UNITED INDEPENDENT SCHOOL DISTRICT
INFORMATIONAL ITEM

TOPIC: Presentation of Annual Investment Report

SUBMITTED BY: Samuel D. Flores **OF:** Director of Accounting

APPROVED FOR TRANSMITTAL TO SCHOOL BOARD: ______________________

DATE ASSIGNED FOR BOARD CONSIDERATION: October 20, 2011

Informational Item:

In accordance with Board Policies CDA (LOCAL), a Comprehensive Report on the investment program and investment activity shall be presented annually to the Board. The annual investment report for the fiscal year ended August 31, 2011 has been prepared by the Accounting Department and is provided in a separate booklet.

2010 – 2011 Annual Review of Investment Performance and Investment Advisory Function

October 19, 2011

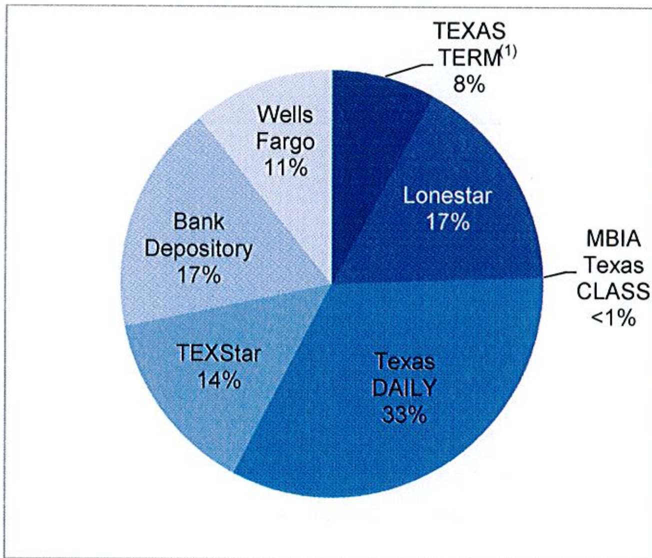
PFM Asset Management LLC
221 W. 6th St., Suite 1900
Austin, TX 78701
www.pfm.com

Annual Performance

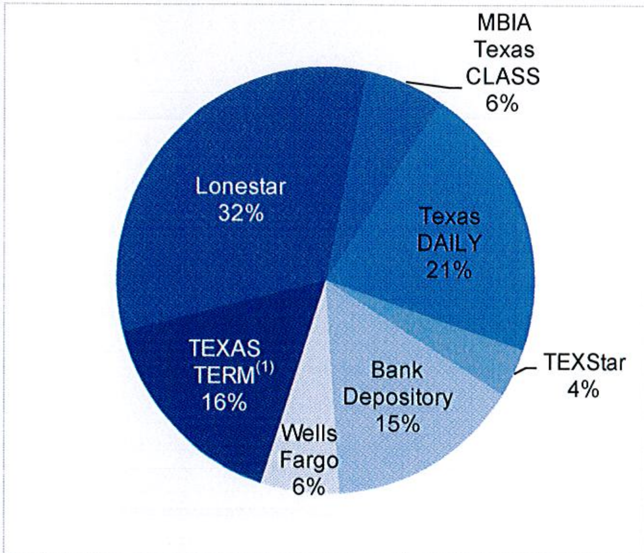
Portfolio Summary

Total Portfolio Value	August 31, 2011	September 01, 2010	Change
TEXAS TERM[1]	**$18,550,000.00**	$9,050,000.00	$9,500,000.00
Lonestar	**$36,927,434.00**	$19,198,850.00	$17,728,584.00
MBIA Texas CLASS	**$7,001,947.00**	$2,641.00	$6,999,306.00
TexasDAILY	**$24,322,943.00**	$38,317,486.00	($13,994,543.00)
TEXStar	**$4,247,321.00**	$16,219,640.00	($11,972,319.00)
Bank Depository	**$17,289,634.00**	$20,044,322.00	($2,754,688.00)
Wells Fargo	**$7,000,000.00**	$12,583,069.00	($5,583,069.00)
Totals	**$115,339,279.00**	$115,416,008.00	($76,729.00)

