

**LOCAL GOVERNMENT INVESTMENT POOL**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDING JUNE 30, 2012**



LOCAL GOVERNMENT INVESTMENT POOL  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDING JUNE 30, 2012

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**LOCAL GOVERNMENT INVESTMENT POOL  
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, 2012. 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 conformity with the SEC’s Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. 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)**

|                  | 2012     | 2011     |
|------------------|----------|----------|
| Total assets     | \$ 3,115 | \$ 3,134 |
| Total net assets | \$ 3,115 | \$ 3,134 |

Assets at year-end remained fairly stable from the previous year. The dollar value of deposits increased 7.5% and withdrawals decreased 2.4%. Active accounts numbered 858 at the end of fiscal year 2012.

**LOCAL GOVERNMENT INVESTMENT POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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

|                                   | 2012     | 2011     |
|-----------------------------------|----------|----------|
| Additions:                        |          |          |
| Proceeds from units admitted      | \$ 5,949 | \$ 5,536 |
| Investment earnings               | 4        | 5        |
| Total additions                   | 5,953    | 5,541    |
| Deductions:                       |          |          |
| Disbursements for units withdrawn | 5,972    | 6,118    |
| Total deductions                  | 5,972    | 6,118    |
| Increase/decrease in net assets   | (19)     | (577)    |
| Net assets, July 1                | 3,134    | 3,711    |
| Net assets, June 30               | \$ 3,115 | \$ 3,134 |

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.

The extraordinary low interest rate environment continued in fiscal year 2012, marking the fifth consecutive year of declining yields. The Federal Reserve reinforced highly accommodative monetary policy of a zero to 25 basis point federal funds target that has been in place since December 2008 with additional quantitative easing to lower long-term interest rates. The lower yield environment contributed to reduced investment earnings during the period.

## LOCAL GOVERNMENT INVESTMENT POOL

### Statement of Fiduciary Net Assets

As of June 30, 2012

|   |                         |
|---|-------------------------|
| Assets                                    |                         |
| Investments in cash equivalents, at value | \$ 1,294,200,593        |
| Investments in securities, at value       | 1,820,142,085           |
| Interest receivable                       | <u>1,119,010</u>        |
| Total assets                              | <u>3,115,461,688</u>    |
| Liabilities                               |                         |
| Administrative fee payable                | <u>415</u>              |
| Total liabilities                         | <u>415</u>              |
| Net Assets                                |                         |
| Held in trust for pool participants       | <u>\$ 3,115,461,273</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, 2012

|  |                                |
|--|--------------------------------|
| Additions  |                                |
| Contributions:   |                                |
| Proceeds from units admitted   | \$ 5,949,668,083               |
| Total contributions  | <u>5,949,668,083</u>           |
| Investment earnings:   |                                |
| Interest income  | 3,863,519                      |
| Net accrued interest   | 1,119,010                      |
| Net change in unrealized appreciation of<br>investments for the year | 236,413                        |
| Less administrative fee  | <u>(1,109,724)</u>             |
| Net investment earnings  | <u>4,109,218</u>               |
| Total additions  | <u>5,953,777,301</u>           |
| Deductions   |                                |
| Disbursements for units withdrawn                                    | <u>5,972,292,610</u>           |
| Total deductions   | <u>5,972,292,610</u>           |
| Change in net assets   | (18,515,309)                   |
| Net assets - July 1, 2011  | <u>3,133,976,582</u>           |
| Net assets - June 30, 2012   | <u><u>\$ 3,115,461,273</u></u> |

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

**LOCAL GOVERNMENT INVESTMENT POOL  
NOTES TO THE FINANCIAL STATEMENTS**

AS OF JUNE 30, 2012

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 conformity with the SEC's Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

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 \$346,933) 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 ½ 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.

