

**TEXAS LOCAL GOVERNMENT
INVESTMENT POOL**

Basic Financial Statements

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

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Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report

The Honorable Susan Combs
Comptroller of Public Accounts of the State of Texas

We have audited the accompanying statements of pool net assets of the Texas Local Government Investment Pool (TexPool), an investment trust fund of the State of Texas, as of August 31, 2008 and 2007, and the related statements of changes in pool net assets for the years then ended. These financial statements are the responsibility of TexPool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 TexPool's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the TexPool investment trust fund and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Local Government Investment Pool investment trust fund as of August 31, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 17, 2008
Austin, Texas

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TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

The Texas Local Government Investment Pool's ("TexPool") management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of TexPool's operations for the years ended August 31, 2008 and 2007.

Overview of the Financial Statements and condensed Financial Information

This annual financial report consists of two parts:

- Management's discussion and analysis
- Basic financial statements

Statement of Pool Net Assets

Statement of Changes in Pool Net Assets

Notes to the Financial Statements

The Statement of Pool Net Assets presents the financial position of TexPool at the end of the fiscal year and includes all assets and liabilities of TexPool. The difference between total assets and total liabilities – net assets – equals the sum of all participants' interest in TexPool. At August 31, net assets were calculated as follows:

	<u>2008</u>	<u>2007</u>
Total assets	\$ 17,553,962,003	16,471,088,856
Total liabilities	<u>(35,778,191)</u>	<u>(326,096,455)</u>
Net assets	<u>\$ 17,518,183,812</u>	<u>16,144,992,401</u>

The average monthly balance in TexPool grew to \$22.6 billion in February 2008 up from \$16.2 billion in September 2007, in what is a typical seasonal pattern for the pool. The average monthly balance as of August 31, 2008 was \$18 billion.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

The Statement of Changes in Pool Net Assets presents the activity within the Net Asset balance for the year ended. Significant activity accounts include net investment income, earnings distributions, and net contributions/withdrawals by participants. The changes in net assets for the years ended August 31, 2008, 2007 and 2006 were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net investment income	\$ 651,452,717	852,622,420	612,817,300
Earnings distributions	(651,475,338)	(852,620,795)	(612,841,226)
Net contributions/withdrawals	1,373,191,411	3,621,562,582	845,248,027
Net change in liability	<u>22,621</u>	<u>(1,625)</u>	<u>23,926</u>
Net increase in net assets	<u>\$ 1,373,191,411</u>	<u>3,621,562,582</u>	<u>845,248,027</u>

Management fees charged to operate TexPool were maintained at five basis points (0.05%) for 2006 and revised January 1, 2007 to become 4.85 basis points (0.0485%). The fee at August 31, 2008 was 4.85 basis points (0.0485%).

The notes to the financial statements provide narrative explanations of accounting policies and additional data needed for full disclosure as required by accounting principles generally accepted in the United States of America.

Performance

TexPool operates like a Rule 2a-7 money market fund consistent with the Securities and Exchange Commission rules. TexPool's investments are limited by state law to high-quality obligations with limited maximum and average maturities, which minimizes market and credit risks. As a result of these restrictions, TexPool's investments earn a yield that is closely linked to the Federal Funds rate (Fed rate). The short maturity structure also means that TexPool's yield changes fairly quickly when the Federal Open Market Committee (FOMC) pronounces any change in the Fed rate. The goal in managing the TexPool portfolio is to lag the Fed rate as short as possible when rates rise, and as long as possible when rates fall. This is achieved by managing the average life of the assets in TexPool.

The Federal Reserve (Fed) eased monetary policy by 325 basis points over the reporting period ended August 31, 2008. As a result, the yield for TexPool followed the Federal Funds Target rate downward, but on a gross basis continued to outperform the target rate due to the positions in fixed and floating rate securities held within the pool.

