



Board Action Required

No Action Required

Memo

To: Dr. Turner

From: Kelly Penny

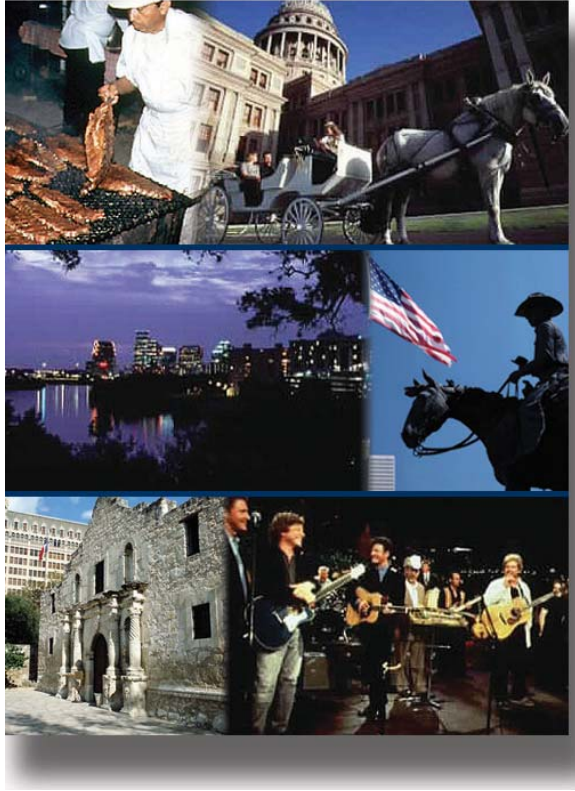
Cc: Sid Grant

Re: TexasTERM Local Government Investment Pool

The District would like to expand its portfolio diversification and gain additional short-term investment opportunities by adding TexasTERM Local Government Investment Pool to their current investment pools.

This pool meets all of the required Texas statues and the Public Funds Investment Act. TexasTERM portfolio and TexasDAILY portfolio are rated AA Af and AA Am respectively by Standard & Poor's ("S&P") and are overseen by the TexasTERM Advisory Board.

TexasTERM's annual financial report and current list of participants are included for your review. Additionally, a resolution is attached requesting Board approval. If you have additional questions please let me know.



Annual Report

December 31, 2006

TexasTERM Local Government Investment Pool

700 Lavaca, Suite 1500
Austin, Texas 78701-3106

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**For further information on TexasTERM,
call 1-866-TEX-TERM or visit
www.texasterm.net**

ABOUT TEXASTERM

The TexasTERM Local Government Investment Pool (the “Pool”) Portfolios seek to provide safety, flexibility and competitive yields. As a Participant, you may use the portfolio(s) that best suit your deposit and investment needs.

Limited to Permitted Investments

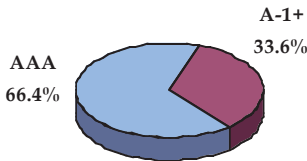
The primary goal of the Pool is the safety and security of the local government funds entrusted to it. The Pool is designed to comply with all of the Texas statutes, including the Public Funds Investment Act and other regulations for the allowable investment of public funds. Additionally, all securities must further meet the Pool’s own high standards of investment.

TexasTERM portfolio and TexasDAILY portfolio are rated AA+ and AA+ respectively by Standard & Poor’s (“S&P”) and are overseen by the TexasTERM Advisory Board.

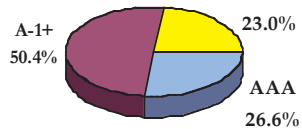
The Pool’s portfolios may contain a combination of:

- Obligations of the U.S. Government or its Agencies or Instrumentalities
- Repurchase Agreements with Primary Dealers
- Certificates of Deposit (CDs) that are FDIC insured and fully collateralized according to Texas law
- Money Market Mutual Funds rated AAA or equivalent

Credit Quality of TexasDAILY Portfolio Holdings at December 31, 2006



Credit Quality of TexasTERM Series K Purchases from July 8, 2005 through December 31, 2006



Flexibility

The TexasTERM Local Government Investment Pool offers two (2) distinct investment portfolios. Working together, these portfolios allow you the flexibility to safely maximize yield and liquidity. The TexasTERM portfolio allows participants to obtain a fixed-rate quote in advance. You choose the maturity date that best suits your needs. TexasTERM is available for investments from 60 days to 1 year, with a minimum investment of \$100,000. You choose the settlement and maturity dates to satisfy your investment needs. The TexasDAILY portfolio provides a variable rate with availability of funds on a daily basis.

