.85 | 49,997,690 |
| Svenska Handelsbanken AB | 50,000,000 | Disc** | 11/09/16 | 0.74 | 49,882,665 |
| Old Line Funding LLC | 40,000,000 | 0.83 - Var. | 11/15/16 | 0.83 | 40,012,400 |
| Royal Bank of Canada | 25,000,000 | Disc** | 11/15/16 | 0.82 | 24,937,708 |
| Dexia Credit Local SA NY | 25,000,000 | Disc** | 11/17/16 | 0.85 | 24,926,110 |
| Svenska Handelsbanken AB | 25,000,000 | Disc** | 11/21/16 | 0.77 | 24,934,000 |
| Bedford Row Funding Corp. | 40,000,000 | 0.88 - Var. | 11/28/16 | 0.85 | 40,019,600 |
| Collateralized Commercial Paper Co. | 50,000,000 | 0.80 - Var. | 11/28/16 | 0.80 | 49,991,000 |
| Caisse des Depot et Consignations | 50,000,000 | Disc** | 12/01/16 | 0.84 | 49,854,555 |
| Credit Agricole CIB NY | 50,000,000 | Disc** | 12/01/16 | 0.97 | 49,831,030 |
| Nieuw Amsterdam Rec. Corp. | 50,000,000 | Disc** | 12/01/16 | 0.89 | 49,822,470 |
| Thunder Bay Funding LLC | 50,000,000 | 0.80 - Var. | 12/01/16 | 0.80 | 49,990,000 |
| Chariot Funding LLC | 50,000,000 | 0.85 - Var. | 12/06/16 | 0.85 | 50,005,500 |
| Bedford Row Funding Corp. | 50,000,000 | 0.83 - Var. | 12/12/16 | 0.82 | 50,000,000 |
| Credit Agricole CIB NY | 50,000,000 | Disc** | 12/12/16 | 0.93 | 49,825,835 |
| Old Line Funding LLC | 40,000,000 | 0.79 - Var. | 12/13/16 | 0.79 | 40,000,000 |
| Chevron Corp. | 50,000,000 | Disc** | 12/15/16 | 0.82 | 49,834,335 |
| Nordea Bank AB | 50,000,000 | Disc** | 12/21/16 | 0.90 | 49,826,000 |
| Toyota Motor Credit Corp. | 50,000,000 | 0.88 | 12/30/16 | 0.88 | 50,029,700 |
| Dexia Credit Local SA NY | 50,000,000 | Disc** | 01/03/17 | 0.90 | 49,789,625 |
| Ontario Teacher's Finance Trust | 35,000,000 | Disc** | 01/13/17 | 1.03 | 34,856,353 |
| Chariot Funding LLC | 50,000,000 | 0.90 - Var. | 01/27/17 | 0.90 | 50,016,500 |
| Anglesea Funding LLC | 50,000,000 | 0.72 - Var. | 02/21/17 | 0.72 | 50,000,000 |
| | | | | | |
| Cost of (\$4,572,668,797) | | | | | 4,574,074,913 |
| | | | | | |
| Total Investments in Securities | | | | | 4,780,074,655 |
| Cost of (\$4,778,668,539) | | | | | 4,780,074,655 |
| | | | | | |
| Other Assets | | | | | 383,784 |
| Accrued Interest Receivable | | | | | 383,784 |
| Total Assets | | | | | 4,780,458,439 |
| | | | | | |
| Less Liabilities | | | | | 409,212 |
| Administration and Investment Advisory Fees | | | | | 409,212 |
| Total Liabilities | | | | | 409,212 |
| Net Assets | | | | | \$4,780,049,227 |
| | | | | | |
| Components of Capital | | | | | \$4,778,643,111 |
| Capital (Par Value) | | | | | \$4,778,643,111 |
| Unrealized Appreciation on Investments | | | | | 1,406,116 |
| Net Assets | | | | | \$4,780,049,227 |
| | | | | | |
| Outstanding Participant Shares | | | | | 4,778,643,111 |
| | | | | | |
| Net Asset Value per Share | | | | | \$1.00 |

The accompanying notes are an integral part of the financial statements.