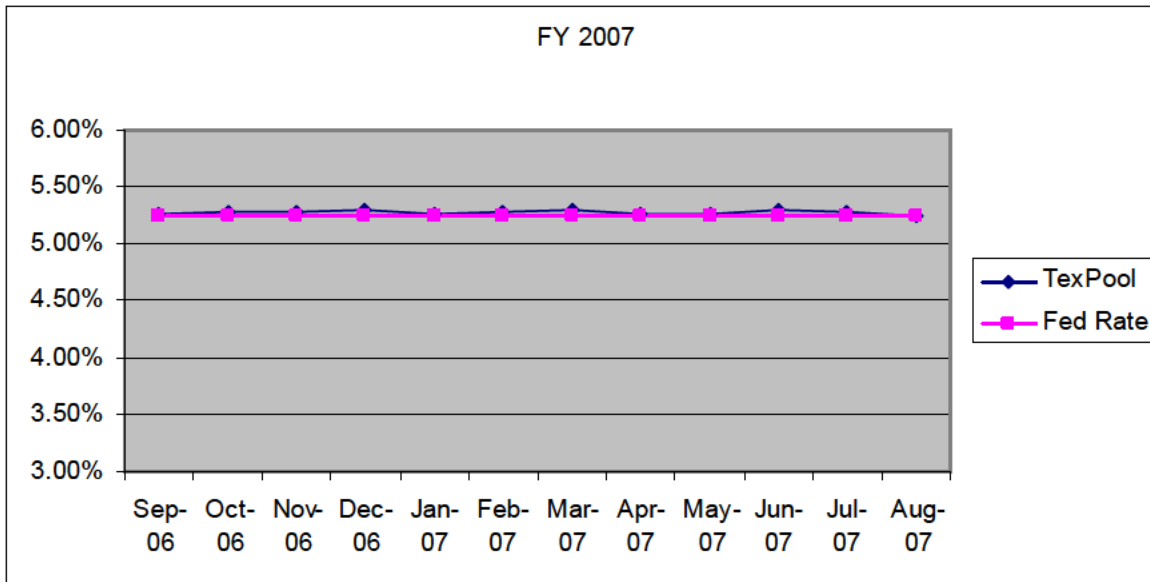
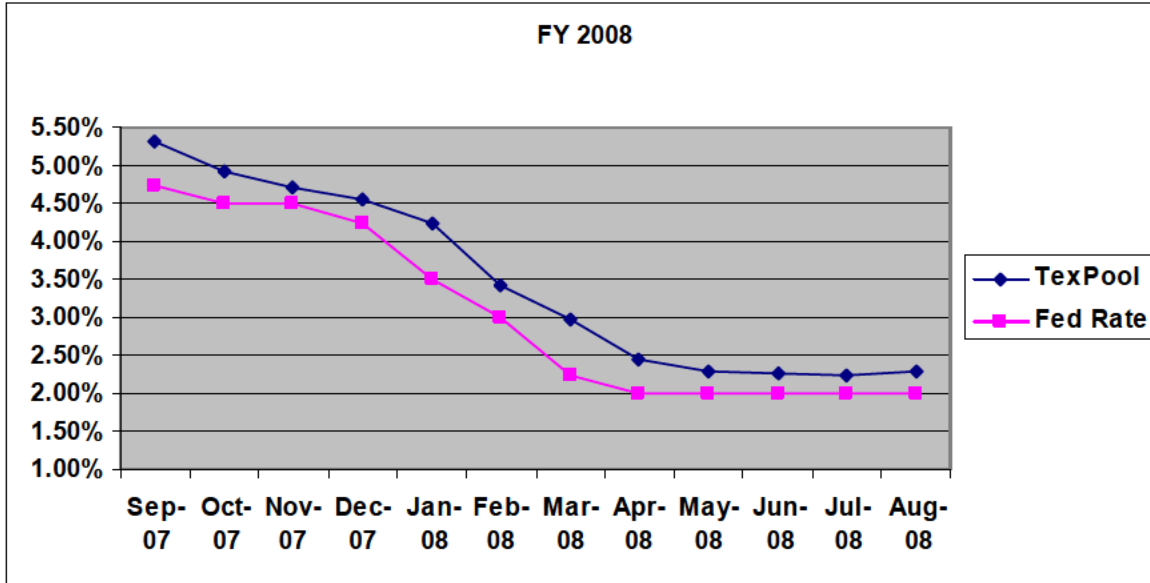
The Federal Reserve kept the Fed Funds rate on hold at 5.25% throughout the fiscal year-ended August 31, 2007. Despite a constant rate, the outlook for interest rates shifted dramatically throughout the year. The following graph reflects the average monthly rates for the pool and demonstrates that, on a gross basis, TexPool kept pace with the Fed Funds target rate during the fiscal year 2007. On a net basis, TexPool outperformed the target rate over this time period.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