Portfolios at a Glance



Investment Period	One Day Minimum	<ul style="list-style-type: none"> • Minimum 60 Days • Maximum 1 Year
Balance Requirements	No Minimum Balance	\$100,000 Minimum
Additional Deposits	<ul style="list-style-type: none"> • No Minimum • Unlimited Number • Direct Deposit Available 	\$100,000 Minimum
Withdrawals	<ul style="list-style-type: none"> • No Minimum • Unlimited 	At Maturity
Checkwriting	<ul style="list-style-type: none"> • Unlimited, for bond proceeds • No Charge 	N/A
Transactional Charges/Fees	None	None
Accounts	Unlimited	Unlimited
Interest Earnings	<ul style="list-style-type: none"> • Calculated Daily • Paid Monthly 	<ul style="list-style-type: none"> • Fixed Rate of Interest • Paid At Redemption
Statements	<ul style="list-style-type: none"> • Via Internet • Each Transaction • Monthly • Fiscal Year-End • Cumulative (Upon Request) 	<ul style="list-style-type: none"> • Via Internet • Each Purchase Transaction • Monthly

* Customized programs available upon request.

We Value Your Participation

The Advisory Board is committed to managing TexasTERM in a manner that meets the investment and associated record-keeping and cash management needs of Texas local governments. We are interested in your feedback. For additional information, please call us at (866) TEX-TERM or visit us online at www.texasterm.net.

MESSAGE FROM THE INVESTMENT ADVISER

Dear Participant,

We are pleased to present the annual report for the TexasTERM Local Government Investment Pool (“TexasTERM”) for the year ended December 31, 2006.

After more than three years of solid growth pushed interest rates higher through the first half of 2006, the economy slowed measurably, and the methodical effort by the Federal Reserve to increase the cost of money came to an end with the Federal funds rate at 5.25%. The

TexasDAILY portfolio’s yields followed suit, as the accompanying chart shows.

TexasDAILY shareholders saw their yields increase from 4.19% at the end of 2005 to 5.27% a year later.

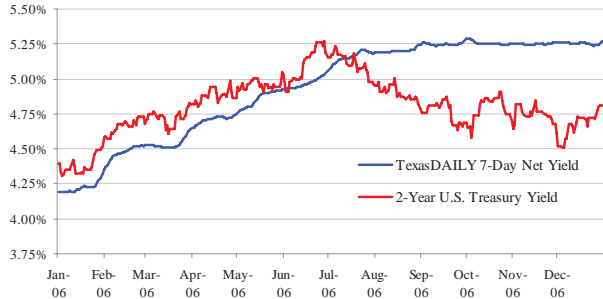
Higher yields translate into more interest income for our investors. Each 1.00% increase in the TexasDAILY yield earns a Participant with \$1 million in the fund an additional \$10,000 in income.

A slowing economy, moderate inflation and strong demand for long-dated bonds caused the yield curve to invert early in the summer. The economic slowdown resulted from the combined effects of the sharp rise in short-term interest rates, from 1% in the spring of 2004 to its current 5.25% level, the run-up in oil prices to \$80 a barrel by mid-2006, and continued slowing in housing from boom levels. Some economists warned that the inverted yield curve could presage economic recession, as it did in prior business cycles.

At the end of the year the housing slump accelerated, with a rise in defaults on sub-prime mortgages, a rise in the inventory of unsold homes and a decline in housing prices in many markets. Inflation remained modest, but stubbornly above the level of 1.5% that the central bank’s governors would like to achieve. Among the reasons: a rebound in oil and commodity prices, a weakening in the Dollar—which drives up the cost of imported goods—and strength of wages, which by year-end were up 4% over the year. The decline in long term interest rates lowered borrowing costs for local governments. By year-end long term tax-exempt rates were at historic lows. Meanwhile with the Federal Reserve continuing to maintain a hawkish outlook on inflation, short-term investment rates were at their highest levels since 2001.

The outlook for the economy and interest rates appears to be more clouded than usual. The depth of the housing slump remains unknown. Since housing directly or indirectly accounted for four in 10 of the new jobs created by the economy in recent years, its

TexasDAILY vs 2-Year U.S. Treasury



effects could be significant. Consumer spending, which accounted for more than two-thirds of GDP also slowed, from a year over year pace of 9.5% in January 2006 to 2.2% a year later. A result is that some economists now forecast growth in the range of 2% this year, and few expect it to reach the 3% level. Inflation remains above the Fed's target and vigilance on this front may keep the Federal Open Market Committee from cutting short-term rates, even in the face of the economic slowdown. In addition, central bankers in Europe and Asia are on a course of raising short-term rates and in the increasingly global economy this is sure to have an effect on the United States.

