

**TEXAS LOCAL GOVERNMENT  
INVESTMENT POOL PRIME**

Basic Financial Statements

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

# TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Statements of Pool Net Assets	7
Statements of Changes in Pool Net Assets	8
Notes to the Financial Statements	9



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 Prime (TexPool Prime), 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 Prime'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 Prime'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 Prime 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 Prime 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

*Padgett, Stratemann & Co., L.L.P.*

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

The Texas Local Government Investment Pool Prime's ("TexPool Prime") management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of TexPool Prime'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 Prime at the end of the fiscal year and includes all assets and liabilities of TexPool Prime. The difference between total assets and total liabilities – net assets – equals the sum of all participants' interest in TexPool Prime. At August 31, net assets were calculated as follows:

	<u>2008</u>	<u>2007</u>
Total assets	\$ 1,347,658,824	1,214,591,835
Total liabilities	<u>(2,765,479)</u>	<u>(5,809,041)</u>
Net assets	<u>\$ 1,344,893,345</u>	<u>1,208,782,794</u>

The average monthly balance in TexPool Prime grew to \$1.9 billion in February 2008 up from \$1.2 billion in September 2007. The average monthly balance as of August 31, 2008 was approximately \$1.4 billion.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### 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	\$ 54,985,419	65,072,659	47,763,294
Earnings distributions	(54,985,419)	(65,072,659)	(47,763,294)
Net contributions/withdrawals	<u>136,110,551</u>	<u>380,062,510</u>	<u>65,877,753</u>
Net increase in net assets	<u>\$ 136,110,551</u>	<u>380,062,510</u>	<u>65,877,753</u>

Management and administration fees to operate TexPool Prime are set at six and one-half points (0.065%). During fiscal year 2006, fees were waived on several occasions. The actual fee ranged from a high of eight and one-half basis points (0.085%) to zero basis points (0.000%). On January 1, 2007, the fee was revised and set at six and one-half basis points (0.065%). During fiscal year 2007, the fees were waived on various occasions. The actual fee ranged from a high of six and one-half basis points (0.065%) to one-half basis (0.005%). On August 31, 2007, the fee was six and one-half basis points (0.065%).

During fiscal year 2008, the fees were waived on various occasions. The actual fee ranged from a high of six and one-half basis points (0.065%) to 0.2 basis points (0.002%). On August 31, 2008, the fee was six and one-half basis points (0.065%).

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 Prime operates like a Rule 2a-7 money market fund consistent with the Securities and Exchange Commission rules. TexPool Prime'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 Prime's investments earn a yield that is closely linked to the Federal Funds rate (Fed rate). The short maturity structure also means that TexPool Prime's yield changes fairly quickly when the Federal Open Market Committee (FOMC) pronounces any change in the Fed rate. The goal in managing TexPool Prime's 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 Prime.

