

LOCAL GOVERNMENT INVESTMENT POOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2009



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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Local Government Investment Pool (the LGIP) annual financial report presents an analysis of the Local Government Investment Pool's financial performance during the fiscal year that ended on June 30, 2009. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

LGIP Activities and Highlights

The Local Government Investment Pool was established January 1, 1981 pursuant to the Local Government Investment Pool Act, Section 2.2-4600 of the *Code of Virginia*. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of "2a7-like pools." The LGIP is rated 'AAAm' by Standard & Poor's rating service.

Overview of the Financial Statements

This discussion and analysis is an introduction to the LGIP's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. The LGIP is not required to present government-wide financial statements since all of its activity is reported in a fiduciary fund, which would not change in measurement focus (economic resources) or basis of accounting (accrual) for government-wide statements.

The financial statements of the LGIP offer financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the LGIP's cash, investments and receivables (assets) and their administrative fees (liabilities). The Statement of Changes in Fiduciary Net Assets reports the additions to, deductions from, and net increases in net assets.

Financial Analysis

The primary purpose of the LGIP is to provide a fund that would allow governmental entities to increase their return on investments with minimal credit risk. Summary financial information follows.

Local Government Investment Pool (in millions)

	2009	2008
Total assets	\$ 4,309	\$ 4,404
Total net assets	\$ 4,309	\$ 4,404

Even though year over year net assets decreased approximately two percent, the dollar value of deposits and withdrawals increased approximately six percent and eight percent respectively. Active accounts numbered 968 at the end of fiscal year 2009.

Local Government Investment Pool Changes in Net Assets
(in millions)

	2009	2008
Additions:		
Proceeds from units admitted	\$ 9,078	\$ 8,552
Investment earnings	59	160
Total additions	9,137	8,712
Deductions:		
Disbursements for units withdrawn	9,232	8,570
Total deductions	9,232	8,570
Increase/decrease in net assets	(95)	142
Net assets, July 1	4,404	4,262
Net assets, June 30	\$ 4,309	\$ 4,404

Participation in the LGIP is voluntary, so participant activity variances from year to year are normal. Factors that could influence a potential participant would be the availability of funds to invest and the relative attractiveness of the LGIP's return as compared to other options that may be available to the entity.

Investment earnings were lower for fiscal year 2009 as new security purchases for the investment portfolio were purchased at lower yields throughout the year. The fiscal year began with the Federal Funds Rate at 2.00%. The Federal Open Market Committee lowered the Federal Funds Target throughout the year ending with a target of 0 – 0.25%, a historic low.

The Federal Funds Target is the benchmark for short-term rates. The LGIP is managed as a short-term fund; therefore, its yield reacts quickly to its benchmark, resulting in lower income from investments.

Financial Statements

Local Government Investment Pool
Statement of Fiduciary Net Assets
As of June 30, 2009

Assets	
Investments in cash equivalents, at value (Notes 1B & 2A)	\$ 1,862,880,277
Investments in securities, at value (Notes 1B & 2A)	2,442,340,521
Interest receivable	<u>4,021,492</u>
Total assets	<u>4,309,242,290</u>
Liabilities	
Administrative fee payable	<u>26,972</u>
Total liabilities	<u>26,972</u>
Net Assets	
Held in trust for pool participants	<u><u>\$ 4,309,215,318</u></u>

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

Local Government Investment Pool
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2009

Additions	
Contributions:	
Proceeds from units admitted	\$ 9,078,462,409
Total contributions	<u>9,078,462,409</u>
Investment earnings:	
Interest income	57,065,580
Net accrued interest	4,021,492
Net change in unrealized appreciation of investments for the year	(123,706)
Less administrative fee	<u>(2,104,189)</u>
Net investment earnings	<u>58,859,177</u>
Total additions	<u>9,137,321,586</u>
Deductions	
Disbursements for units withdrawn	<u>9,232,006,444</u>
Total deductions	<u>9,232,006,444</u>
Change in net assets	(94,684,858)
Net assets - July 1, 2008	<u>4,403,900,176</u>
Net assets - June 30, 2009	<u><u>\$ 4,309,215,318</u></u>

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



Notes to the Financial Statements

LOCAL GOVERNMENT INVESTMENT POOL
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Local Government Investment Pool (the LGIP) was established January 1, 1981 pursuant to the Local Government Investment Pool Act, Section 2.2-4600 of the *Code of Virginia*. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of "2a7-like pools."

A. Basis of Presentation

The Treasury Board of Virginia administers the LGIP and presents the activity on an accrual basis. Earnings and expenses accrue daily, but are credited or charged to participants' accounts on a monthly basis.

