

Texas
CLASS[®]



Annual Report

June 30, 2010

(With report of independent auditors within)

Chairman's Letter

October 6, 2010

To the Participants of Texas CLASS

On behalf of the Texas CLASS Advisory Board and Board of Trustees, I am pleased to present the annual financial statements for the Texas Cooperative Liquid Assets Securities System Trust (CLASS) for the period ending June 30, 2010.

Over the past two years, the uncertainty and instability surrounding the United States economy has been unprecedented. Local Government Investment Pools (LGIPs) as well as the fixed income markets as a whole have felt the pressures of this unstable environment. Yet Texas CLASS, having incurred no losses in its portfolio, has continued to be an optimal cash investment option for local governments in the state of Texas. As you will note in this report, the pool has maintained the value of \$1.00 per share. Texas CLASS has therefore maintained its commitment to safety and liquidity while also earning an AAAM rating by Standard & Poor's, the highest such rating assigned to principal stability government investment pools.

It is our opinion that the quality and values of the Texas CLASS product separates us from other cash investment programs in the state of Texas. Safety and liquidity are our paramount values. Texas CLASS offers an expert client service team, a convenient, user friendly online transaction system and a variety of other fine services, including a competitive yield. But from the Board's perspective, the most telling fact is that for over 14 years CLASS has preserved the principle and interest of the public's funds without incident. In an era of failing and/or federally propped-up financial institutions, the Board's primary concern is maintaining and enhancing the safeguards that over the course of the past two decades have made CLASS so effective:

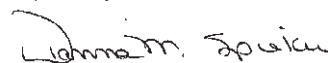
- **Policy Driven:** Your program's assets are managed in compliance with specific investment guidelines and policies established by the Texas CLASS Board of Trustees that are, on occasion, even more conservative than the applicable state investment laws. Program assets may only be held in investments that are permissible under Texas state law. These permitted investments are considered to be appropriate for public funds because they have a high degree of safety and liquidity.
- **Asset Quality:** Texas CLASS only invests in short-term, high quality fixed income securities. These securities are always rated in the highest short-term rating category by one or more of the Nationally Recognized Statistical Rating Organizations ("NRSROs"). These

securities are the property of Texas CLASS Participants and held in safekeeping with the custodian, Wells Fargo Bank, N.A. These securities are tradable on an active secondary market.

- **Credit Research:** Permitted credits (CP or ABCP) are subject to extensive and proprietary analytics by Cutwater Asset Management, the CLASS administrator. All credit exposure is vetted by Cutwater's dedicated credit and risk management team. The purchase list is then approved by the Board of Trustees. Purchases can only be made from the most recently approved list.
- **Shareholder Governance:** Texas CLASS is governed by a shareholder elected Board of Trustees that approves investment parameters and ensures that they are in compliance with Board policies and Texas state law. The Board sets the direction of the program and works closely with the program administrator in order to provide the best possible guidance for the program. The Board strives to maintain a high level of transparency in order to provide a wealth of information to the shareholders of Texas CLASS.
- **Professional Management:** The Board employs Cutwater Asset Management, one of the nation's leaders in government investment pool administration and portfolio management services, to manage CLASS. Cutwater's subsidiary, Cutwater Investor Services Corp., a Securities and Exchange Commission registered investment advisor, serves as the administrator. Cutwater has more than 20 years of experience managing programs similar in nature to Texas CLASS.

Both the Advisory Board and the Board of Trustees are grateful to all of the shareholders in Texas CLASS for their continued trust in the program. As we begin another fiscal year, we believe that the program is well positioned for continued success. On behalf of both Boards we wish to thank you for your business and look forward to working with you all in the coming year.

Respectfully,



Dianna Spieker
Board of Trustees Chair
Texas CLASS



Report of Independent Auditors

To the Advisory Board and Participants of
Cooperative Liquid Assets Securities System – Texas

In our opinion, the accompanying statement of net assets, and the related statement of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Cooperative Liquid Assets Securities System - Texas (hereafter referred to as "Texas CLASS") at June 30, 2010, the results of operations for the year then ended and the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of Texas CLASS' management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at June 30, 2010 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Denver, CO
October 6, 2010