In the second half of the year, PFM lengthened the weighted average maturity of the TexasDAILY portfolio, and Participants who were able to commit excess cash to TexasTERM investments locked in attractive rates. With uncertainty prevailing in the first months of 2007, PFM is ready to make significant changes in portfolio maturity and composition to maintain TexasTERM's high standards of protecting principal and producing competitive yields.

Respectfully,
PFM Asset Management LLC

March 23, 2007

REPORT OF INDEPENDENT AUDITORS

To the Participants and Advisory Board of the
TexasTERM Local Government Investment Pool

We have audited the accompanying statement of net assets of the TexasDAILY portfolio and the statement of assets and liabilities of the TexasTERM Series K portfolio (collectively, the “Portfolios”) as of December 31, 2006, and the related statement of operations for the year then ended, statements of changes in net assets for each of the two years in the period then ended and financial highlights for the four years in the period then ended and for the period March 25, 2002 (commencement of operations) through December 31, 2002 for the TexasDAILY portfolio, and the related statement of operations, statement of changes in net assets and financial highlights for the period July 8, 2005 (commencement of operations) through December 31, 2006 for TexasTERM Series K. These financial statements and financial highlights are the responsibility of the Portfolios’ management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Portfolios’ internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Portfolios’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the Portfolios at December 31, 2006, the results of operations for the year then ended, changes in net assets for each of the two years in the period then ended, and financial highlights for each of the four years in the period then ended and for the period March 25, 2002 (commencement of operations) through December 31, 2002 for the TexasDAILY portfolio, and the results of operations, changes in net assets and financial highlights for the period July 8, 2005 (commencement of operations) through December 31, 2006 for the TexasTERM Series K portfolio, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Philadelphia, Pennsylvania
April 2, 2007

Statement of Net Assets

December 31, 2006

	Face Amount	Amortized Cost ⁽¹⁾
U.S. GOVERNMENT & AGENCY OBLIGATIONS (35.22%)		
Fannie Mae Mortgage-Backed Security Discount Notes		
5.27% 1/2/07	\$ 30,000,000	\$ 29,995,667
5.33% 3/1/07	5,000,000	4,958,044
5.35% 4/2/07	10,000,000	9,868,050
Fannie Mae Notes (Callable)		
5.30% 1/8/08	10,000,000	10,000,000
Federal Home Loan Bank Discount Notes		
5.21% 1/17/07	35,000,000	34,924,167
Federal Home Loan Bank Notes		
5.11% 3/27/07	3,970,000	3,969,005
Federal Home Loan Bank Notes (Callable)		
5.17% 3/5/07	5,000,000	4,997,464
5.26% 5/11/07	3,000,000	2,978,934
5.35% 6/28/07	1,000,000	998,252
5.42% 9/5/07	5,000,000	4,999,492
5.31% 11/21/07	15,000,000	14,994,799
5.30% 12/5/07	10,000,000	10,000,000
Freddie Mac Notes		
5.31% 4/10/07	4,625,000	4,646,297
Freddie Mac Notes (Callable)		
5.36% 11/21/07	15,000,000	14,998,669
5.35% 12/19/07	8,000,000	8,000,000
<i>Total U.S. Government & Agency Obligations</i>		<u>160,328,840</u>
REPURCHASE AGREEMENTS (74.46%)		
Bear Stearns		
5.31% 1/2/07	40,000,000	40,000,000
<small>(Dated 12/26/06, repurchase price \$40,041,300, collateralized by variable rate Fannie Mae securities maturing 3/1/09 to 6/1/36, market value \$40,572,157; and variable rate Freddie Mac securities maturing 7/1/32, market value \$247,356)</small>		
5.31% 1/2/07	63,930,000	63,930,000
<small>(Dated 12/29/06, repurchase price \$63,967,719, collateralized by variable rate Fannie Mae securities maturing 7/1/17 to 11/1/36, market value \$41,752,737; and variable rate Freddie Mac securities maturing 10/1/32 to 9/1/36, market value \$23,459,064)</small>		
Goldman Sachs		
5.32% 1/2/07	105,000,000	105,000,000
<small>(Dated 12/29/06, repurchase price \$105,062,067, collateralized by Freddie Mac securities, 0% to 5.375%, maturing 1/16/07 to 5/22/08, market value \$107,100,003)</small>		
Morgan Stanley		
5.32% 1/3/07	40,000,000	40,000,000
<small>(Dated 12/27/06, repurchase price \$40,041,378, collateralized by Fannie Mae securities, 4% to 8.5%, maturing 4/1/16 to 4/1/36, market value \$29,312,834; and Freddie Mac securities, 4.5% to 8%, maturing 11/1/14 to 12/1/36, market value \$12,070,504)</small>		
Bank of America		
5.30% 1/2/07	90,000,000	90,000,000
<small>(Dated 12/29/06, repurchase price \$90,053,000, collateralized by Fannie Mae securities, 6%, maturing 10/1/36, market value \$91,800,001)</small>		
<i>Total Repurchase Agreements</i>		<u>338,930,000</u>