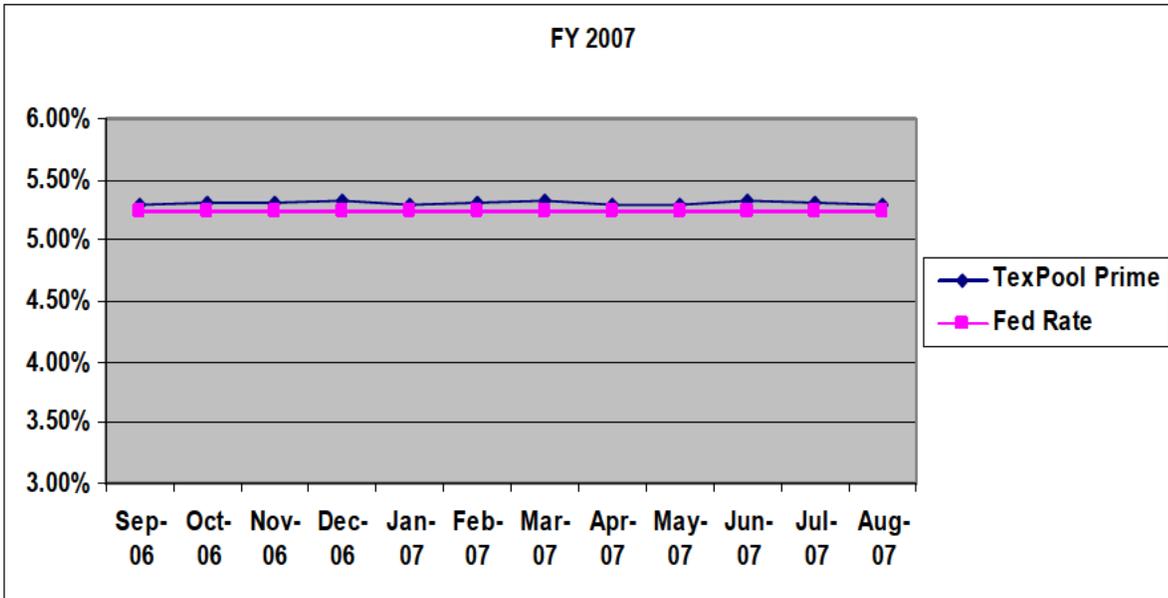
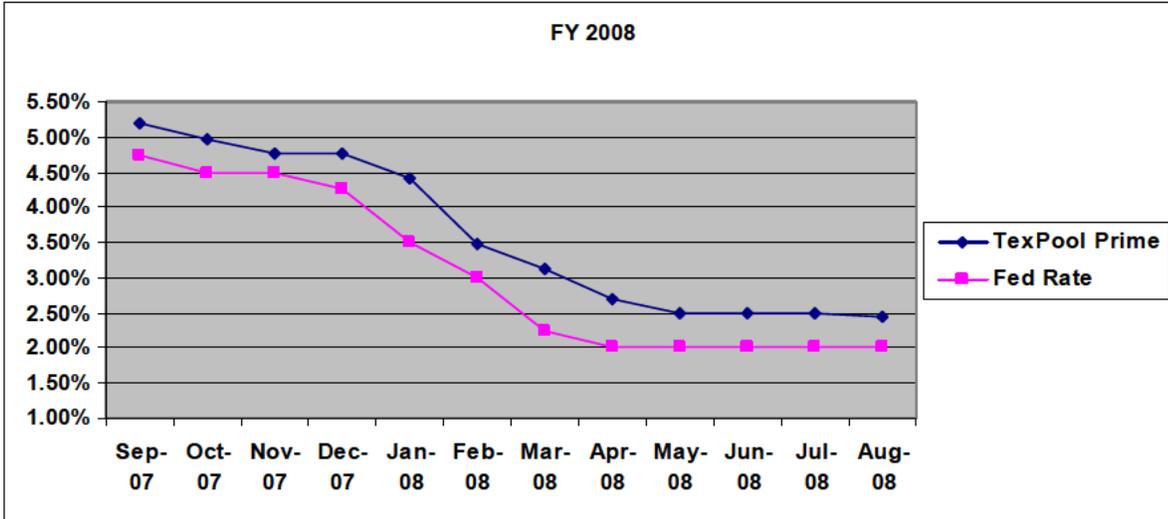
The Federal Reserve (Fed) eased monetary policy by 325 basis points over the reporting period ended August 31, 2008. As a result, the yield for TexPool followed the Federal Funds Target rate downward, but on a gross basis continued to outperform the target rate due to the positions in fixed and floating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

**TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

**TexPool Prime vs. Fed Funds Rate**



**TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

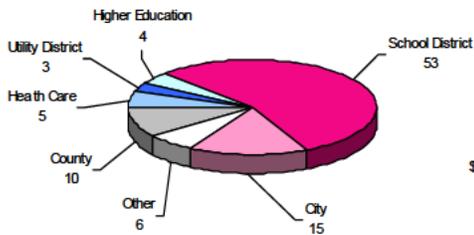
Management’s Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

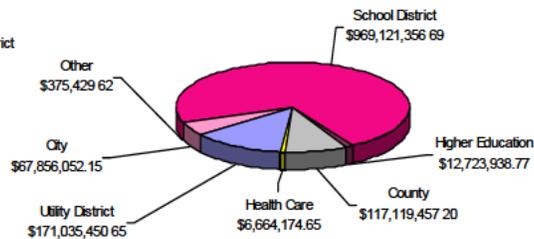
Additional information about the TexPool Prime’s portfolio and its participants is reflected in the following graphics, which are available at [www.texpool.com](http://www.texpool.com):

**TexPool Prime Information as of August 31, 2008**

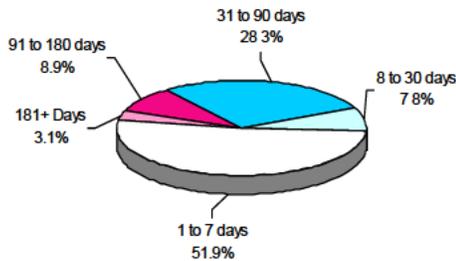
*Number of Participants by Account Type*



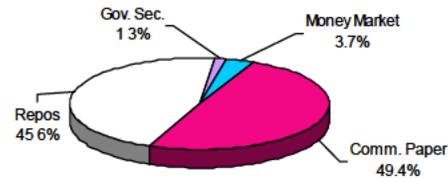
*Balance by Account Type*



*Portfolio by Maturity*



*Portfolio by Type of Investment*



Volatility in the Fed outlook during the fiscal year ending August 31, 2008, and credit concerns caused by the take over of Bear Stearns and support of Fannie Mae and Freddie Mac, commercial paper rates varied dramatically. One month commercial paper rates started the fiscal year around 5.58% and reached a low of 2.14% by the end of May 2008, mimicking the lower Fed Funds target. Volatility due to a credit and liquidity freeze hit the markets in the spring and continued into the summer of 2008 and one month commercial paper rates ratcheted back up to 2.41% on August 31, 2008. Three month commercial paper rates followed the same pattern. They began the fiscal year at 5.50% fell to 2.51% on March 31 and ended at 2.87% on August 31.