**LOCAL GOVERNMENT INVESTMENT POOL  
NOTES TO THE FINANCIAL STATEMENTS**

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 notes, bank deposit 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, 2012 are as follows:

|   | <u>Maximum<br/>Permitted</u> | <u>Actual<br/>June 30, 2012</u> |
|---|------------------------------|---------------------------------|
| U. S. Treasury/Agency   | 100%                         | 31%                             |
| Bankers' Acceptances, Negotiable<br>Certificates of Deposit and/or<br>Negotiable Bank Deposit Notes | 40%                          | 30%                             |
| Commercial Paper  | 35%                          | 22%                             |
| Corporate Notes   | 25%                          | 0%                              |
| Repurchase Agreements   | 50%                          | 17%                             |
| 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 46 days, which should assure minimal asset value fluctuations under most market conditions. The LGIP's investments at June 30, 2012 are presented below.

LGIP Investments  
As of June 30, 2012  
(Dollars in Thousands)

|   | <u>Fair Value<br/>Uncategorized</u> | <u>Weighted<br/>Average Days<br/>to Maturity</u> |
|---|-------------------------------------|--|
| U.S. Treasury and Agency Securities   | \$ 918,106                          | 56   |
| Corporate Notes (Guaranteed by FDIC)  | 42,183                              | 176  |
| Corporate Notes   | 6,529                               | 44   |
| Commercial Paper  | 677,079                             | 39   |
| Negotiable Certificates of Deposit, Deposit Notes<br>and Bankers' Acceptances | 944,598                             | 59   |
| Repurchase Agreements   | 519,000                             | 4  |
| US Govt Money Market Funds  | 6,848                               | 1  |
| Total   | <u>\$ 3,114,343</u>                 |  |
| Portfolio weighted average maturity   |                                     | 46   |

**LOCAL GOVERNMENT INVESTMENT POOL  
NOTES TO THE FINANCIAL STATEMENTS**

*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. As of June 30, 2012, 85 percent of the LGIP portfolio was invested in securities within the highest long-term and/or short-term (AAA, AA+ and/or A-1+) rating categories by the Standard & Poor's rating scale. The LGIP's rated debt investments as of June 30, 2012 are presented below using the Standard & Poor's rating scale.

|  | Total Fair Value    | Credit Quality  |                     |                     |                   |
|--|---------------------|-----------------|---------------------|---------------------|-------------------|
|  |                     | AAA             | AA+                 | A-1+                | A-1               |
| U.S Treasury and Agency Securities   | \$ 267,351          | \$ -            | \$ 217,365          | \$ 49,986           | \$ -              |
| Agency Unsecured Bonds and Notes   | 692,938             | -               | 692,938             | -                   | -                 |
| Corporate Notes  | 6,529               | -               | 6,529               | -                   | -                 |
| Commercial Paper   | 677,079             | -               | -                   | 469,290             | 207,789           |
| Negotiable Certificates of Deposit, Deposit Notes and Bankers' Acceptances | 944,598             | -               | -                   | 675,606             | 268,992           |
| Repurchase Agreements  | 519,000             | -               | 519,000             | -                   | -                 |
| USGovt Money Market Funds  | 6,848               | 6,848           | -                   | -                   | -                 |
| Total  | <u>\$ 3,114,343</u> | <u>\$ 6,848</u> | <u>\$ 1,435,832</u> | <u>\$ 1,194,882</u> | <u>\$ 476,781</u> |

*Concentration of Credit Risk*

The LGIP Investment Policy requires diversification of assets with not more than 4% 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, 2012, more than 4 percent of LGIP's investments are in Goldman Sachs U.S. Government Tri-Party Repurchase Agreements (17%), in the Federal Home Loan bank (14%), and United States Treasury Notes (7%).

**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.

**LOCAL GOVERNMENT INVESTMENT POOL  
NOTES TO THE FINANCIAL STATEMENTS**

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.