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

TEXASDAILY

Statement of Net Assets (continued)

December 31, 2006

	Amortized Cost ⁽¹⁾
TOTAL INVESTMENTS (109.68%)	\$ 499,258,840
OTHER LIABILITIES IN EXCESS OF OTHER ASSETS (-9.68%)	(44,081,919) ⁽³⁾
NET ASSETS (100.00%)	<u>\$ 455,176,921</u>

Applicable to 455,176,921 outstanding shares of beneficial interest
(unlimited authorization – no par value). Equivalent to \$1.00 per share.

(1) See Note B to the financial statements.

(2) Floating or variable rate security. Rate shown is that which was in effect at December 31, 2006.

(3) Includes a \$44,792,217 liability for securities purchased but not yet settled.

TEXAS TERM SERIES K

Statement of Assets and Liabilities

December 31, 2006

	Amount
ASSETS	
Cash	\$ 72,085
<i>Total Assets</i>	72,085
LIABILITIES	
Management Fees Payable	56,391
Custodian Fees Payable	741
Other Accrued Expenses	14,953
<i>Total Liabilities</i>	72,085
NET ASSETS	<u>\$ –</u>

Statements of Operations

	TexasDAILY Year Ended December 31, 2006	TexasTERM Series K July 8, 2005 ⁽¹⁾ through December 31, 2006
INCOME		
Interest Income	\$ 18,970,687	\$ 10,705,835
<i>Total Income</i>	18,970,687	10,705,835
EXPENSES		
Management Fees	590,145	329,280
Banking Fees	35,902	15,787
Audit Fees	18,000	12,700
Legal Fees	7,869	3,588
Other Expenses	16,050	4,711
<i>Total Expenses</i>	667,966	366,066
Less Fee Waivers	(386,033)	(59,460)
<i>Net Expenses</i>	281,933	306,606
Net Investment Income	18,688,754	10,399,229
Realized Net Loss on Investment Securities Sold	(10,372)	(219,865)
Net Increase in Net Assets Resulting from Operations	<u>\$ 18,678,382</u>	<u>\$ 10,179,364</u>

(1) Commencement of operations.

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

Statements of Changes in Net Assets

	Year Ended December 31, 2006	Year Ended December 31, 2005
INCREASE (DECREASE) IN NET ASSETS		
Operations		
Net Investment Income	\$18,688,754	\$ 10,223,817
Realized Net Gain/(Loss) on Investment Securities Sold ..	(10,372)	12,217
<i>Net Increase in Net Assets Resulting from Operations ..</i>	<u>18,678,382</u>	<u>10,236,034</u>
Distributions		
Net Investment Income, Net of Realized Loss on Investment Securities Sold	(18,678,382)	(10,223,817)
Net Realized Gain on Investment Securities Sold	-	(12,217)
<i>Total Distributions</i>	<u>(18,678,382)</u>	<u>(10,236,034)</u>
Capital Share Transactions (at \$1.00 per share)		
Issued	1,341,623,048	1,187,966,858
Redeemed	(1,184,409,986)	(1,249,204,278)
Distributions Reinvested	18,678,382	10,236,034
<i>Net Increase (Decrease) from Capital Share Transactions</i>	<u>175,891,444</u>	<u>(51,001,386)</u>
<i>Total Increase (Decrease) in Net Assets</i>	<u>175,891,444</u>	<u>(51,001,386)</u>
Net Assets		
Beginning of Year	279,285,477	330,286,863
End of Year	<u>\$ 455,176,921</u>	<u>\$ 279,285,477</u>

TEXASTERM SERIES K

Statement of Changes in Net Assets

	July 8, 2005 ⁽¹⁾ through December 31, 2006
INCREASE (DECREASE) IN NET ASSETS	
OPERATIONS	
Net Investment Income	\$ 10,399,229
Realized Net Loss on Investment Securities Sold	(219,865)
<i>Net Increase in Net Assets</i>	<u>10,179,364</u>
DISTRIBUTIONS	
Net Investment Income, Net of Realized Loss on Investment Securities Sold	(10,179,364)
<i>Total Distributions</i>	<u>(10,179,364)</u>
CAPITAL SHARE TRANSACTIONS	
Shares Issued	474,636,977
Shares Redeemed	(474,636,977)
<i>Net Increase (Decrease)</i>	<u>-</u>
NET ASSETS	
Beginning of Period	-
End of Period	<u>\$ -</u>

(1) Commencement of operations.