TexPool vs. Fed Funds Rate



TEXAS LOCAL GOVERNMENT INVESTMENT POOL

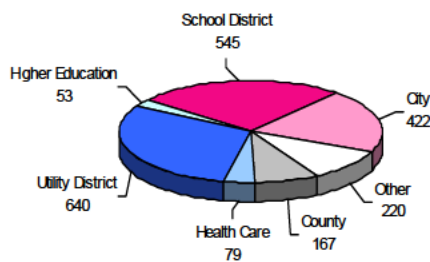
Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

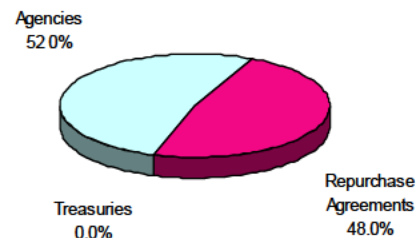
Additional information about the TexPool portfolio and its participants is reflected in the following graphics, which are available at www.texpool.com :

TexPool Information as of August 31, 2008

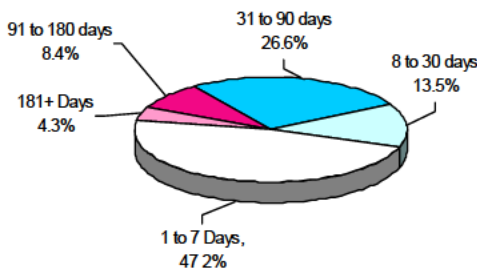
Number of Participants by Account Type



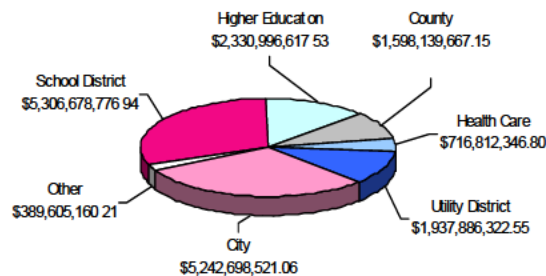
Portfolio by Type of Investment



Portfolio by Maturity



Balance by Account Type



TexPool Information as of August 31, 2008

The Federal Reserve eased monetary policy by 325 basis points over the reporting period ended August 31, 2008, lowering the Fed Funds target from 5.25% to 2% in seven different actions over the 12-month period. The Fed supplemented its monetary policy actions with the creation of a number of facilities aimed at easing the strains in the financial markets. Yield movements on 1 year agency discount notes reflected the unusual events of the fiscal year. Beginning the period at 4.82%, the yield on this security dropped to a low of 1.54% right around the time of the collapse of the investment bank Bear Stearns. The yield subsequently climbed to end the reporting period at 2.99%.

In July 2008, troubles at Fannie Mae and Freddie Mac as a result of the difficulties in the housing markets prompted the Federal Reserve to open up discount window access to the two Government Sponsored Enterprises (GSE's), and also prompted the U.S. Treasury to propose backstop liquidity and capital facilities to be put into place to support the two entities. In spite of the move to more explicit support by the Federal government, yields on agency securities remained elevated as credit market concerns kept investors on edge. As a result of what

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

appeared to be attractive value in this sector, the average maturity target range of TexPool was extended from a range of 35 to 45 days to a range of 45 to 55 days, in order to take advantage of these opportunities. Approximately 48% of the portfolio was invested in repurchase agreements, primarily on an overnight basis, as of August 31, 2008. Repurchase agreements for the pool are done with high quality counterparties, and are collateralized at least 102% with U.S. Treasury or U.S. Government agency securities. The remainder of the portfolio was invested in U.S. Government agency securities, either fixed rate or floating rate in nature. As of August 31, 2008, 29% of the pool was invested in securities issued by the Federal Home Loan Bank System, 15% in securities issued by Fannie Mae, and 8% in securities issued by Freddie Mac.