STATEMENT OF NET ASSETS — June 30, 2010

Investments, at value	Principal Amount	Coupon Rate	Maturity	Effective Yield	Market Value
Repurchase Agreements (7%)*					
Wells Fargo Bank, N.A. (Collateralized by Fannie Mae Mortgage Backed Securities with coupon rates between 5.50% and 6.00%, and maturing between 04/01/36 and 07/01/38.) Market Value: \$138,409,340.	\$135,695,432	0.19%	07/01/10	0.19%	\$ 135,695,432
(Cost of \$135,695,432)					135,695,432
Certificate of Deposits (31%)*					
JPMorgan Chase & Co (7%)*	125,000,000	0.35	07/01/10	0.35	125,000,000
Compass Bank (12%)*	250,000,000	0.40	07/01/10	0.40	250,000,000
Wells Fargo Bank, N.A. (12%)*	250,000,000	0.60	07/01/10	0.60	250,000,000
(Cost of \$625,000,000)					625,000,000
U.S. Government Agency Securities (19%)*					
Freddie Mac Notes (4%)*	30,000,000	Disc. **	07/12/10	0.18	29,998,395
	50,000,000	0.35 - Var.	04/01/11	0.25	50,058,950
Fannie Mae Notes (2%)*	50,000,000	Disc. **	08/05/10	0.54	49,974,147
Federal Home Loan Bank Notes (9%)*	30,000,000	0.29 - Var.	07/09/10	0.27	30,000,000
	50,000,000	0.40	12/28/10	0.51	49,973,901
	35,000,000	0.61	05/16/11	0.61	35,000,000
	50,000,000	0.25 - Var.	05/27/11	0.19	49,978,250
	20,000,000	0.33 - Var.	05/27/11	0.27	20,000,000
Federal Farm Credit Bank (4%)*	20,000,000	0.15 - Var.	09/21/10	0.15	19,999,094
	30,000,000	0.25 - Var.	10/18/10	0.25	30,000,000
	30,000,000	0.15 - Var.	07/01/11	0.19	30,000,000
(Cost of \$394,983,541)					394,982,737

* Denotes percentage of net assets

** Denotes securities purchased at a discount from par.

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

STATEMENT OF NET ASSETS — June 30, 2010

Investments, at value (cont.)	Principal Amount	Coupon Rate	Maturity	Effective Yield	Market Value
Commercial Paper (45%)*					
Citigroup Funding Inc.	\$40,000,000	Disc. **	07/01/10	0.32%	\$ 39,999,760
UBS Finance (DE) LLC	45,000,000	Disc. **	07/06/10	0.38	44,998,515
CRC Funding LLC	50,000,000	Disc. **	07/08/10	0.30	49,997,000
Ciesco LP	50,000,000	Disc. **	07/12/10	0.30	49,995,500
Ranger Funding Co LLC	30,000,000	Disc. **	07/15/10	0.31	29,996,640
Ciesco LP	50,000,000	Disc. **	07/19/10	0.30	49,992,900
Surrey Funding Corp.	30,000,000	Disc. **	07/20/10	0.40	29,994,660
Societe Generale North America	40,000,000	Disc. **	07/30/10	0.32	39,988,680
UBS Finance (DE) LLC	45,000,000	Disc. **	08/24/10	0.54	44,971,830
Windmill Funding Corp.	40,000,000	Disc. **	09/07/10	0.35	39,963,440
Societe Generale North America	50,000,000	Disc. **	09/10/10	0.55	49,952,000
Royal Bank of Scotland PLC	50,000,000	Disc. **	09/13/10	0.53	49,948,950
Citigroup Funding Inc.	50,000,000	Disc. **	09/14/10	0.42	49,947,950
General Electric Capital Corp.	50,000,000	Disc. **	09/14/10	0.45	49,966,200
Windmill Funding Corp.	50,000,000	Disc. **	09/15/10	0.35	49,946,400
Bank of America Corp.	25,000,000	Disc. **	09/16/10	0.34	24,982,675
Citigroup Funding Inc.	25,000,000	Disc. **	09/23/10	0.38	24,969,125
ING US Funding LLC	25,000,000	Disc. **	09/23/10	0.34	24,969,125
Royal Bank of Scotland PLC	45,000,000	Disc. **	10/12/10	0.48	44,924,985
CRC Funding LLC	25,000,000	Disc. **	10/13/10	0.39	24,974,850
ING US Funding LLC	45,000,000	Disc. **	10/22/10	0.42	44,913,915
Bank of America Corp.	45,000,000	Disc. **	10/25/10	0.42	44,946,630
(Cost of \$904,392,337)					904,341,730
Total Investments in Securities					2,060,019,899
(Cost of \$2,060,071,310)					
Other Assets					
Accrued Interest Receivable					294,275
Total Assets					2,060,314,174
Less Liabilities					
Administration and Investment Advisory Fees Payable for Investment Security Purchased					227,155
					30,000,000
Net Assets					\$2,030,087,019
Components of Capital					
Capital (Par Value)					2,030,138,430
Unrealized (Depreciation) on Investments					(51,411)
Net Assets					\$2,030,087,019
Outstanding Participant Share					2,030,138,430
Net Asset Value per Share					\$1.000

* Denotes percentage of net assets

** Denotes securities purchased at a discount from par.

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



STATEMENT OF OPERATIONS — (Year Ended June 30, 2010)