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

TEXASDAILY*Financial Highlights**For a share outstanding throughout each period*

	Year Ended December 31,				March 25, 2002 ⁽¹⁾ through December 31, 2002
	2006	2005	2004	2003	2002
Net Asset Value, Beginning of Year	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Operations					
Net Investment Income049	.031	.013	.012	.014
Total from Operations049	.031	.013	.012	.014
Distributions					
Net Investment Income	(.049)	(.031)	(.013)	(.012)	(.014)
Total Distributions	(.049)	(.031)	(.013)	(.012)	(.014)
Net Asset Value, End of Year	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Ratios/Supplemental Data					
Net Assets, End of Year	\$ 455,177	\$ 279,285	\$ 330,287	\$ 286,352	\$ 284,246
Total Return	5.05%	3.18%	1.34%	1.18%	1.83% ⁽²⁾
Ratio of Expenses to Average Net Assets Before Fee Waivers	0.18%	0.18%	0.19%	0.20%	0.20% ⁽²⁾
Ratio of Expenses to Average Net Assets After Fee Waivers	0.07%	0.08%	0.08%	0.08%	0.06% ⁽²⁾
Ratio of Net Investment Income to Average Net Assets Before Fee Waivers	4.85%	2.97%	1.19%	1.04%	1.63% ⁽²⁾
Ratio of Net Investment Income to Average Net Assets After Fee Waivers .	4.96%	3.07%	1.30%	1.16%	1.77% ⁽²⁾

TEXASTERM SERIES K*Financial Highlights**For a share outstanding throughout the period*

	July 8, 2005 ⁽¹⁾ through December 31, 2006
Ratio of Expenses to Average Net Assets Before Fee Waivers	0.17% ⁽²⁾
Ratio of Expenses to Average Net Assets After Fee Waivers	0.14% ⁽²⁾
Ratio of Net Investment Income to Average Net Assets Before Fee Waivers	4.77% ⁽²⁾
Ratio of Net Investment Income to Average Net Assets After Fee Waivers	4.80% ⁽²⁾

*(1) Commencement of operations.**(2) Annualized.**The accompanying notes are an integral part of these financial statements.*

A. Organization

TexasTERM Local Government Investment Pool (the “Pool”) was organized under a common investment contract on September 18, 2000. An elected Advisory Board is responsible for the overall management of the Pool, including formation and implementation of its investment and operating policies. The Pool is a non-taxable investment fund established for local governments in Texas under the provisions of the Texas Interlocal Cooperation Act. Accordingly, no provision is made for income taxes in the financial statements. The Pool offers two investment portfolios including TexasTERM, which began operations on September 25, 2000, and TexasDAILY, which began operations on March 25, 2002 (collectively the “Portfolios”). At December 31, 2006, the TexasTERM Portfolio consisted of three series: SERIES K, SERIES L and SERIES M. The financial statements of SERIES K are included in this Annual Report. The financial statements of SERIES L and SERIES M will be presented separately as of its respective date of termination. All participation in the Pool is voluntary. The Pool has not provided or obtained any legally binding guarantees to support the value of shares.

TexasTERM Series K terminated operations on December 31, 2006. Shares of TexasTERM Series K were outstanding from July 8, 2005 through December 29, 2006.

B. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. The following significant accounting policies of the Pool are in conformity with accounting principles generally accepted in the United States.

1. Securities are stated at amortized cost, which approximates fair value. It is the Pool’s policy to compare amortized cost and fair value of securities periodically throughout the month and as of the last business day of each month. Fair value is determined by reference to quoted market prices.
2. Security transactions are accounted for on trade date. Costs used in determining realized gains and losses on the sale of investment securities are those of specific securities sold. Interest income is recorded using the accrual method. Discounts and premiums are accreted and amortized, respectively, to interest income over the lives of the respective securities.
3. Dividends from net investment income are declared daily and are paid monthly for TexasDAILY, and at maturity for TexasTERM.
4. An objective of the Pool is to maintain a net asset value of \$1 per share for TexasDAILY, but there can be no assurances that the net asset value will not vary from \$1 per share. Shares are purchased and redeemed at the net asset value per share next determined after receipt of a request.

5. The Portfolios may invest cash in repurchase agreements secured by the U.S. Government and its Agency obligations. Securities pledged as collateral for repurchase agreements are constructively held by the Portfolio's custodian bank until maturity of the repurchase agreement. The Portfolios also may invest in tri-party repurchase agreements. Securities held as collateral for tri-party repurchase agreements are maintained for the Portfolios in the Pool's account by the broker's custodian bank until maturity of the repurchase agreement. Provisions of the repurchase agreements require that the market value of the collateral, including accrued interest thereon, be monitored daily. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. Repurchase agreements may be terminated at the option of the Pool with seven days notice.
6. In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, Fair Value Measurements, (Statement 157). Statement 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. Statement 157 is intended to increase consistency and comparability among fair value estimates used in financial reporting. Statement 157 is effective for fiscal years beginning after November 15, 2007. The Pool's management does not expect the adoption of Statement 157 to have an impact on the amounts reported in the financial statements.