B. Investment Valuation

Investments in the LGIP are stated at market value where available. However, market value does not include market accrued interest (totaling \$2,373,553) which is included as a portion of interest receivable on the Statement of Fiduciary Net Assets. Where market value is unavailable, the investments are reported at cost, which due to their short-term nature approximates market value.

Shares are purchased and redeemed at amortized cost. If the LGIP's current market-based net asset value per share should deviate from its amortized cost price per share by an amount exceeding $\frac{1}{2}$ of 1 percent, the State Treasurer, Chair of the Treasury Board, shall assess the situation and determine what action, if any, is in the best interest of the LGIP and its participants. Market-based net asset value is determined on a weekly basis.

2. DETAILED NOTES

A. Investments

Funds in the LGIP are invested in accordance with Treasury Board investment guidelines and Standard & Poor's AAAM rating criteria. This includes obligations of the United States Government or agencies thereof, repurchase agreements, bankers' acceptances, commercial paper, short-term corporate and bank notes, and certificates of deposit. The maximum average maturity for the portfolio may not exceed 90 days. The maximum percentage of the LGIP investments permitted in each category and the actual allocation at June 30, 2009 are as follows:

	Maximum Permitted	Actual June 30, 2009
U. S. Treasury/Agency	100%	95%
Bankers' Acceptances, Negotiable Certificates of Deposit and/or Negotiable Bank Deposit Notes	40%	0%
Non-Negotiable Certificate of Deposit	5%	1%
Commercial Paper	35%	0%
Corporate Notes	25%	
FDIC Guaranteed		3%
Medium Term Notes		1%
Repurchase Agreements	50%	0%
Taxable Municipal Obligations	10%	0%

Interest Rate Risk - Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair values of an investment. Interest rate risk is measured and monitored through investing in high quality credits and managing the weighted average maturity (WAM) of the portfolio. The portfolio WAM is a key measure of the funds tolerance to rising interest rates. At June 30, the LGIP's WAM was 49 days, which should assure minimal asset value fluctuations under most market conditions. The LGIP's investments at June 30, 2009 are presented below.

LGIP Investments As of June 30, 2009 (Dollars in Thousands)		
	Fair Value Uncategorized	Weighted Average Days to Maturity
U.S. Treasury and Agency Securities	\$ 2,274,822	90
Corporate Notes: FDIC Guaranteed	108,020	47
Corporate Notes: Medium Term Notes	59,499	6
Negotiable Order of Withdrawal (Now) Accounts	50,006	1
US Govt Money Market Funds	1,812,874	1
Total	<u>\$ 4,305,221</u>	
Portfolio weighted average maturity		49

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP is rated AAAm by Standard & Poor's. The AAAm rating definition indicates the fund has an extremely strong capacity to maintain principal stability and limit exposure to principal losses due to credit, market, and/or liquidity risks. In addition to the overall fund rating requirements of Standard & Poor's to maintain the AAAm rating, the LGIP Investment Policy and Guidelines require a minimum rating of both P-1 by Moody's Investment Services and A-1 by Standard & Poor's on individual securities purchased. At June 30, 2009, all of the LGIP portfolio was invested in securities with a short-term rating of A-1+ by Standard & Poor's. The LGIP's rated debt investments as of June 30, 2009 are presented below using the Standard & Poor's rating scale.

	Total Fair Value	Credit Quality		
		AAA	AA	A-1+
U.S. Treasury and Agency Securities	\$ 249,194	\$ 249,194	\$ -	\$ -
Agency Unsecured Bonds and Notes	2,025,628	1,654,651	-	370,977
Corporate Notes	167,519	108,020	59,499	-
Negotiable Order of Withdrawal (Now)				
Accounts - FDIC Guaranteed	50,006	50,006		
US Govt Money Market Funds	1,812,874	1,812,874	-	-
Total	\$ 4,305,221	\$ 3,874,745	\$ 59,499	\$ 370,977

Concentration of Credit Risk

The LGIP Investment Policy requires diversification of assets with not more than 5% of the fund assets invested in the securities of any single issuer. This limitation does not apply to securities of the U.S. Government, agency thereof, or government sponsored enterprises (GSEs). As of June 30, 2009, more than 5 percent of LGIP's investments are in the Federal Home Loan Bank (18%), in the Federal Home Loan Mortgage Corporation (18%), in the Federal National Mortgage Association (11%) and in JP Morgan US Govt Money Market Fund (42%).