TexPool Information as of August 31, 2007

With the Fed Funds target rate unchanged throughout the period, yields on short-term U.S. government money market securities were driven by changes in market sentiment regarding the economy and the outlook for inflation, and what these might mean for the course of monetary policy. The yield on 1 year agency discount notes traded mostly within a range of 5% to 5.3% throughout the majority of the reporting period, before dropping to a low of 4.6% in mid August amid concerns over the effect that sub-prime lending turmoil would have on the economy. The yield ended the reporting period at 4.8%.

In early October, the average maturity target range of the core asset base of the pool was extended from a range of 30 to 40 days to a range of 35 to 45 days. This move reflected the expectation that the Fed would keep monetary policy unchanged for several months. Approximately 80% of the pool's investments were in repurchase agreements as of August 31, 2007, up slightly from 78% at the beginning of the period. The remainder of the portfolio as of August 31, 2007 was invested in fixed or floating rate agency securities. Purchases were concentrated throughout the reporting period in short-term repurchase agreements and floating rate securities. One year fixed rate or callable agency securities were added when the market was priced attractively relative to anticipated Fed actions.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Statements of Pool Net Assets

August 31, 2008 and 2007

Assets	2008	2007
Investments, at amortized cost (fair value of \$17,531,078,466 in 2008 and \$16,429,628,693 in 2007) (note 3):		
Securities purchased under agreement to resell	\$ 8,409,949,181	13,182,848,594
U.S. government agency securities	9,125,098,134	3,245,780,684
	17,535,047,315	16,428,629,278
Accrued interest receivable	18,914,619	37,664,476
Cash (note 3)	69	4,795,102
Total assets	17,553,962,003	16,471,088,856
Liabilities		
Trades pending settlement	-	249,982,750
Amounts payable to participants	34,978,871	75,340,000
Accounts payable	48,236	-
Management fees reserved for operating expenses (note 2)	751,084	773,705
Total liabilities	35,778,191	326,096,455
Net assets held in trust for pool participants	\$ 17,518,183,812	16,144,992,401

See accompanying notes to financial statements.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Statements of Changes in Pool Net Assets
For the Years Ended August 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Additions:		
Investment income:		
Interest income	\$ 660,783,911	860,561,877
Expenses:		
Management fees and expenses (note 2)	<u>(9,331,194)</u>	<u>(7,939,457)</u>
Net investment income	<u>651,452,717</u>	<u>852,622,420</u>
Earnings paid to investors from net investment income	(651,475,338)	(852,620,795)
Net change in management fees reserved for operating expenses (note 2)	22,621	(1,625)
Net increase in participant investments	<u>1,373,191,411</u>	<u>3,621,562,582</u>
Net increase in net assets	1,373,191,411	3,621,562,582
Net assets:		
Beginning of period	<u>16,144,992,401</u>	<u>12,523,429,819</u>
End of period	<u><u>17,518,183,812</u></u>	<u><u>16,144,992,401</u></u>

See accompanying notes to financial statements.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) *Background and Reporting Entity*

On September 1, 1989, local government investment pools became authorized investments for the majority of public entities in Texas. The Interlocal Cooperation Act was amended by the 71st Texas Legislature to facilitate the creation of local government investment pools in Texas. This act permits the creation of investment pools to which any political subdivision (local government) in Texas may delegate, by contract, the authority to make investments purchased with local investment funds and to hold legal title as custodian of the investment securities.

The Texas Legislature authorized the State Treasurer to incorporate a special-purpose trust company in 1986 called the Texas Treasury Safekeeping Trust Company (Texas Trust). The Texas Trust has direct access to the services of the Federal Reserve Bank and performs other trust company activities. It is specifically authorized to manage, disburse, transfer, safekeep, and invest public funds and securities.