* Denotes percentage of market value

** Denotes securities purchased at a discount from par



STATEMENT OF OPERATIONS — Year Ended June 30, 2016

| | |
|--|---------------------|
| Investment Income | <u>\$20,320,988</u> |
| Expenses: | |
| Administration and Investment Advisory Fees | 4,088,718 |
| Administration and Investment Advisory Fees Waived | <u>(818)</u> |
| Administration and Investment Advisory Fees Net | <u>4,087,900</u> |
| Net Investment Income | <u>16,233,088</u> |
| Net Gain on Investments | 2,569 |
| Change in Net Unrealized Appreciation on Investments | <u>1,202,325</u> |
| Net Realized and Unrealized Gain on Investments | <u>1,204,894</u> |
| Net Increase in Net Assets Resulting from Operations | <u>\$17,437,982</u> |

The accompanying notes are an integral part of the financial statements.





STATEMENTS OF CHANGES IN NET ASSETS — Years Ended June 30, 2016 and June 30, 2015

| | <u>2016</u> | <u>2015</u> |
|--|------------------------|------------------------|
| From Investment Activities: | | |
| Net Investment Income | \$ 16,233,088 | \$ 3,290,106 |
| Net Change in Unrealized Appreciation on Investments | 1,202,325 | 62,042 |
| Realized Gain on Investments | <u>2,569</u> | <u>1,253</u> |
| Net Increase in Net Assets Resulting from Operations | 17,437,982 | 3,353,401 |
| Distributions to Participants from Net Investment Income | (16,233,088) | (3,290,106) |
| Distributions to Participants from Net Realized Gain | (2,569) | (1,253) |
| Net Increase in Net Assets from Share Transactions | <u>1,715,066,720</u> | <u>277,478,434</u> |
| Net Increase in Net Assets | 1,716,269,045 | 277,540,476 |
| Net Assets: | | |
| Beginning of Period | <u>3,063,780,182</u> | <u>2,786,239,706</u> |
| End of Period | <u>\$4,780,049,227</u> | <u>\$3,063,780,182</u> |

The accompanying notes are an integral part of the financial statements.



Notes to Financial Statements — June 30, 2016

Note 1. Description of Texas CLASS

Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”) is a Participant controlled trust created in accordance with the Texas Public Funds Investment Act, Section 2256.0017 and was established for participating Texas municipalities on January 1, 1996 under the trust agreement (the “Trust Agreement”) and commenced operations on April 12, 1996. Texas CLASS is available for investment by Texas municipalities, school districts and public agencies. The purpose of Texas CLASS is to enable such entities to cooperate in the investment of their available funds. Texas CLASS operates like a money market mutual fund with each share valued at \$1.00.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following significant accounting policies are also in conformity with accounting principles generally accepted in the United States of America for investment companies. Such policies are consistently followed by Texas CLASS in the preparation of the financial statements.

Texas CLASS is rated AAAm by Standard and Poor’s

Securities Valuation

Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at cost, which approximates market value.

Securities Transactions and Investment Income

Securities transactions are accounted for on a trade date basis. Realized gains and losses from securities transactions are recorded on a specific identification basis. Interest income is recognized on the accrual basis and includes amortization of premiums and accretion of discounts. The amortization of premium and accretion of discount accrual method utilized is straight line and it is deemed that there is no significant difference compared to the effective interest method.

Derivative Instruments

Texas CLASS’s investment policies do not allow for investments in derivatives and, for the period ended June 30, 2016, Texas CLASS held no financial instruments which meet the definition of a derivative according to Financial Accounting Standards Board (“FASB”) Accounting Standards Topic (ASC) 815 “Derivative Instruments and Hedging Activities”.

Dividends to Participants

Distributions from net investment income are declared and paid daily. Texas CLASS’s policy is to distribute net realized capital gains, if any, in a reasonable time frame after the gain is realized.