Investment Income	\$ 7,981,171
Expenses:	
Administration and Investment Advisory Fees	<u>2,268,234</u>
Net Investment Income	<u>5,712,937</u>
Change in Net Unrealized (Depreciation) on Investments	<u>(599,171)</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 5,113,766</u>

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





STATEMENTS OF CHANGES IN NET ASSETS — (Years Ended June 30, 2010 and June 30, 2009)

	<u>2010</u>	<u>2009</u>
From Investment Activities:		
Net Investment Income and Dividends	\$ 5,712,937	\$ 29,066,179
Net Change in Unrealized Appreciation (Depreciation) on Investments	(599,171)	1,404,744
Realized Gain on Investments	<u>—</u>	<u>124,370</u>
Net Increase in Net Assets Resulting from Operations	5,113,766	30,595,293
Distributions to Participants from Net Investment Income	(5,712,937)	(29,066,179)
Distributions to Participants from Net Realized Gain	—	(124,370)
Net Increase (Decrease) in Net Assets from Share Transactions	<u>69,455,411</u>	<u>(432,449,340)</u>
Net Increase (Decrease) in Net Assets	68,856,240	(431,044,596)
Net Assets:		
Beginning of Period	<u>1,961,230,779</u>	<u>2,392,275,375</u>
End of Period	<u>\$2,030,087,019</u>	<u>\$1,961,230,779</u>

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



Notes to Financial Statements

June 30, 2010

Note 1. Description of CLASS

The Cooperative Liquid Assets Securities System – 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. CLASS is available for investment by Texas municipalities, school districts and public agencies. The purpose of CLASS is to enable such entities to cooperate in the investment of their available funds.

Note 2. Significant Accounting Policies

The following significant accounting policies are consistently followed by CLASS in the preparation of the financial statements. The preparation of financial statements in accordance with generally accepted accounting principles 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.

Valuation of investments

Portfolio securities are valued at amortized cost, which approximates market value. Any shortfall is covered up to amounts recoverable under a letter of credit arrangement (see Note 4). The amortized cost method involves valuing a security at its cost on the date of purchase and thereafter amortizing any discount or premium to maturity.

Fair value measurements


The CLASS adopted the FASB issued “Fair Value Measurements and Disclosures” (the “Fair Value Statement”), effective January 1, 2008. In accordance with the Fair Value Statement, fair value is defined as the price that the CLASS would receive upon selling an instrument in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. The Fair Value Statement established a three-tier hierarchy to maximize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Various inputs are used in determining the value of the CLASS’s investments. These inputs are summarized in the three broad levels listed below.

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the CLASS’s own assumptions in determining the fair value of investments)

The valuation techniques used by the CLASS to measure fair value during the year ended June 30, 2010 maximized the use of observable inputs and minimized the use of unobservable inputs. The inputs or methodology used for valuing securities are not an indication of risks associated with investing in those securities. The following is a summary of the inputs used as of June 30, 2010 in valuing the CLASS’s investments carried at value:



Notes to Financial Statements continued

June 30, 2010

Investments in Securities at Value*	Valuation Inputs			Total
	Level 1	Level 2	Level 3	
Repurchase Agreements	\$ 135,695,432	\$ –	\$ –	\$ 135,695,432
Certificate of Deposits	625,000,000	–	–	625,000,000
U.S. Government Agency Securities	394,982,737	–	–	394,982,737
Commercial Paper	–	904,341,730	–	904,341,730
Total	<u>\$1,155,678,169</u>	<u>\$904,341,730</u>	<u>\$ –</u>	<u>\$2,060,019,899</u>

* For the year ended June 30, 2010, the CLASS did not have significant unobservable inputs (Level 3) used in determining fair value. Therefore, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

Investment in securities

Investments may be categorized as follows: (1) insured or registered or for which the securities are held by the Trust or the custodian bank in the 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 the 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 the CLASS's name.

Investment securities are categorized to give an indication of the level of risk, including credit risk. All investments of the CLASS, including the repurchase agreements described in note 2, are classified in Category 1 or 2.

Accounting for investments

Security transactions are accounted for on the trade date. Realized gains and losses on sales of investments are calculated on an identified cost basis. Interest income, including any amortization of discount or premium, is recorded on an accrual basis.

Credit risk of investments

CLASS limits its investments in any issuer to the top two ratings issued by nationally recognized statistical organizations.

Concentration risk

CLASS' policy is to limit its exposure to any one non-government issuer to 5%.

Income taxes

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

Distributions to participants

Net investment income, adjusted for net realized gains or losses, is declared and distributed to participants daily. Such amounts are automatically reinvested the following business day.



Notes to Financial Statements continued

June 30, 2010

Repurchase agreements

CLASS enters into repurchase agreements whereby the seller of the security agrees to repurchase that security at a later date at a fixed price. Generally, the effect of such a transaction is that CLASS can invest its excess cash balances at competitive interest rates. CLASS places no limit on the amount that it may invest in any one repurchase agreement.