C. Fees and Charges

PFM Asset Management LLC ("PFMAM") is a registered investment adviser under the Investment Advisers Act of 1940. PFMAM provides investment management services to the Portfolios, including investment advisory, distribution, shareholder accounting and certain administrative services. Fees for all management services provided to the TexasTERM portfolio are calculated at an annual rate of .15% of the average daily net assets of the portfolio. Fees for all management services provided to the TexasDAILY portfolio are calculated at an annual rate of .17% of the average daily net assets of the Portfolio up to \$250 million, .13% on the next \$250 million, .12% on the next \$500 million, and .10% on such assets in excess of \$1 billion.

In accordance with this contract, PFMAM is obligated to reimburse each Portfolio for the amount by which annual operating expenses including investment management services, custodian, legal and audit fees exceed .20% of each portfolio's average daily net assets. During the period July 8, 2005 through December 31, 2006, PFMAM voluntarily waived the \$59,460 of the fees to which it was entitled for services provided to the TexasTERM Series K. For the period July 8, 2005 through December 31, 2006, the total expenses charged to TexasTERM Series K after such waivers represent an effective annual rate of 0.14%. Had PFMAM not waived these fees, the total expenses of TexasTERM Series K for the period July 8, 2005 through December 31, 2006 would have represented an effective annual rate of 0.17% of average daily net assets.

In addition, during the year ended December 31, 2006, PFMAM voluntarily waived \$386,033 of the fees they were entitled for services provided to the TexasDAILY portfolio. For the year ended December 31, 2006, the investment management fees charged to TexasDAILY after such waivers represent an effective annual rate of .05% of average daily net assets. Had PFMAM not waived these fees, the total expenses of TexasDAILY for the year ended December 31, 2006 would have represented an effective annual rate of 0.18% of average daily net assets.

The Pool has entered into agreements with various of its service providers which provide for indemnification against losses, costs, claims and liabilities arising from the performance of their obligations under such agreements, except for gross negligence or bad faith. The Pool has had no claims or payments pursuant to these or prior agreements, and the Pool’s management believes the likelihood of a claim being made is remote.

D. Governmental Accounting Standards (unaudited)

Under Governmental Accounting Standards (“GAS”), state and local governments and other municipal entities are required to disclose credit risk, concentration of credit risk, and interest rate risk for investment portfolios. Although the Pool is not subject to GAS, the following risk disclosures of the TexasDAILY Portfolio as of December 31, 2006 have been provided for the information of the Portfolio’s Participants.

Credit Risk

The TexasDAILY Portfolio’s investment policy, as outlined in its Information Statement, limits the it’s investments to those which are authorized investments under Chapter 2256 of the Texas Government Code, the Public Funds Investment Act (“PFIA”).

As of December 31, 2006, the TexasDAILY Portfolio was comprised of investments which were, in aggregate, rated by Standard and Poor’s (“S&P”) as follows:

S&P Rating	Percentage of Portfolio
AAA	66.45%
A-1+	33.55%

The above ratings of the TexasDAILY Portfolio include the ratings of collateral underlying repurchase agreements in effect for the portfolio at December 31, 2006.

Concentration of Credit Risk

As outlined in its Information Statement, the TexasDAILY Portfolio’s investment policy establishes certain restrictions on investments and limitations on portfolio composition. The TexasDAILY Portfolio’s investment portfolio at December 31, 2006 included the following issuers which individually represented greater than 5% of the Portfolio’s total investment portfolio:

Issuer	Percentage of Portfolio
Goldman Sachs Group, Inc.	21.1%
Bear Stearns	20.8%
Bank of America	18.0%
Federal Home Loan Bank	15.6%
Fannie Mae	11.0%
Morgan Stanley	8.0%
Freddie Mac	5.5%

Interest Rate Risk

The TexasDAILY Portfolio's investment policy limits its exposure to market value fluctuations due to changes in interest rates by (1) requiring that its portfolio maintain a dollar-weighted average maturity of not greater than ninety days; and (2) requiring that any investment securities purchased by the Portfolio have a remaining maturities of 297 days or less at the time of purchase. The weighted average maturity of the Portfolio at December 31, 2006 was 50 days. The fair value and weighted average maturity of the types of investments in which the Portfolio was invested at December 31, 2006 are as follows:

Type of Investments	Fair Value	Weighted Average Maturity
U.S. Government Agency Bonds	\$ 80,582,912	281 Days
U.S. Government Agency Discount Notes	79,745,928	23 Days
Repurchase Agreements	338,930,000	2 Days
Total	<u>\$ 499,258,840</u>	

The weighted-average maturities shown above are calculated based on the stated maturity dates with the following exceptions: (1) floating or variable rate securities are assumed to have an effective maturity of the date upon with the security's interest rate next resets; and (2) the effective maturity of callable securities is assumed to be its stated maturity unless the security had been called as of the reporting date, in which case the effective maturity would be assumed to be its called date.