Income Taxes

Texas CLASS is not subject to federal, state or local income taxes, and accordingly no tax provision has been made.

Texas CLASS files tax returns annually. Texas CLASS is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. Texas CLASS’s federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Notes to Financial Statements — June 30, 2016, continued

Note 2. Fair Value Measurements

In accordance with FASB guidance, Texas CLASS utilizes ASC 820 “Fair Value Measurement and Disclosure” to define fair value, establish a framework for measuring fair value, and expand disclosure requirements regarding fair value measurements. ASC 820 does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Various inputs are used in determining the value of Texas Class’s portfolio investments defined pursuant to this standard.

These inputs are summarized into three broad levels:

- Level 1 – Quoted prices in active markets for identical securities.
- Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and are generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S government agency securities, corporate securities, and commercial paper.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entities own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

There have been no significant changes in valuation techniques used in valuing any such positions held by Texas CLASS since the beginning of the fiscal year. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of June 30, 2016 to value Texas CLASS’s investments in securities and other financial instruments is included in the “Valuation Inputs Summary” and “Level 3 Valuation Reconciliation of Assets” (if applicable) as noted below.

Valuation Inputs Summary (for the fiscal period ended June 30, 2016)

| Investments in Securities at Value* | Valuation Inputs | | | |
|-------------------------------------|------------------|------------------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Repurchase Agreements | \$ - | \$ 195,986,361 | \$ - | \$ 195,986,361 |
| Certificate of Deposits | - | 10,013,381 | - | 10,013,381 |
| Commercial Paper | - | 4,574,074,913 | - | 4,574,074,913 |
| Total | \$ - | \$ 4,780,074,655 | \$ - | \$ 4,780,074,655 |

*For the year ended June 30, 2016, Texas CLASS did not have significant unobservable inputs (Level 3) used in determining fair value. Thus, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the period.



Notes to Financial Statements — June 30, 2016, continued

Note 3. Investments

Custodian

Wells Fargo Bank, N.A. serves as the custodian for Texas CLASS portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for Texas CLASS's investment portfolio and provides services as the depository in connection with direct investment and withdrawals. The custodian's internal records segregate investments owned by Texas CLASS.

Risk Disclosure

The portfolio is subject to the following risks:

- **Counterparty Risk** – Counterparty risk is the risk that the counterparty or a third party will not fulfill its obligation to Texas CLASS.
- **Interest Rate Risk** – Interest rate risk is the risk that the value of fixed-income securities will generally decline as prevailing interest rates rise, which may cause Texas CLASS's NAV to likewise decrease, and vice versa.
- **Market Risk** – Market risk is the daily potential for an investor to experience losses from fluctuations in securities prices. This risk cannot be diversified away.
- **Credit Risk** – Credit Risk is the risk an issuer will be unable to make principal and interest payments when due, or will default on its obligations.

Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques. Texas CLASS limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. Texas CLASS's policy is to limit its exposure to any non-government issuer to 5% of net assets.

Investment in Securities

Texas statutes specify investments meeting defined rating and risk criteria in which local government investment pools may invest as noted in Chapter 2256, Texas Government Code. The Board of Trustees has further limited investment instruments for the Texas CLASS portfolio. Texas CLASS may invest in:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities with a maximum maturity of 397 days, except that certain permitted variable rate securities may be purchased with final maturities greater than 397 days, as described in Paragraph 12 (d) below;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
5. Certificates of deposit or share certificates if the certificate is issued by a depository institution that has its main office or a branch office in this state and is: (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (2) secured by obligations that are described by Section 2256.009(a) of Chapter 2256, Texas Government Code as amended, including mortgage backed securities directly issued by

Notes to Financial Statements — June 30, 2016, continued

a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b), Texas Government Code, as amended; or (3) secured in any other manner and amount provided by law for deposits of the investing entity. In addition, an investment in certificates of deposit is authorized if (1) the funds are invested by an investing entity through (A) a broker that has its main office or a branch office in Texas and is selected from a list adopted by the investing entity, or (B) a depository institution that has its main office or a branch office in Texas and that is selected by the investing entity, (2) the broker or depository institution selected by the investing entity under (1) above arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity, (3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (4) the investing entity appoints the depository institution selected by the investing entity under (1) above, an entity described by Section 2257.041(d) or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rules 15c3-3 (17 C.F.W. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity;