**LOCAL GOVERNMENT INVESTMENT POOL  
SUPPLEMENTARY INFORMATION**

Selected Participant Share and Ratio Information

Selected ratios and data for the average number of shares outstanding throughout the years ended June 30, 2010, 2011 and 2012

|  | June 30,<br>2012 | June 30,<br>2011 | June 30,<br>2010 |
|--|------------------|------------------|------------------|
| Investment income  | \$ 0.00193       | \$ 0.00269       | \$ 0.00364       |
| Expenses   | 0.00043          | 0.00061          | 0.00061          |
| Investment income - net                                  | 0.00150          | 0.00208          | 0.00303          |
| Income distributions                                     | 0.00150          | 0.00208          | 0.00303          |
| 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-<br>Net to average net assets | 0.15%            | 0.21%            | 0.30%            |
| Ratio of expenses to average net assets                  | 0.04%            | 0.06%            | 0.06%            |

**LOCAL GOVERNMENT INVESTMENT POOL  
SUPPLEMENTARY INFORMATION**

SCHEDULE OF INVESTMENTS  
As of June 30, 2012

|   | Yield @<br>Purchase | Carrying Value        | Fair Value            | Percentage of<br>Investments at<br>Fair Value |
|---|---------------------|-----------------------|-----------------------|---|
| <b>United States Treasuries:</b>  |                     |                       |                       |   |
| United States Treasury Bills 0.0625% due 7/19/2012                              | 0.06%               | \$ 49,984,288.19      | \$ 49,985,850.69      | 0.02  |
| United States Treasury Notes 0.6250% due 7/31/2012                              | 0.09%               | 25,083,984.38         | 25,010,000.00         | 0.01  |
| United States Treasury Notes 0.3750% due 8/31/2012                              | 0.13%               | 25,019,531.25         | 25,010,000.00         | 0.01  |
| United States Treasury Notes 0.5% due 11/30/2012                                | 0.16%               | 125,213,088.50        | 125,162,500.00        | 0.04  |
| <b>Total United States Treasuries</b>   |                     | <b>225,300,892.32</b> | <b>225,168,350.69</b> | <b>0.08</b>                                   |
| <b>FDIC-Guaranteed Corporate Notes</b>  |                     |                       |                       |   |
| Ally Financial (FDIC) 2.20% due 12/19/2012                                      | 0.19%               | 22,891,593.72         | 22,859,813.91         | 0.01  |
| General Electric Capital Corp. (FDIC) 2.6250% due 12/28/2012                    | 0.19%               | 19,363,414.23         | 19,322,916.41         | 0.00  |
| <b>Total FDIC-Guaranteed Corporate Notes</b>                                    |                     | <b>42,255,007.95</b>  | <b>42,182,730.32</b>  | <b>0.01</b>                                   |
| <b>Agency Unsecured Bonds and Notes:</b>  |                     |                       |                       |   |
| Federal Farm Credit Bank Floater 0.14525% due 10/31/2012                        | 0.15%               | 25,000,000.00         | 25,000,000.00         | 0.01  |
| Federal Farm Credit Bank Floater 0.196% due 4/16/2013                           | 0.20%               | 24,997,600.00         | 25,015,625.00         | 0.01  |
| Federal Farm Credit Bank Floater 3 Month T-Bills 0.186% due 11/1/2013           | 0.22%               | 24,996,325.00         | 24,992,187.50         | 0.01  |
| Federal Home Loan Bank 0.20% due 12/13/2012                                     | 0.18%               | 20,002,100.00         | 20,000,000.00         | 0.01  |
| Federal Home Loan Bank 0.17% due 2/15/2013                                      | 0.20%               | 37,316,452.58         | 37,308,353.00         | 0.01  |
| Federal Home Loan Bank 0.18% due 12/20/2013                                     | 0.18%               | 24,988,600.00         | 24,992,187.50         | 0.01  |