B. Distributions

The LGIP distributes investment income net of expenses to participants on a monthly basis. The dividend distribution is automatically reinvested into additional shares.

C. Risk Management

The LGIP is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Department of Treasury participates in insurance plans maintained by the Commonwealth of Virginia on behalf of the LGIP. The risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Department of Treasury pays premiums to this Department for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.



Supplementary Information

Local Government Investment Pool
Selected Participant Share and Ratio Information

Selected ratios and data for the average number of shares outstanding throughout the years ended June 30, 2007, 2008 and 2009

	June 30, 2009	June 30, 2008	June 30, 2007
Investment income	\$ 0.01747	\$ 0.04308	\$ 0.05339
Expenses	0.00060	0.00062	0.00059
Investment income - net	0.01687	0.04246	0.05280
Income distributions	0.01687	0.04246	0.05280
Increase in net value	\$ -	\$ -	\$ -
Net Asset Value:			
Beginning of period	1.00000	1.00000	1.00000
End of period	1.00000	1.00000	1.00000
Ratio of investment income- Net to average net assets	1.69%	4.25%	5.28%
Ratio of expenses to average net assets	0.06%	0.06%	0.06%

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 2009

	Yield @ Purchase	Carrying Value	Fair Value	Percentage of Investments at Fair Value
United States Treasury Bills:				
U.S. Treasury Bill due 12/24/09	0.33%	49,918,875.00	49,918,875.00	0.01
U.S. Treasury Bill due 04/01/10	0.44%	199,275,444.44	199,275,444.44	0.05
Total United States Treasury Bills		249,194,319.44	249,194,319.44	0.06
Agency Unsecured Bonds and Notes:				
Federal Farm Credit Bank FRN due 01/28/11	0.36%	25,000,000.00	25,000,000.00	0.01
Federal Home Loan Bank 5.00% due 09/18/09	1.89%	8,229,947.00	8,110,300.00	0.00
Federal Home Loan Bank 3.88% due 01/15/10	0.39%	22,824,153.45	22,783,951.07	0.01
Federal Home Loan Bank 0.50% due 02/08/10	0.52%	24,994,250.00	24,995,375.00	0.01
Federal Home Loan Bank Discount Note due 07/02/09	2.74%	33,201,502.38	33,201,502.38	0.01
Federal Home Loan Bank Discount Note due 01/19/10	0.64%	23,880,300.00	23,880,300.00	0.01
Federal Home Loan Bank Discount Note due 04/01/10	0.52%	49,767,444.45	49,767,444.45	0.01
Federal Home Loan Bank FRN due 07/10/09	2.63%	22,750,000.00	22,750,000.00	0.01
Federal Home Loan Bank FRN due 08/05/09	3.05%	24,994,250.00	24,999,632.08	0.01
Federal Home Loan Bank FRN due 11/18/09	2.36%	50,000,000.00	50,000,000.00	0.01
Federal Home Loan Bank FRN due 11/20/08	2.40%	49,817,700.00	49,927,892.48	0.01
Federal Home Loan Bank FRN due 01/13/10	2.41%	49,991,215.00	49,996,880.69	0.01
Federal Home Loan Bank FRN due 02/19/10	2.81%	49,973,670.00	49,988,825.34	0.01
Federal Home Loan Bank FRN due 02/26/10	0.86%	50,000,000.00	50,171,875.00	0.01
Federal Home Loan Bank FRN due 03/11/10	0.84%	49,995,001.57	50,187,500.00	0.01
Federal Home Loan Bank FRN due 09/17/10	0.95%	50,000,000.00	50,328,125.00	0.01
Federal Home Loan Bank FRN due 11/08/10	0.68%	49,991,272.04	50,187,500.00	0.01
Federal Home Loan Bank FRN due 11/19/10	0.65%	49,985,000.00	49,986,149.64	0.01
Federal Home Loan Bank Step-Up Note 0.50% due 05/13/10	0.55%	99,967,500.00	99,971,863.01	0.02
Federal Home Loan Mortgage Corp. 6.63% due 11/24/08	1.89%	7,614,946.40	7,410,091.28	0.00
Federal Home Loan Mortgage Corp. 2.68% due 11/16/09	1.20%	76,019,625.00	75,679,687.50	0.02
Federal Home Loan Mortgage Corp. 2.88% due 12/02/09	1.01%	76,343,250.00	75,820,312.50	0.02
Federal Home Loan Mortgage Corp. FRN due 09/18/09	4.06%	64,968,499.00	64,992,853.12	0.02
Federal Home Loan Mortgage Corp. FRN due 09/18/09	0.48%	49,950,000.00	49,983,609.96	0.01
Federal Home Loan Mortgage Corp. FRN due 10/08/09	3.86%	174,423,441.20	174,538,188.04	0.04
Federal Home Loan Mortgage Corp. FRN due 10/30/09	3.65%	50,000,000.00	50,000,000.00	0.01
Federal Home Loan Mortgage Corp. FRN due 01/22/10	0.78%	50,000,000.00	50,171,875.00	0.01
Federal Home Loan Mortgage Corp. FRN due 07/12/10	1.25%	50,000,000.00	50,000,000.00	0.01
Federal Home Loan Mortgage Corp. FRN due 12/30/10	1.18%	74,957,250.00	74,963,232.31	0.02
Federal Home Loan Mortgage Corp. FRN due 03/09/11	1.34%	99,993,500.00	100,312,500.00	0.02
Federal National Mortgage Association 6.63% due 9/15/09	2.00%	42,158,031.20	41,166,776.88	0.01
Federal National Mortgage Association 3.10% due 02/04/10	0.42%	60,118,525.40	60,028,592.21	0.01
Federal National Mortgage Association Discount Note due 07/02/09	1.85%	49,428,125.00	49,428,125.00	0.01
Federal National Mortgage Association Discount Note due 07/13/09	1.92%	49,371,944.44	49,371,944.44	0.01
Federal National Mortgage Association Discount Note due 09/01/09	1.56%	49,412,291.67	49,412,291.67	0.01
Federal National Mortgage Association Discount Note due 12/16/09	0.33%	49,918,875.00	49,918,875.00	0.01
Federal National Mortgage Association Discount Note due 12/23/09	0.32%	65,995,892.50	65,995,892.50	0.02
Federal National Mortgage Association FRN due 08/05/10	1.23%	49,992,800.00	49,994,576.27	0.01
Federal National Mortgage Association FRN due 10/22/10	0.67%	50,007,550.00	50,203,125.00	0.01
Total Agency Unsecured Bonds and Notes		2,026,037,752.70	2,025,627,664.82	0.47