6. Repurchase agreements that comply with the Investment Act. No more than 25% of the portfolio of Texas CLASS shall be invested in term repurchase agreements and no more than 5% of the portfolio of Texas CLASS may be invested in term repurchase agreements with maturities exceeding 90 days. Repurchase agreements shall be 102% collateralized by obligations of the United States Treasury or its agencies and instrumentalities in accordance with the provisions of the Public Securities Association Master Agreement on file with the Program Administrator pertaining to repurchase agreement operating procedures;
7. A securities lending program where:
 - a. the value of securities loaned under the program is not less than 100 percent collateralized, including accrued income;
 - b. a loan made under the program allows for termination at any time;
 - c. a loan made under the program is secured by: (A) pledged securities described subsection (i) below; (B) pledged irrevocable letters of credit issued by a bank that is: (i) organized and existing under the laws of the United States or any other state; and (ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or (C) cash invested in
 - i. obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of this state 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, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and (6) bonds issued, assumed, or guaranteed by the State of Israel.
 - ii. Commercial Paper pursuant to Number Nine below.
 - iii. Mutual Funds pursuant to Number 10 below; or
 - iv. Investment Pools
 - d. the terms of a loan made under the program must require that the securities being held as collateral be: (A) pledged to the investing entity; (B) held in the investing entity's name; and (C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;



Notes to Financial Statements — June 30, 2016, continued

- e. a loan made under the program must be placed through: (A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or (B) a financial institution doing business in Texas; and
 - f. an agreement to lend securities must have a term of one year or less.
8. Bankers' acceptances that comply with the Investment Act;
 9. Commercial paper that complies with the Investment Act; provided that no more than 25% of the assets of Texas CLASS shall be invested in commercial paper of any one industry, except that the 25% limitation shall not apply to commercial paper of banking and financial institutions.
 10. No-load money market mutual funds that comply with the Investment Act;
 11. Guaranteed investment contracts that comply with the Investment Act;
 12. The following other requirements shall also be met:
 - a. no investments shall be made in securities denominated in a currency other than dollars of the United States of America.
 - b. the weighted average maturity of the fund will not exceed the lesser of the triple-A guidelines of a nationally recognized rating agency, or 90 days.
 - c. securities with capped coupons are not permitted.
 - d. variable rate instruments issued by United States agencies or instrumentalities with final maturities of greater than 397 days are allowed if the rate resets at least annually and is calculated with reference to a single, established money market index and the instrument can reasonably be expected to reset to or maintain its par value at all reset dates.
 13. Bonds issued, assumed or guaranteed by the State of Israel that are also backed by the full faith and credit of the United States of America.

Investments may be categorized as follows: (1) insured or registered or for which the securities are held by Texas CLASS or the custodian bank in Texas CLASS's name (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in Texas CLASS's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in Texas CLASS's name.

All investments fall under the categorization of (3) as mentioned in the preceding paragraph.

Note 4. Repurchase Agreements

Funds are released from Texas CLASS's portfolio for repurchase agreements only when collateral has been wired to the custodian bank, and for the period ended June 30, 2016, Texas CLASS held no uncollateralized repurchase agreements. The custodian bank reports the market value of the collateral securities to Texas CLASS at least on a weekly basis. If the seller of the agreement defaults and the value of the collateral declines, the immediate realization of the full amount of the agreement by Texas CLASS may be limited. Texas CLASS may use BMO Harris Bank NA, Goldman Sachs & Co, RBC Capital Markets LLC, UBS Securities LLC and Wells Fargo Securities as a safekeeping agent for repurchase agreements. Interest earned on repurchase agreements as a percentage of total interest earned accounted for 9% for the year ending June 30, 2016.