| Federal Home Loan Bank Discount Note 0.12% due 7/10/2012                        | 0.12%               | 24,988,416.67         | 24,988,416.67         | 0.01  |
| Federal Home Loan Bank Discount Note 0.13% due 7/25/2012                        | 0.13%               | 9,994,402.78          | 9,994,402.78          | 0.00  |
| Federal Home Loan Bank Discount Note 0.06% due 7/27/2012                        | 0.06%               | 24,998,833.33         | 24,998,833.33         | 0.01  |
| Federal Home Loan Bank Discount Note 0.10% due 8/1/2012                         | 0.10%               | 58,788,336.92         | 58,788,336.92         | 0.02  |
| Federal Home Loan Bank Discount Note 0.09% due 8/10/2012                        | 0.09%               | 24,996,312.50         | 24,996,312.50         | 0.01  |
| Federal Home Loan Bank Discount Note 0.11% due 8/31/2012                        | 0.11%               | 112,675,166.43        | 112,675,166.44        | 0.03  |
| Federal Home Loan Bank Floater 0.21% due 8/24/2012                              | 0.20%               | 25,000,000.00         | 25,000,000.00         | 0.01  |
| Federal Home Loan Bank Floater 0.17% due 11/15/2013                             | 0.28%               | 47,967,343.00         | 47,985,000.00         | 0.01  |
| Federal Home Loan Bank Step Up 0.10% due 5/21/2013                              | 0.26%               | 24,987,500.00         | 24,992,187.50         | 0.01  |
| Federal Home Loan Mortgage Corp. 2.1250% due 9/21/2012                          | 0.15%               | 25,158,650.00         | 25,109,375.00         | 0.01  |
| Federal Home Loan Mortgage Corp. Discount Note 0.065% due 7/9/2012              | 0.07%               | 20,993,175.00         | 20,993,175.00         | 0.01  |
| Federal Home Loan Mortgage Corp. Discount Note 0.075% due 7/16/2012             | 0.08%               | 24,991,041.67         | 24,991,041.67         | 0.01  |
| Federal Home Loan Mortgage Corp. Floater 0.29% due 10/12/2012                   | 0.29%               | 25,017,200.00         | 25,007,812.50         | 0.01  |
| Federal Home Loan Mortgage Corp. Floater 0.17875% due 11/2/2012                 | 0.18%               | 12,805,977.60         | 12,800,000.00         | 0.00  |
| Federal National Mortgage Association Discount Note 0.11% due 7/2/2012          | 0.11%               | 11,028,449.67         | 11,028,449.67         | 0.00  |
| Federal National Mortgage Association Discount Note 0.07% due 7/5/2012          | 0.07%               | 30,939,889.67         | 30,939,889.67         | 0.01  |
| Federal National Mortgage Association Discount Note 0.12% due 8/31/2012         | 0.12%               | 14,996,350.00         | 14,996,350.01         | 0.00  |
| Federal National Mortgage Association Floater 0.27275% due 10/18/2012           | 0.16%               | 15,360,187.44         | 15,344,793.75         | 0.00  |
| <b>Total Agency Unsecured Bonds and Notes</b>                                   |                     | <b>692,988,310.26</b> | <b>692,937,896.41</b> | <b>0.22</b>                                   |
| <b>Repurchase Agreements Collateralized<br/>by U.S. Government Obligations:</b> |                     |                       |                       |   |
| Goldman Sachs & Company 0.16% due 7/2/2012                                      | 0.16%               | 125,000,000.00        | 125,000,000.00        | 0.04  |
| Goldman Sachs & Company 0.20% due 7/2/2012                                      | 0.20%               | 87,000,000.00         | 87,000,000.00         | 0.03  |
| Goldman Sachs & Company 0.17% due 7/3/2012                                      | 0.17%               | 64,000,000.00         | 64,000,000.00         | 0.02  |
| Goldman Sachs & Company 0.17% due 7/3/2012                                      | 0.17%               | 100,000,000.00        | 100,000,000.00        | 0.03  |