The Texas Trust created the Texas Local Government Investment Pool (TexPool) as a public funds investment pool. Eligible participants include, but may not be limited to, incorporated cities, counties, villages, certain types of water districts, school districts, junior college districts, community college districts, and certain other special districts in the State of Texas. TexPool began operations on December 6, 1989. On September 1, 1996, the operations of the State Treasury, including the Texas Trust and TexPool, were merged with the State Comptroller of Public Accounts (State Comptroller).

The administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated) and Lehman Brothers, Inc. (Lehman) under an agreement with Texas Trust, effective April 8, 2002, renewed on November 9, 2007.

Federated is the investment manager and State Street Bank and Trust is the custodian for TexPool. Federated provides fund accounting and transfer agency services to TexPool. Effective July 1, 2004, Federated outsourced the transfer agent function to Boston Financial Data Services. Lehman is the administrator for the TexPool program providing Participant Services and Marketing functions to TexPool participants. Lehman is the participant contact point for account maintenance, assistance with transactions and other administrative information.

TexPool is established as an investment trust fund with the Texas Trust as trustee, segregated from all other trustors, investments, and activities of the Texas Trust. Only local governments having contracted to participate in TexPool (Participants) have an undivided beneficial interest in its pool of assets. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company. TexPool is operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940.

These financial statements include only the operations of TexPool. The State Comptroller has established an eight member TexPool Advisory Board (Advisory Board) composed equally of Participants in the TexPool portfolios (TexPool and TexPool Prime) and other persons who do not have a business relationship with TexPool. Advisory Board members review TexPool's investment policy and management fee structure.

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Notes to Financial Statements

August 31, 2008 and 2007

The State Comptroller exercises oversight responsibility over all other aspects of TexPool including investment and accounting activity, development plans, etc. Oversight responsibility is demonstrated by financial interdependency, ability to significantly influence operations, designation of management and accountability for fiscal matters. As a result, the financial statements of TexPool are included in the financial statements of the Texas Trust as an investment trust fund, which are ultimately included in the financial statements of the State of Texas.

(b) Basis of Accounting

The accounting and reporting policies of TexPool relating to the accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments. Generally accepted accounting principles for state and local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) in its publication GASB Statement 1 entitled *Authoritative Status of NCGA Pronouncements and AICPA Industry Auditing Guide*, and all subsequent GASB statements and interpretations, as well as American Institute of Certified Public Accountants and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governments by GASB statements or interpretations.

As provided for in GASB Statement No. 34, the financial statements of TexPool are presented as a fiduciary fund type-investment trust fund. The economic resources measurement focus and accrual basis of accounting is followed as required by GASB Statement No. 34.

TexPool accounts for its operations on the accrual basis of accounting. Investment income is recorded when earned and expenses are recorded when incurred. Net investment income is allocated to Participant accounts monthly on a pro-rata basis. All gains and losses from the sale of securities are distributed among TexPool participants, and will be amortized over the remaining term to maturity of the liquidated securities. Participants may redeem their accounts at any time based on the previous day's balance of their account. Unrealized gains or losses are not allocated to Participant accounts.

Investments are carried at amortized cost, which approximates fair value, as provided for by Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments are priced daily and compared to TexPool's carrying value. If the ratio of the fair value of the portfolio of investments to the carrying value of investments is less than 0.995 or greater than 1.005, TexPool will sell investment securities, as required, to maintain the ratio at a point between 0.995 and 1.005.

(c) Expenses

Expenses applicable to all Participants, paid in the form of a management fee to Federated and Lehman, were allocated between all Participants as an adjustment to the daily investment yield so that only net investment income is credited to Participants accounts. The Advisory Board has the responsibility under the provisions of the TexPool Participation Agreement to approve any modifications or other amendments of the management fee structure.