Portfolio Composition
September 1, 2010

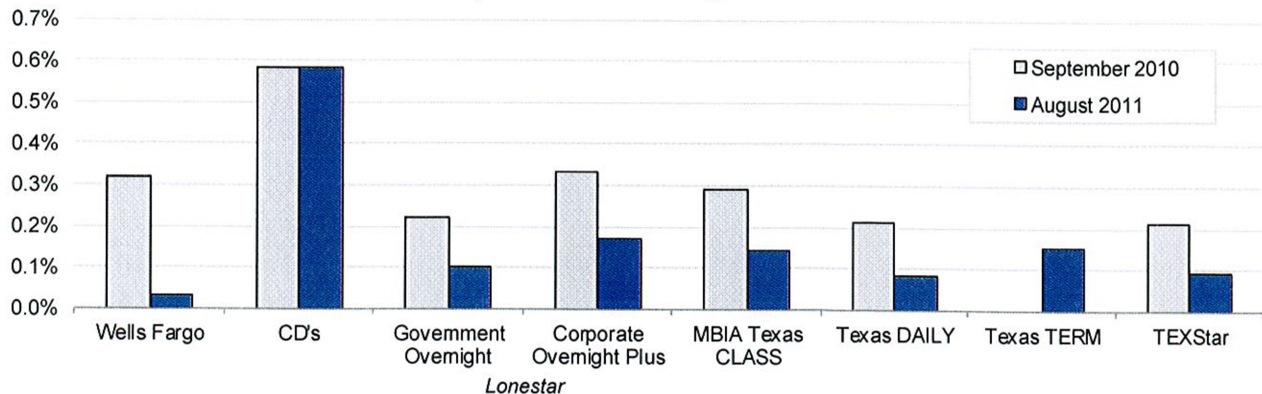


Portfolio Composition
August 31, 2011



(1) Includes Certificates of Deposit held by the School District.

Schedule of Pool Rates
September 2010 vs. August 2011



Interest Earnings

Quarter Ended:	11/30/2010	2/28/2011	5/31/2011	8/31/2011
TEXAS TERM	11,996	-	8,482	23,137
Lonestar	34,322	36,453	20,466	14,542
MBIA Texas CLASS	2	1	1	1,947
TexasDAILY	22,290	17,395	13,294	5,844
TEXStar	8,086	9,840	8,280	1,474
Texas Capital Bank	2,197	-	-	-
Bank Depository	8,510	3,335	2,283	2,038
Money Market Fund	-	-	14	59
Totals	**$87,403**	**$67,024**	**$52,820**	**$49,041**
	Total Annual Interest Received:			***$256,288***

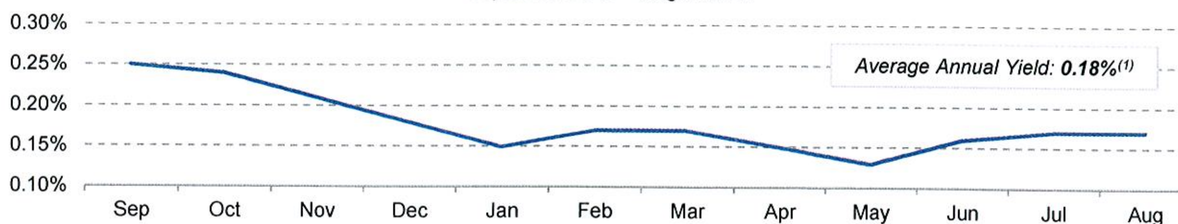
Portfolio Yield

Average Annual Yield: ***0.18%*** [1]