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 2009

	Yield @ Purchase	Carrying Value	Fair Value	Percentage of Investments at Fair Value
Corporate Notes:				
General Electric Capital Corp. FDIC Guaranteed FRN due 06/09/10	2.58%	7,200,000.00	7,243,875.00	0.00
General Electric Capital Corp. FDIC Guaranteed FRN due 07/08/10	1.46%	35,000,000.00	35,109,375.00	0.01
General Electric Capital Corp. FDIC Guaranteed FRN due 12/09/10	2.79%	15,001,350.00	15,189,843.75	0.01
General Electric Capital Corp. FRN due 11/24/09	5.00%	9,497,231.53	9,498,880.34	0.00
J P Morgan & Co. FDIC Guaranteed FRN due 12/02/10	2.72%	50,000,000.00	50,476,562.50	0.01
Toyota Motor Credit Corp FRN due 07/02/09	2.44%	50,000,000.00	50,000,000.00	0.01
Total Corporate Notes:		166,698,581.53	167,518,536.59	0.04
Negotiable Order of Withdrawal (NOW) Accounts:				
Branch Banking & Trust Public Fund Interest Now Account due 07/01/09	0.47%	50,006,438.73	50,006,438.73	0.01
Total Negotiable Order of Withdrawal (NOW) Accounts:		50,006,438.73	50,006,438.73	0.01
Money Market Funds:				
JP Morgan US Govt Money Market Fund due 07/01/09	0.24%	1,812,873,838.65	1,812,873,838.65	0.42
Total Money Market Funds		1,812,873,838.65	1,812,873,838.65	0.42
Total Investments		\$ 4,304,810,931.05	\$ 4,305,220,798.23	1.00



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

December 14, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Virginia Treasury Board and Local
Government Investment Pool Participants

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors of:
Virginia College Building Authority
Virginia Public Building Authority
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Local Government Investment Pool (LGIP)** as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Department of Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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. 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of LGIP are intended to present the financial position and the changes in financial position of only that portion of the Investment Trust Fund of the Commonwealth of Virginia that is attributable to the transactions of LGIP. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2009, and the changes in its financial position for the year 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 LGIP as of June 30, 2009, and the changes in its financial position for the year ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one and two is not a required part of the basic financial statements, but are supplementary information required by the 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of LGIP. The Schedule of Selected Participant Share and Ratio Information and the Schedule of Investments are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2009 on our consideration of LGIP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

WJK/alh