TEXAS LOCAL GOVERNMENT INVESTMENT POOL

Notes to Financial Statements

August 31, 2008 and 2007

(2) Management Fees and Other Transactions With Affiliates

The Texas Trust, in order to recover its costs of operating TexPool, established a management fee for basic services provided to the Participants. Effective January 1, 2007, the fee was 4.85 basis points. Federated and Lehman earn 4.35 basis points (0.0435 percent) as their management fee and the Texas Trust earns one-half basis point (0.005 percent) as its management fee.

Under the current contract with Federated and Lehman, the management fee may not be raised for the duration of the contract, which has an initial term through August 31, 2009 and is renewable annually through August 31, 2012.

Prior to the inception of the administrative and investment services contracts as described above, TexPool reimbursed the Texas Trust for the actual cost of the operations of TexPool, which was calculated on an annual basis. Any direct charges such as professional fees were recorded as a credit to a reserve for operating expenses and management fees refundable to Participants. In accordance with a resolution of the Advisory Board dated March 16, 1994, the reserve for operating expenses was set at \$1,000,000. As of August 31, 2008 and 2007, the reserve amount of \$751,084 and \$773,705, respectively, was invested in securities purchased under an agreement to resell (Repurchase Agreement) which is an authorized investment per TexPool's investment policy. Investment earnings of \$25,615 and \$41,250 are included in the reserve account as of August 31, 2008 and 2007, respectively. Ultimately, the reserve for operating expenses and related investment earnings will be used for the operating benefit of TexPool. During 2008 and 2007, the Texas Trust expensed \$48,236 and \$39,625, respectively for charges for the benefit of TexPool which were paid from the management fees reserved for operating expenses account.

(3) Investments

Investments of TexPool are only those authorized by the Texas Public Funds Investment Act governing pools for local governments which was in effect as of and prior to August 31, 2008 and 2007, respectively. The portfolio may include the following:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
4. Other obligations, for which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or its agencies and instrumentalities;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by nationally recognized investment rating firms and having received a rating of not less than "A" or its equivalent;
6. Bonds issued, assigned, or guaranteed by the State of Israel;
7. Certificates of deposit issued by state and national banks domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas that are:

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Notes to Financial Statements

August 31, 2008 and 2007

- a. Guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Share Insurance Fund or its successor;
 - b. Secured by obligations as described in items 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage-backed securities that have a market value of not less than the principal amount of the certificates, but excluding mortgage-backed securities described by Section 2256.009(b) of the Texas Public Funds Investment Act; and
 - c. Secured in any other manner and amount provided by law for deposits of the investing entity.
8. Fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by item 1 above, pledged with a third party selected or approved by TexPool, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; and
 9. Such other investments as may be authorized by the Texas Public Funds Investment Act, Chapter 2256.

The above investments are the legally permitted investments; however, the TexPool Advisory Board has ratified an investment policy which further limits TexPool's portfolio to certain of the investments listed above. The investment policy does not allow for derivative securities, commercial paper, or certificates of deposit.

The State Comptroller approved the current TexPool investment policy effective August 2008, which has been reviewed by the TexPool Advisory Board. Under this investment policy, the following are authorized investments:

- Obligations of the United States, its agencies or instrumentalities, except for
 - Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
 - Obligations whose payments represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
 - Collateralized mortgage obligations that have a stated final maturity date greater than 10 years; and,
 - Collateralized mortgage obligations, the interest rate of which, is determined by an index that adjusts opposite to the changes in a market index.
- Fully collateralized repurchase and reverse repurchase agreements having a defined termination date, secured by any obligation of the United States, its agencies, or its instrumentalities, to include certain mortgage-backed securities of the United States. The repurchase and reverse repurchase agreements are placed only with a primary government securities dealers, or a state or national bank doing business in the State of Texas;
- Money market mutual funds which are no-load, regulated by the Securities and Exchange Commission and rated AAA by at least one nationally recognized investment rating firm.

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Notes to Financial Statements

August 31, 2008 and 2007

TexPool is designed to be highly liquid in order to give Participants immediate access to their account balance. Therefore, the weighted average maturity of the investments (calculated using the reset date for variable rate notes) of TexPool cannot exceed sixty days. However, it is Advisory Board policy to strive for full investment of all available balances. At August 31, 2008 and 2007, the approximate weighted average maturity of the portfolio was forty-four and thirty-five days, respectively.