The core asset base of TexPool Prime was invested in the 40 to 50 days maturity range reflecting the belief the Fed’s next move would be a cut in interest rates. Seasonal cash flows in the pool caused the actual average maturity to fall below the target. Security purchases within the pool were placed in varying maturities along the money market curve.

## **TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

### Management's Discussion and Analysis

For the Years Ended August 31, 2008 and 2007

#### **TexPool Prime Information as of August 31, 2007**

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 Prime kept pace with the Fed Funds target rate during the fiscal year 2007. On a net basis, TexPool Prime outperformed the target rate over this time period.

Following the volatility in the Fed outlook over the past fiscal year, commercial paper rates varied dramatically. One month and three month commercial paper rates reached a low at the end of April 2007 of 5.24% and 5.22% respectively, when there were expectations of a Fed ease. By the end of August 2007 both rates stood at 5.50% reflecting the turmoil in the commercial paper markets.

The core assets base of TexPool Prime was extended during 2007 from 35-45 days to 40 to 50 days reflecting the belief the Fed that was on-hold or their next move would be a cut in interest rates. Seasonal cash flows in the pool caused the actual average maturity to fall below the target. Security purchases within the pool were placed in varying maturities along the money market curve.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Statements of Pool Net Assets

August 31, 2008 and 2007

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Investments, at amortized cost (fair value of \$1,347,056,938 in 2007 and \$1,213,065,982 in 2007) (note 3):		
Securities purchased under agreement to resell	\$ 614,301,000	773,227,000
Commercial Paper	666,034,894	405,020,514
Mutual Funds	50,000,000	-
U.S. government agency securities	17,000,000	35,000,000
	<u>1,347,335,894</u>	<u>1,213,247,514</u>
 Accrued interest receivable	 322,811	 1,343,953
 Cash (note 3)	 119	 368
Total assets	<u>1,347,658,824</u>	<u>1,214,591,835</u>
<b>Liabilities</b>		
Amounts payable to participants	<u>2,765,479</u>	<u>5,809,041</u>
Total liabilities	<u>2,765,479</u>	<u>5,809,041</u>
Net assets held in trust for pool participants	<u>\$ 1,344,893,345</u>	<u>1,208,782,794</u>

See accompanying notes to financial statements.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

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	\$ 55,947,180	65,594,734
Expenses:		
Management fees and expenses (note 2)	(961,761)	(522,075)
Net investment income	<u>54,985,419</u>	<u>65,072,659</u>
Earnings paid to investors from net investment income	(54,985,419)	(65,072,659)
Net increase in participant investments	<u>136,110,551</u>	<u>380,062,510</u>
Net increase in net assets	136,110,551	380,062,510
Net assets:		
Beginning of period	<u>1,208,782,794</u>	<u>828,720,284</u>
End of period	<u><u>1,344,893,345</u></u>	<u><u>1,208,782,794</u></u>

See accompanying notes to financial statements.

# TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

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. On September 1, 1996, the operations of the State Treasury, including the Texas Trust, were merged with the State Comptroller of Public Accounts (State Comptroller).

The Texas Trust created the Texas Local Government Investment Pool Prime (TexPool Prime) 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 Prime began operations on December 27, 2002.

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

TexPool Prime 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 Prime (Participants) have an undivided beneficial interest in its pool of assets. TexPool Prime is not registered with the Securities and Exchange Commission (SEC) as an investment company. TexPool Prime 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 Prime. 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 Prime. Advisory Board members review TexPool Prime's investment policy and management fee structure.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Notes to Financial Statements

August 31, 2008 and 2007

The State Comptroller exercises oversight responsibility over all other aspects of TexPool Prime 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 Prime 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 Prime relating to the accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments. Generally accepted accounting principles for 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 Prime 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 Prime 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 Prime 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 Prime'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 Prime 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 Prime Participation Agreement to approve any modifications or other amendments of the management fee structure.