The custodian of CLASS, for the benefit of the participants, takes possession of the purchased securities in repurchase agreements as collateral. It is the policy of CLASS to value the collateral daily on a mark-to-market basis to determine that the value, including accrued interest, is at least equal to 102% of the repurchase price as required by the Trust Agreement. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by CLASS may be delayed or limited.

Note 3. Management

On February 8, 2010 the administrator for CLASS, MBIA Municipal Investors Service Corporation ("MBIA-MISC") changed its name to Cutwater Investor Services Corp. ("CISC"). This name change has no impact on the operations of the CLASS. CLASS has an agreement with CISC to act as investment adviser and administrator. As investment adviser, subject to the supervision of the participants, CISC advises on permitted investments, executes securities transactions, provides advice to the participants on matters related to investments as may be requested by such participants and prepares such information as may be required in the implementation of the valuation procedures and the computation of the joint value and the participants' balances in CLASS, and prepares records and reports required by the Trust Agreement or applicable laws. As administrator, subject to the supervision of the participants, CISC provides administrative services including, but not limited to, accounting and related services, net asset value calculation and participant account reporting.

CISC is entitled to a fee payable monthly up to 0.50% with CLASS incurring fees between 0.096 % to 0.13% of average daily net asset value. For the year ended June 30, 2010, CISC received fees equaling \$2,268,234 for the year. All other expenses related to the operations of CLASS are paid by CISC.

Note 4. Letter of Credit

CISC and Cutwater Asset Management Corp. have established a letter of credit for the benefit of CLASS with Deutsche Bank. The letter of credit provides funds for drawdowns to the extent of net realized losses on the sale of investments or when the market value of the portfolio is less than amortized cost as described in the Trust Agreement. The letter of credit, which is in effect so long as CISC is a party to the Trust Agreement, amounted to \$5,000,000 at June 30, 2010. Any changes in the amount of the letter of credit are subject to review by the custodian. At June 30, 2010, amortized cost approximated market value and the letter of credit was not used during the year.

Note 5. Contingencies and Commitments

In the course of business, CLASS enters into contracts that contain representations and warranties and which provide general indemnifications. CLASS' exposure, if any, under these arrangements is unknown, as this would involve future claims that may be made against CLASS that have not yet occurred. To date, no claims have been brought against CLASS for any of these provisions. Based on experience, CLASS expects the risk of liability to be remote.

Notes to Financial Statements continued

June 30, 2010

Note 6. Share Transactions

Transactions in shares during the twelve months ended June 30, 2010 and 2009 for the Texas CLASS portfolio were as follows:

	<u>2010</u>	<u>2009</u>
Shares sold	5,145,956,056	4,298,527,543
Shares issued on reinvestment of distributions	5,706,232	29,029,301
Shares redeemed	<u>(5,082,206,877)</u>	<u>(4,760,006,184)</u>
Net increase / decrease	<u>69,455,411</u>	<u>(432,449,340)</u>

Note 7. Financial Highlights

for a Share Outstanding Throughout Each Period

	<u>Years Ended</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
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	\$0.003	\$0.014	\$0.042	\$0.053	\$0.042
Net Asset Value - End of Period	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
TOTAL RETURN	0.275%	1.372%	4.249%	5.280%	4.160%
RATIOS					
Net Assets-End of period (\$000 Omitted)	\$2,030,087	\$1,961,231	\$2,392,275	\$2,902,111	\$2,049,551
Ratio of Expenses to Average Net Assets	0.106%	0.096%	0.088%	0.060%	0.070%
Ratio of Net Investment Income to Average Net Assets	0.268%	1.379%	4.249%	5.280%	4.210%

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 the Trust's financial statements. Management has determined that there were no material events that would require disclosure in Trust's financial statements.



Board of Trustees

Camelia Browder
City of DeSoto

Tony Fuller
Brownsville ISD

Mike Hagar
Alamo Heights ISD

Roger Roecker
City of Friendswood

Dianna Spieker
Tom Green County

Darlene Williams
Dallas ISD

Steve Williams
City of Conroe

Advisory Board

Mark Burton
Municipal Accounts & Consulting, L.P.

Tony Sekaly
Qualified Non-Participant

Billy Walker
Randolph Field ISD

Management

Administrator
Cutwater Investor Services Corp. (CISC)

Investment Advisor
Cutwater Investor Services Corp. (CISC)

Custodian
Wells Fargo Bank, N.A.

Professional Services

Independent Auditors
PricewaterhouseCoopers, LLP

Legal Counsel
Vinson and Elkins, LLP

Rating



Managed by:

CUTWATER ASSET MANAGEMENT



815-A Brazos Street
Suite 345
Austin, TX 78701-9996
800.707.6242
www.txclass.com