	September	October	November	December	January	February
Wells Fargo	0.32	0.32	0.32	0.19	0.05	0.05
CD's	0.58	0.58	0.58	0.58	0.58	0.58
Government Overnight	0.22	0.20	0.18	0.17	0.15	0.14
Corporate Overnight Plus	0.33	0.28	0.25	0.24	0.24	0.24
MBIA Texas CLASS	0.29	0.26	0.24	-	-	-
Texas Daily	0.21	0.19	0.17	0.15	0.14	0.17
Texas Term	-	-	-	0.28	0.26	0.26
TEXStar	0.21	0.20	0.19	0.17	0.16	0.14
Average Yield	**0.25**	**0.24**	**0.21**	**0.18**	**0.15**	**0.17**

	March	April	May	June	July	August
Wells Fargo	0.05	0.05	0.04	0.03	0.05	0.05
CD's	0.58	0.58	0.58	0.58	0.58	0.58
Government Overnight	0.17	0.13	0.11	0.10	0.09	0.10
Corporate Overnight Plus	0.24	0.23	0.22	0.20	0.17	0.17
MBIA Texas CLASS	-	-	-	0.00	0.14	0.14
Texas Daily	0.14	0.10	0.09	0.09	0.06	0.08
Texas Term	0.27	0.25	0.25	0.25	0.20	0.15
TEXStar	0.14	0.11	0.09	0.09	0.07	0.09
Average Yield	**0.17**	**0.15**	**0.13**	**0.16**	**0.17**	**0.17**

Average Portfolio Yield
September 2010 – August 2011



(1) Calculated as the simple average of the reported average monthly yields provided by the School District.

Benchmark Performance

0-3 Month U.S. T-Bill Index(1)	0.11%	30-Day LIBOR(2)	0.23%
3-6 Month U.S. T-Bill Index(1)	0.23%	90-Day LIBOR(2)	0.29%
3-Month U.S. Treasury Note Index(1)	0.16%		
6-Month U.S. Treasury Note Index(1)	0.31%		
UISD Average Annual Yield	**0.18%**(3)		

(1) Merrill Lynch Index annualized return from 9/1/2010 through 8/31/2011. Source: Bloomberg.
(2) Represents average LIBOR rates from 9/1/2010 through 8/31/2011.
(3) Calculated as the simple average of the reported average monthly yields provided by the School District.

Important Disclaimer

All data regarding return information, portfolio composition, interest earnings and portfolio yield is based upon Quarterly Investment Reports for Fiscal Year 2010 - 2011, as provided by United Independent School District.

This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

Market Update

Troubles in Europe: Illiquidity or Insolvency? That is the Question

The European debt crisis that has roiled the financial markets for months has turned into a battle between the European Central Bank ("ECB"), which views sovereign debt problems as primarily one of *illiquidity,* and global investors who see it as one of *insolvency.*

Insolvency represents the inability to generate enough assets to meet future liabilities. For governments of the world, liabilities include outstanding sovereign debt, current fiscal expenditures and future promised benefits, such as social security and healthcare. Naturally, government liabilities must ultimately be paid by taxes collected from the people. An insolvent nation cannot generate enough assets, or taxes, to meet its current and future liabilities without bankrupting its population along the way.

Illiquidity, on the other hand, occurs when a fundamentally solvent institution is unable to meet its current obligations. It may have long-term capital, but cannot generate enough immediate cash to pay for current expenses. Since most governments can issue debt, illiquidity occurs when the capital markets refuse to lend or demand usury rates.

In our own historical context, Lehman Brothers was insolvent – the market value of mortgage-backed securities they held fell so sharply that their liabilities (mostly debt) exceeded their assets, wiping out the firm's capital. By contrast, Bear Stearns collapsed due to illiquidity - it lost access to short-term funding (e.g. commercial paper and repurchase agreements) and was unable to meet current obligations.