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### 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 Prime, established a management fee for basic services provided to the Participants. Effective January 1, 2007, the fee was set at six and one-half basis points (0.065 percent). Federated and Lehman earn six basis points (0.06 percent) as its management fee and the Texas Trust earns one-half basis point (0.005 percent) as their management fee.

During fiscal years 2008 and 2007, fees were waived on several occasions. The actual fee during fiscal year 2007 ranged from a high of six and one-half basis points (0.065 percent) to one-half basis points (0.005 percent). On August 31, 2007, the fee was six and one-half basis points (0.065 percent). The actual fee during fiscal year 2008 ranged from high of six and one-half basis points to 0.2 basis points (0.002 percent). On August 31, 2008 the fee was six and one-half basis points.

Under the current contract with Federated and Lehman, the management fee may not be raised to more than eight and one-half basis points for the duration of the contract, which has an initial term through August 31, 2009 and is renewable annually through August 31, 2012.

#### (3) Investments

Investments of TexPool Prime 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. 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:
  - 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

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Notes to Financial Statements

August 31, 2008 and 2007

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 Prime, 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 Prime's portfolio to certain of the investments listed above. The investment policy does not allow for derivative securities.

The State Comptroller approved the current TexPool Prime 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 of 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 banks 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.
- Certificates of deposit issued by national or state banks or credit unions, including savings banks, provided that such bank or credit union is domiciled in Texas. The certificates of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or the

**TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

Notes to Financial Statements

August 31, 2008 and 2007

National Credit Union Share Insurance Fund and secured by obligations of the United States, its agencies or instrumentalities or as otherwise required by law.

- Commercial paper that matures in 270 days or less from the date of its issuance, rated at least A-1 or P-1 (or the equivalent thereof) by either two nationally recognized statistical rating organizations (“NRSROS”) or one NRSRO and is fully secured by an irrevocable letter of credit by a national or state bank.

TexPool Prime 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 Prime cannot exceed sixty days. However, it is Advisory Board policy to strive for full investment of all available balances. At August 31, 2008 and 2006, the approximate weighted average maturity of the portfolio was forty-two and twenty-three 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:

	<b>2008</b>		<b>2007</b>	
	<b>Carrying Amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Repurchase agreements	\$ 614,301,000	614,301,000	773,227,000	773,227,000
Commercial paper	666,034,894	665,742,491	405,020,514	404,881,917
Mutual Funds	50,000,000	50,000,000	-	-
U.S. government agency securities	17,000,000	17,013,447	35,000,000	34,957,065
Net investment position	\$ 1,347,335,894	1,347,056,938	1,213,247,514	1,213,065,982

## TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME

### Notes to Financial Statements

August 31, 2008 and 2007

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, TexPool Prime 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 Prime's investments are held by the Federal Reserve or the custodian in TexPool Prime's name. TexPool Prime's bank balances are fully collateralized by Federal depository insurance. At August 31, 2008 and 2007, TexPool Prime had a cash balance of \$119 and \$368, respectively.

*Credit Risk:* The TexPool Prime 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 Prime 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. TexPool Prime's investments in commercial paper were rated A1 by Standard & Poor's, P-1 by Moodys Investors Service, and F-1 by Fitch ratings.

*Concentration of Credit Risk:* Up to 100% of TexPool Prime 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 Prime assets may be invested in direct repurchase agreements. However, no more than 25% of TexPool Prime assets may be invested in term repurchase agreements and no more than 5% of TexPool Prime assets may be invested in term repurchase agreements with maturities exceeding 90 days. Up to 75% of TexPool Prime assets may be invested in commercial paper. However, no more than 25% of TexPool Prime assets may be invested in a single industry or business sector, provided that this limitation does not apply to securities issued or guaranteed by companies in the financial services industry. No more than 5% of TexPool Prime assets at the time of purchase may be invested in a single corporate entity. As of August 31, 2008 5.03% of the TexPool Prime assets were invested in commercial paper issued by Fairway Finance Company. The percentage ownership was below 5% at the time of purchase. As of August 31, 2007, 7.11% and 5.77% of the TexPool Prime assets were invested in commercial paper issued by General Electric Corp and Falcon Asset Securitization Company respectively. The percentage ownership was below 5% at the time of purchase.

*Interest Rate Risk:* TexPool Prime 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 Prime's portfolio as a whole:

**TEXAS LOCAL GOVERNMENT INVESTMENT POOL PRIME**

Notes to Financial Statements

August 31, 2008 and 2007

<b>Investment Type</b>	<b>Weighted Average</b>	
	<b><u>Maturity (Days)</u></b>	
	<b>2008</b>	<b>2007</b>
Repurchase agreements	4	4
Commercial Paper	72	46
U.S. Government agency securities	293	187
Mutual Funds	7	-
TexPool Prime's Weighted Average Maturity	42	23

**(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.