Note 5. Administration and Investment Advisory Fees

Investment advisory services and administration and marketing services are provided by Public Trust Advisors, LLC (PTA). Texas CLASS's fees are calculated daily and paid monthly. The Daily Fee shall be calculated as follows: The Investment Property Value is multiplied by the Applicable Fee Rate and is divided by 365 or 366



Notes to Financial Statements — June 30, 2016, continued

days in the event of a leap year to equal the Daily Fee accrual. The Investment Property Value shall be based on the current day's shares outstanding. For weekend days and holidays, the shares outstanding for the previous business day will be utilized for the calculation of fees. The Applicable Fee Rate shall be determined monthly on the first business day of each month and shall be as follows:

| | <u>Current Day's Shares Outstanding Balance</u> | <u>Fee %</u> |
|-------|---|--------------|
| First | \$1,000,000,000 | .120% |
| Next | \$1,000,000,000 | .110% |
| Next | \$1,000,000,000 | .100% |
| Next | \$ 500,000,000 | .090% |

Fees may be waived or abated at any time, or from time to time, at the sole discretion of the Program Administrator. Any such waived fees may be restored by the written agreement of the Board of Trustees in its sole discretion.

In the event that the Investment Property Value declines at any time to a level that would cause the Program Administrator's fee to equal an amount equal to or in excess of the remaining Investment Property Value, the fee shall be reduced to zero.

The blended fee shall never be greater than the yield to the Participants.

The fees are collected by PTA and used to pay all expenses related to Texas CLASS.

Note 6. Share Transactions

Transactions in shares during the twelve months ended June 30, 2016 and 2015 for Texas CLASS were as follows:

| | <u>2016</u> | <u>2015</u> |
|---|------------------------|------------------------|
| Shares sold | \$6,624,731,856 | \$4,877,539,565 |
| Shares issued on reinvestment of distributions | 16,235,454 | 3,291,224 |
| Shares redeemed | <u>(4,925,900,590)</u> | <u>(4,603,352,355)</u> |
| Net increase | <u>\$1,715,066,720</u> | <u>\$ 277,478,434</u> |

At June 30, 2016, two participants held more than a 5% participation interest in Texas CLASS. The holdings of these two participants is approximately 14% of the portfolio at June 30, 2016. Investment activities of these participants could have a material impact on Texas CLASS.



Notes to Financial Statements — June 30, 2016, continued

Note 7. Financial Highlights

For a Share Outstanding Throughout Each Period

| | Years Ended | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Per Share Data | | | | | |
| Net Asset Value - Beginning of Period | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 |
| Net Investment Income Earned and Distributed to Shareholders | \$0.004 | \$0.001 | \$0.001 | \$0.002 | \$0.002 |
| Net Asset Value - End of Period | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 |
| TOTAL RETURN | 0.373% | 0.110% | 0.099% | 0.194% | 0.196% |
| RATIOS | | | | | |
| Net Assets-End of Period (\$000 Omitted) | \$4,780,049 | \$3,063,780 | \$2,786,240 | \$3,101,128 | \$2,638,096 |
| Ratio of Expenses to Average Net Assets Gross | 0.105% | 0.110% | 0.109% | 0.116% | 0.500% |
| Ratio of Expenses to Average Net Assets Waived | 0.000% | 0.004% | 0.020% | 0.035% | 0.401% |
| Ratio of Expenses to Average Net Assets | 0.105% | 0.106% | 0.089% | 0.081% | 0.099% |
| Ratio of Net Investment Income to Average Net Assets | 0.418% | 0.112% | 0.100% | 0.188% | 0.208% |

Note 8. Subsequent Events

In accordance with the provisions set forth in ASC 855-10, Subsequent Events, Management has evaluated the possibility of subsequent events existing in Texas CLASS's financial statements. Management has determined that there were no material events that would require disclosure in Texas CLASS's financial statements as of August 5, 2016.

Note 9. Related Parties

All trustees of Texas CLASS are officers of participating governments.



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