Both insolvency and liquidity dilemmas now face several Euro-Zone countries. Greece has dominated the headlines with its sovereign debt woes, and continues to be the European equivalent of a canary in a coal mine. The €500 billion in Greek debt represents a numerically small proportion of the Euro-Zone's liabilities. However, investors fear that much larger nations, such as Italy and Spain (with €2.8 and €1.0 trillion in debt, respectively), could also default. These nations are riddled with long-term insolvency symptoms as they have borrowed too much and promised exorbitant unfunded benefits.

Greece, for instance, gives retirement benefits beginning at age 55, and in some cases younger if an occupation is considered dangerous. The nation boasts free education and free healthcare, but these programs must, of course, be funded through either taxes or debt. Entitlement expenditures have greatly exceeded both tax receipts and GDP growth and have been funded externally through unsustainable debt issuance. The IMF forecasts that by the end of 2011 Greece will have outstanding debt representing 165% of GDP – at this level, a situation that will be difficult to reverse.

All good things must come to an end. The financial markets have concluded that policies in these countries are unsustainable. Investors are now questioning the ability of fiscally irresponsible governments to pay their debts and are demanding a very high risk premium on the funds they are willing to lend. The result has been liquidity pressures on certain countries in the region, and on banks throughout Europe that own distressed sovereign debt.

According to the Bank for International Settlements, a 50% haircut on Greek debt would cost the Euro-Zone roughly €60 billion. In reaction to the crisis, U.S. money market funds, a key funding source for many European banks, have significantly reduced their holdings of European bank debt, lowering exposure by 27% over the past quarter.

ECB to the rescue? The ECB is currently acting to solve the immediate liquidity crisis, assuming (perhaps with a blind eye) that debtor countries in the region are still solvent. Through its Securities Markets Program, the ECB can purchase both public and private debt to ensure liquidity in those market segments that are dysfunctional. Swap lines between the ECB and the U.S. Federal Reserve have also been expanded recently to ensure a free flowing supply of dollars to the European banking system. These actions have increased the ECB's balance sheet to over €2 trillion, 150% greater than in 2007.

The ECB hopes that liquidity injections will buy troubled nations time to reform their financial ways. If the problem is truly one of liquidity, then the Central Bank's loans carry little credit risk, since they will eventually be repaid. If insolvency is the issue, however, then these programs embody significant risk and may result in losses at the ECB – losses which will effectively be funded by its member countries. Should the ECB need to be recapitalized, 27% and 20% would come from Germany and France respectively, and ultimately their taxpayers. Any such bail-out will be politically difficult and highly unpopular.

Unfortunately, the market believes Greece is past the point of no return. Credit default swaps levels suggest a very high likelihood of default for Greece, and possibly others. Two-year Greek government debt carries a yield of 62%. Greece is essentially frozen out of the credit markets. After recent austerity measures, the Greek economy is expected to shrink by 5.5% this year and 2.5% in 2012.

Even with a short-term fix, illiquidity can progress to eventual insolvency. If the central bank continually provides emergency liquidity, nations may not make necessary fiscal reforms, a problem of which the ECB and IMF are well aware. The recent €159-billion loan to Greece, which supplements last year's €110-billion loan, is littered with policies requiring specific budget targets – targets that may or may not be met.

These are issues the ECB will find difficult to fix. Although they can create liquidity, they cannot create assets. A country's assets must be created by economic growth or higher taxes on its citizen's. Liabilities can be reduced through cuts to spending and entitlements, or debt reduction through forgiveness or restructuring from its creditors (also known as an "orderly default"). But, higher taxes and spending cuts weaken economic growth. At some point, default becomes the only option.

Outlook. Official's hope that distressed nations can stave off default long enough to see the benefit of today's fiscal reforms, and that economic conditions will have improved sufficiently to chart a course to a sustainable recovery. The ECB hopes that by providing emergency liquidity, countries can buy the time needed for these structural changes to materialize. So far, the markets are not optimistic.