Securities transactions are recorded on a trade date basis. Interest income, adjusted for amortization of premiums and accretion of discounts on investments, is accrued daily. Income to participants is accrued daily and distributions or reinvestment of the income is made monthly.

Securities purchased under agreements to resell (repurchase agreements) are treated as investments, are collateralized by negotiable and eligible government securities, and are carried at the amounts at which the securities were purchased as specified in the respective agreements.

Collateral on repurchase agreements is maintained in a segregated account by a third party custodian upon entering into the repurchase agreement. The collateral is marked to market daily to ensure its market value as being at least equal to 100 percent of the resale price of the repurchase agreement. The August 2008 investment policy states that collateral on repurchase agreements will be equal to at least 102 percent of the total market value of the repurchase agreements, including accrued interest.

A summary of investments and related fair values at August 31, 2008 and 2007 follows:

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Repurchase agreements	\$ 8,409,949,181	8,409,969,631	13,182,848,594	13,182,918,814
U.S. Government agency securities	9,125,098,134	9,121,108,835	3,245,780,684	3,246,709,879
Net investment position	<u>\$ 17,535,047,315</u>	<u>17,531,078,466</u>	<u>16,428,629,278</u>	<u>16,429,628,693</u>

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Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, TexPool would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. As of August 31, 2008 and 2007, all of TexPool's investments are held by the Federal Reserve or the custodian in TexPool's name. TexPool's bank balances are fully collateralized by Federal depository insurance. The amounts that exceed the Federal depository insurance coverage are collateralized by the institution holding the funds. At August 31, 2008 and 2007, TexPool had a cash balance of \$69 and \$4,795,102, respectively.

Credit Risk: The TexPool portfolio is designed and managed to ensure that it maintains its AAAM rating (or the equivalent) by a nationally recognized statistical rating organization. As of August 31, 2008 and 2007 TexPool investments in U.S. government securities and the underlying securities of the Repurchase Agreements were rated AAA by Standard and Poor's, Aaa by Moody's and AAA by Fitch.

Concentration of Credit Risk: Up to 100% of TexPool assets may be invested in government obligations of the United States, its agencies, or instrumentalities. However, no more than 60% of the portfolio may be invested in variable rate notes. Up to 100% of TexPool assets may be invested in direct repurchase agreements. However, no more than 25% of TexPool assets may be invested in term repurchase agreements and no more than 5% of TexPool assets may be invested in term repurchase agreements with maturities exceeding 90 days. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise. More than 5% of the TexPool investments are with the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. These investments are 29.32%, 7.56% and 15.18%, respectively, at August 31, 2008. TexPool had 8.71% with the Federal Home Loan Mortgage Corporation and 6.69% with the Federal Home Loan Bank at August 31, 2007.

Interest Rate Risk: TexPool is operated as a 2a-7-like pool. The weighted average maturity of the portfolio is limited to 60 days calculated using the reset date for variable rate notes ("VRNs") and 90 days or fewer using the final maturity date for VRNs, with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rate securities and 24 months for VRNs. The following schedule reflects the weighted average maturity by investment type and TexPool's portfolio as a whole:

Investment Type	Weighted Average	
	<u>Maturity (Days)</u>	
	2008	2007
Repurchase agreements	5	5
U.S. Government agency securities	81	157
TexPool's weighted average maturity	44	35

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Notes to Financial Statements

August 31, 2008 and 2007

(4) Subsequent Event

Lehman Brothers, Inc. is owned by Lehman Brothers Holding, Inc. which filed for Chapter 11 bankruptcy protection on September 15, 2008. The Texas Comptroller of Public Accounts notified Lehman that the marketing and client services contract provided by Lehman Brothers was being terminated effective October 17, 2008. The marketing and client services previously provided by Lehman Brothers, Inc. under the contract were transferred by the Texas Trust to Federated Investors, Inc.