**LOCAL GOVERNMENT INVESTMENT POOL  
SUPPLEMENTARY INFORMATION**

SCHEDULE OF INVESTMENTS

As of June 30, 2012

|   | Yield @  | Carrying Value | Fair Value     | Percentage of  |
|---|----------|----------------|----------------|----------------|
|   | Purchase |                |                | Investments at |
|   |          |                |                | Fair Value     |
| Goldman Sachs & Company 0.18% due 7/5/2012                                  | 0.18%    | 63,000,000.00  | 63,000,000.00  | 0.02           |
| Goldman Sachs & Company 0.18% due 7/6/2012                                  | 0.18%    | 80,000,000.00  | 80,000,000.00  | 0.03           |
| Total Repurchase Agreements Collateralized<br>by U.S. Government Obligation |          | 519,000,000.00 | 519,000,000.00 | 0.17           |
| Negotiable Certificates of Deposit:   |          |                |                |                |
| Australia New Zealand-NY YCD 0.27% due 10/17/2012                           | 0.27%    | 25,000,000.00  | 24,993,180.22  | 0.01           |
| Australia New Zealand-NY YCD 0.27% due 10/31/2012                           | 0.25%    | 25,002,116.58  | 24,992,307.89  | 0.01           |
| Bank of Montreal Chicago YCD 0.18% due 7/11/2012                            | 0.18%    | 45,000,000.00  | 45,000,549.79  | 0.01           |
| Bank of Nova Scotia Houston YCD 0.32075% due 12/12/2012                     | 0.32%    | 50,000,000.00  | 49,991,018.07  | 0.01           |
| Bank of Nova Scotia NY YCD 0.29% due 12/12/2012                             | 0.29%    | 25,000,000.00  | 24,991,984.42  | 0.01           |
| Bank of Tokyo Mitsubishi NY YCD 0.18% due 7/13/2012                         | 0.18%    | 23,000,000.00  | 23,000,332.09  | 0.01           |
| Canadian Imperial Bank of Commerce NY YCD FR 0.31% due 1/2/2013             | 0.31%    | 14,000,000.00  | 13,976,905.75  | 0.00           |
| Canadian Imperial Bank of Commerce NY YCD FR 0.315% due 1/2/2013            | 0.32%    | 50,000,000.00  | 50,000,000.00  | 0.02           |
| Commonwealth Bank of Australia NY YCD 0.32% due 9/7/2012                    | 0.32%    | 49,999,997.20  | 50,017,231.90  | 0.02           |
| Credit Suisse NY YCD 0.30% due 9/4/2012                                     | 0.30%    | 25,000,000.00  | 25,007,330.12  | 0.01           |
| National Australia Bank NY YCD 0.40% due 7/17/2012                          | 0.40%    | 25,000,000.00  | 25,003,066.23  | 0.01           |
| National Australia Bank NY YCD 0.35% due 9/17/2012                          | 0.35%    | 25,000,000.00  | 25,011,509.61  | 0.01           |
| National Australia Bank NY YCD 0.35% due 12/3/2012                          | 0.35%    | 20,000,000.00  | 19,999,127.41  | 0.01           |
| National Bank of Canada NY 0.18% due 7/24/2012                              | 0.18%    | 40,000,000.00  | 40,001,065.32  | 0.01           |
| Nordea Bank of Finland NY YCD 0.28% due 8/31/2012                           | 0.28%    | 25,000,000.00  | 25,006,024.82  | 0.01           |
| Nordea Bank of Finland NY YCD 0.30% due 9/19/2012                           | 0.30%    | 50,000,000.00  | 50,017,993.15  | 0.02           |
| Rabobank Nederland NY YCD 0.31% due 8/30/2012                               | 0.29%    | 25,001,636.51  | 25,007,196.57  | 0.01           |
| Rabobank NY YCD 0.35% due 8/20/2012   | 0.33%    | 50,003,214.67  | 50,014,865.78  | 0.02           |
| Royal Bank of Canada NY YCD 0.50% due 8/24/2012                             | 0.24%    | 20,027,636.80  | 20,010,989.51  | 0.01           |
| Royal Bank of Canada NY YCD 0.6159% due 1/28/2013                           | 0.45%    | 15,549,442.13  | 15,523,701.16  | 0.00           |