With lower projected economic growth in the EU and a renewed slowdown in the U.S., chances have increased that Greece may be forced to restructure its debt. If the contagion spreads to other nations, the ECB may have to expand its support through the Securities Markets Program.

Because Euro-Zone countries share a common currency, any bail-out will likely come from stronger economies, like Germany and France, paying the bills of countries that spent beyond their means. So would begin the inevitable wealth transfer from nations who had produced and saved to those who had not.

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PFM Asset Management LLC

Monthly Market Update & Outlook

October 2011

U.S. Treasury Yields	September 30, 2010	August 31, 2011	September 30, 2011	Monthly Change
3 Month	0.16%	0.01%	0.02%	0.01%
6 Month	0.19%	0.05%	0.05%	0.01%
2 Year	0.43%	0.20%	0.25%	0.04%
5 Year	1.27%	0.96%	0.95%	(0.01%)
10 Year	2.51%	2.22%	1.92%	(0.31%)
30 Year	3.44%	3.32%	2.76%	(0.56%)

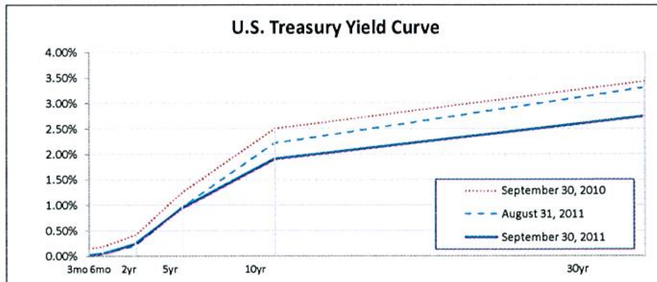
Federal Agency Yields	September 30, 2010	August 31, 2011	September 30, 2011	Monthly Change
3 Month	0.17%	0.03%	0.02%	(0.01%)
6 Month	0.21%	0.09%	0.07%	(0.02%)
2 Year	0.63%	0.47%	0.51%	0.04%
5 Year	1.52%	1.42%	1.37%	(0.05%)
10 Year	2.74%	2.71%	2.38%	(0.33%)
20 Year	3.90%	3.88%	3.35%	(0.53%)

Spot Prices	September 30, 2010	August 31, 2011	September 30, 2011	Monthly Change
US Dollars per Euro	$1.36	$1.44	$1.34	(6.8%)
Crude Oil $/Barrel	$82.35	$109.54	$98.24	(10.3%)

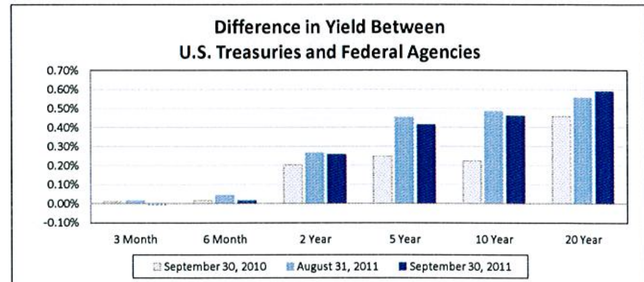
Upcoming Indicators to Watch

Release Date	Release	For	Consensus	Prior
Oct 05	ADP Employment Change	SEP	70k	91k
Oct 07	Change in Nonfarm Payrolls	SEP	58k	0k
Oct 07	Change in Private Payrolls	SEP	90k	17k
Oct 07	Change in manufacturing Payrolls	SEP	-1K	-3
Oct 07	Unemployment Rate	SEP	9.10%	9.10%
Oct 07	Consumer Credit	SEP	$8.000B	$11.965B
Oct 14	U. of Michigan Confidence	OCT	61	59.4
Oct 17	Empire Manufacturing	OCT	- -	-8.82
Oct 18	Producer Price Index MoM	SEP	- -	0.00%
Oct 19	Consumer Price Index MoM	SEP	- -	0.04%
Oct 20	Leding indicators	SEP	--	0.3%
Oct 20	Existing Home Sales MoM	SEP	--	7.70%
Oct 26	Durable Goods Orders	SEP	--	-0.10%
Oct 27	GDP QoQ (Annualized)	3Q	- -	1.30%
Oct 27	Personal Consumption	3Q	- -	0.7%