*Advisory Board Members
and Officers*

Wes Eversole

President and Participant Board Member
*Assistant Superintendent for Operations
& Finance,
Lake Dallas Independent School District*

Mary Mayes

Secretary and Participant Board Member
*Investment Manager,
Travis County*

David M. Landeros

Treasurer and Participant Board Member
*Executive Director for Business Services,
South San Antonio Independent
School District*

Advisory Board

Art Alfaro

Participant Board Member
*Treasurer,
City of Austin*

Sharon McCoy-Huber

Board Member
*Director of Finance and Administration,
San Antonio River Authority*

Corrine Steeger

Participant Board Member
*Associate Director for the Center for
Public Management,
University of North Texas*

Susan L. Morgan, CPA

Non-Participant Board Member
*Senior Financial Analyst
HDR Engineering, Inc.*



Service Providers

Investment Advisor, Administrator
& Transfer Agent

PFM Asset Management LLC

One Keystone Plaza, Suite 300
North Front and Market Streets
Harrisburg, PA 17101-2044

700 Lavaca
Suite 1500
Austin, TX 78701-3106

Custodian

U.S. Bank, N.A.

123 South Broad Street
Philadelphia, PA 19109

Independent Auditors

Ernst & Young LLP

Two Commerce Square
2001 Market Street
Philadelphia, PA 19103

Legal Counsel

McCall, Parkhurst & Horton L.L.P.

717 North Harwood
Suite 900
Dallas, TX 75201-6587

700 Lavaca, Suite 1500 • Austin, Texas 78701-3106
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1-866-TEX-TERM
www.texasterm.net
www.texasterm.org

Advisory Board Members

Wes Eversole, President

Asst. Superintendent for Operations & Finance
Lake Dallas Independent School District
P.O. Box 548, Lake Dallas, TX 75065

Assistant Superintendent, Lake Dallas ISD since 1991. Software Consultant, Texas Educational Consultative Services, 1987-1991. Certified Texas School Business Official. Member of Governmental Finance Officers Association, Association of School Business Officials, Texas Association of School Business Officials and Texas Association of School Boards. BBA, Accounting from Southwest Texas State University at San Marcos.

Mary Mayes, Secretary

Investment Manager, Travis County
314 W. 11th Street, Suite 540, Austin, TX 78701

Investment Officer of Travis County since 1995. Financial Analyst for Travis County 1987-1995. Previously served as Loan Officer at NationsBank. On the Board of Directors for GTOT. Education: BA and MBA from University of Texas at Austin.

David M. Landeros, Treasurer

Executive Director for Business Services, South San Antonio Independent School District
2515 Bobcat Lane, San Antonio, TX 78224-1298

Responsible for budget, investments, payroll, accounts payable, bookkeeping and purchasing departments. Has over twenty years of school business and governmental experience in the area of financial management. Education: BBA in accounting and an MBA in Operations Management from St. Mary's University.

Sharon McCoy,

Participant Board Member

Director of Finance and Administration
San Antonio River Authority
P.O. Box 839980, San Antonio, TX 78283

Sharon has over 25 years experience in public finance and is currently the Director of Finance and Administration for the San Antonio River Authority. Sharon has previously served as County Auditor for Walker County, Controller of the Huntsville Independent School District and Director of Finance for the City of New Braunfels. Her experience includes all aspects of finance with emphasis on reporting, strategies, and analysis. Sharon has received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for

ten years. She is a member of Government Finance Officers Association, the Government Finance Officers Association of Texas, and the Government Treasurers Organization of Texas.

She has served GTOT as a board member and secretary of the organization. Sharon is a graduate of Texas A & M University with a B.B. A. in accounting.