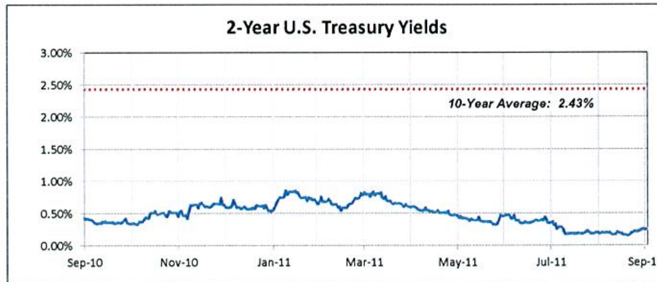
Benchmark Rates	September 30, 2010	August 31, 2011	September 30, 2011	Monthly Change
1 Month LIBOR	0.26%	0.22%	0.24%	8.1%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.0%



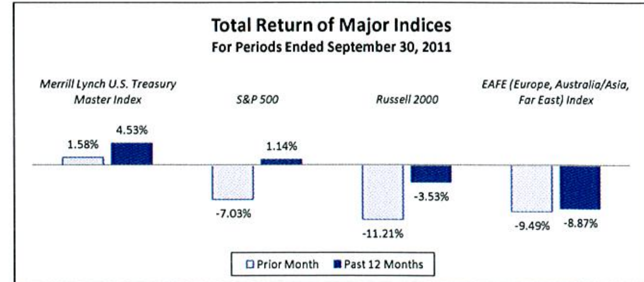
The Treasury yield curve flattened during September as investors sought the safety of U.S. Treasury securities amid the European debt crisis. Furthermore, the Federal Reserve's statement that they would extend the duration of their portfolio caused substaintial yield declines in longer dated maturities.



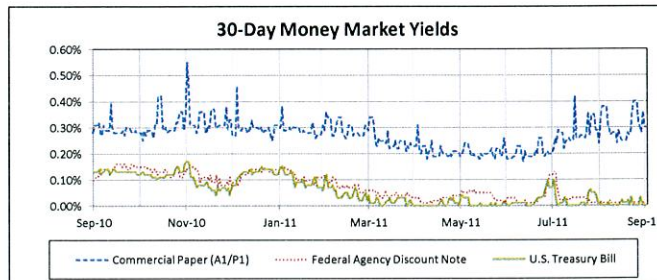
Spreads remained relatively static from August to September.



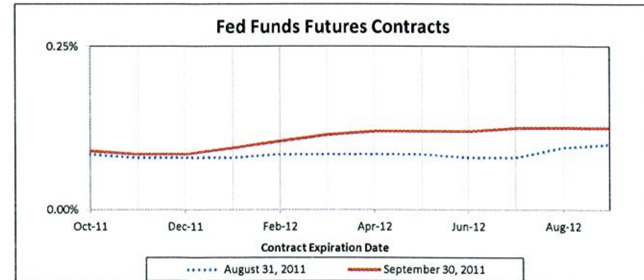
The 2-year U.S. Treasury note continued to trade in a tight range throughout most of September, but ended the month with sligthly higher yields.



The major stock indices ended the month of September lower. For the S&P 500, September 30th marked the end of the third quarter and represented the worst return for the index since 2008. Treasuries gained, due largely to the European debt crisis and weak economic data.



Short-term securities remain range bound due to the low Federal Funds target rate. High-quality commercial paper continues to be attractive relative to similar maturing Treasury and federal agency securities.



Fed funds futures contracts continue to imply the Federal Reserve will keep their target rate unchanged through 2013.