Art Alfaro,

Participant Board Member

Acting Treasurer, City of Austin
700 Lavaca, Suite 1510, Austin, TX 78701

Acting Treasurer of the City of Austin since July 5, 2005. Assistant Treasurer 1998-2005. Financial Analyst III 1993-1998. Financial Analyst II 1990-1993. Financial Analyst I 1989-1990. Management Professional Intern 1986-1989. A Director of the Government Treasurers' Organization of Texas, Austin Police Retirement System Board Member, Austin Fire Fighter's Relief and Retirement Fund Board Member, City of Austin Deferred Compensation Fund Board Member, City of Austin Investment Committee Board Member. BBA University of Texas at Austin.

Corrine Steeger

Participant Board Member

Associate Director for the Center for Public Management (CPM), University of North Texas.
P.O. Box 305129, Denton, TX 76203

Previously served as Marketing Director for TexPool and LOGIC and for fourteen years in public sector as Cash and Debt Manager for the City of Dallas and Treasurer for the City of Austin. BA and MA from University of Texas at Austin and MBA from Columbia University.

Susan L. Morgan, CPA

Non-Participant Board Member

Senior Financial Analyst,
HDR, Inc.
4401 West Gate Blvd, Suite 400, Austin, TX 78745

Previously served the Brazos River Authority from 2000 to 2005, first as Chief Financial Officer and then as Regional Manager for the Lower Brazos Basin. From 1992 through 1999, she served as Director of Finance and Administration for the City of Georgetown; from 1987 - 1992 served as Finance Director for the Texas Water Development Board; and Ernst & Young prior to 1987. Serves the Government Finance Officers Association of Texas as a member of the Program Development Committee, with past service including the GFOAT Board, GFOAT Region Director and chair of the GFOAT Membership Committee. Education: B.B.A. in Accounting from Texas Tech University.

*Advisory Board Members are elected annually by the Participants. See discussion under caption "Election and Duties of TexasTERM Advisory Board."

Participants

Cities/Towns

City of Alamo Heights
City of Alice
City of Austin
City of Azle
City of Beaumont
City of Bedford
City of Boerne
City of Bryan
City of Burleson
City of Cedar Hill
City of Corpus Christi
City of Dalhart
City of El Paso
City of Georgetown
City of Gonzales
City of Haltom City
City of Hillsboro
City of Kennedale
City of Killeen
City of McKinney
City of New Braunfels
City of Pottsboro
City of Rogers
City of University Park
City of Victoria
City of Watauga
Town of S. Padre Island

School Districts

Abilene ISD
Academy ISD
Alamo Heights ISD
Austin ISD
Banquette ISD
Bellville ISD
Blooming Grove ISD
Brownfield ISD
Burnet CISD
Carrizo Springs ISD
Carroll ISD
China Spring ISD
Clifton ISD
Connally ISD
Crowley ISD
Dangerfield-Lone Star
ISD
Ector ISD
El Paso ISD

School Districts (cont)

Elgin ISD
Evadale ISD
Ferris ISD
Frenship ISD
Godley ISD
Goose Creek ISD
Graham ISD
Granbury ISD
Greenville ISD
Hamilton ISD
Holliday ISD
Hutto ISD
Industrial ISD
Jarrell ISD
Kermit ISD
Killeen ISD
La Vega ISD
La Vernia ISD
Lackland ISD
Lake Dallas ISD
Lake Travis ISD
Lake Worth ISD
Lamar CISD
Laredo ISD
Lewisville ISD
Lockhart ISD
Lubbock ISD
Lumberton ISD
Mason ISD
Navasota ISD
North East ISD
Northside ISD
Olney ISD
Ore City ISD
Palestine ISD
Pflugerville ISD
Ponder ISD
Poolville ISD
Robinson ISD
Rockwall ISD
Round Rock ISD
San Angelo ISD
Schertz-Cibolo-Universal
City ISD
Seguin ISD
Seminole ISD
Sherman ISD
Snyder ISD

School Districts (cont)

Somerset ISD
South San Antonio ISD
Stanton ISD
Stephenville ISD
Tyler ISD
United ISD
Vernon ISD
Waco ISD
West ISD
Wichita Falls ISD
Wylie ISD

Universities/Colleges

Austin Community
College
Central Texas College
El Paso Community
College
Frank Phillips Jr. College
McLennan Community
College
Midland Community
College
Stephen F. Austin State
University
University of North
Health Science Center
University of North Texas
University of North Texas
System

Counties

Bastrop County
Galveston County
San Patricio County
Travis County

Special Districts/Other

Brazos River Authority
Brownsville Public
Utilities Board
Capital Metro Trans.
Authority
Johnson County Special
Utility District
Lynn County Hospital
District
New Braunfels Utilities

Special Districts/Other
(cont'd)

Region XIII, ESC

San Antonio River
Authority

Travis County Hospital
District

Wells Fargo Bank, NA as
trustee for Laredo ISD

West Texas Centers for
MHMR

West Travis Co MUD #3

Advisory Board Member