| Standard Chartered Bank NY YCD 0.33% due 8/9/2012                           | 0.28%    | 25,003,361.20  | 25,005,274.03  | 0.01           |
| State Street Bank & Trust CD 0.25% due 9/17/2012                            | 0.25%    | 15,000,000.00  | 15,003,619.34  | 0.00           |
| Svenska Handelsbanken NY YCD 0.24% due 7/30/2012                            | 0.22%    | 50,001,969.02  | 50,004,163.80  | 0.02           |
| Toronto Dominion Bank NY YCD 0.32% due 7/9/2012                             | 0.32%    | 15,000,000.00  | 15,000,674.16  | 0.00           |
| Toronto Dominion Bank NY YCD 0.45% due 8/13/2012                            | 0.27%    | 30,026,721.49  | 30,011,344.26  | 0.01           |
| Toronto Dominion Bank NY YCD 0.19% due 8/20/2012                            | 0.19%    | 15,000,000.00  | 15,001,061.68  | 0.00           |
| Toronto Dominion Bank NY YCD 0.27% due 9/7/2012                             | 0.25%    | 25,005,364.05  | 25,006,222.01  | 0.01           |
| Wells Fargo Bank NA 0.18% due 9/13/2012                                     | 0.18%    | 72,000,000.00  | 72,005,996.68  | 0.02           |
| Westpac Banking Corp. NY YCD 0.22% due 9/24/2012                            | 0.22%    | 19,999,998.93  | 20,003,819.43  | 0.00           |
| Westpac Banking Corp. NY YCD 0.30% due 11/6/2012                            | 0.30%    | 50,000,000.00  | 49,989,235.94  | 0.01           |
| Total Negotiable Certificates of Deposit                                    |          | 944,621,458.58 | 944,597,791.14 | 0.30           |
| Commercial Paper:   |          |                |                |                |
| Barclays US Funding 0.07% due 7/2/2012                                      | 0.07%    | 44,999,737.50  | 44,999,512.50  | 0.01           |
| Canadian Imperial Holdings 0.07% due 7/2/2012                               | 0.07%    | 24,999,854.17  | 24,999,729.17  | 0.01           |
| Chevron Corp. 0.11% due 7/18/2012   | 0.11%    | 29,997,250.00  | 29,995,266.66  | 0.01           |
| Export Development Canada 0.13% due 8/1/2012                                | 0.13%    | 49,986,277.78  | 49,981,111.11  | 0.02           |
| General Electric Capital Corp. 0.31% due 7/9/2012                           | 0.31%    | 16,977,748.89  | 16,977,748.89  | 0.01           |
| General Electric Capital Corp. 0.32% due 10/30/2012                         | 0.32%    | 39,936,000.00  | 39,936,000.00  | 0.01           |
| General Electric Capital Corp. 0.34% due 12/4/2012                          | 0.34%    | 10,981,300.00  | 10,981,300.00  | 0.00           |
| General Electric Capital Corp. 0.37% due 12/17/2012                         | 0.37%    | 7,985,200.00   | 7,985,200.00   | 0.00           |
| HSBC USA, Inc. 0.38% due 7/19/2012  | 0.38%    | 24,951,972.22  | 24,953,597.22  | 0.01           |
| J P Morgan Chase & Co. 0.30% due 7/30/2012                                  | 0.30%    | 29,954,499.90  | 29,955,708.25  | 0.01           |
| J P Morgan Chase & Co. 0.30% due 8/31/2012                                  | 0.30%    | 14,978,000.00  | 14,977,237.50  | 0.01           |
| J P Morgan Chase & Co. 0.22% due 9/20/2012                                  | 0.22%    | 19,988,877.78  | 19,983,927.78  | 0.01           |
| J P Morgan Chase & Co. 0.30% due 9/21/2012                                  | 0.30%    | 14,977,625.00  | 14,976,600.00  | 0.01           |

**LOCAL GOVERNMENT INVESTMENT POOL  
SUPPLEMENTARY INFORMATION**

SCHEDULE OF INVESTMENTS

As of June 30, 2012

|   | Yield @  |                            | Percentage of              |                           |
|---|----------|----------------------------|----------------------------|---------------------------|
|   | Purchase | Carrying Value             | Fair Value                 | Investments at Fair Value |
| Nestle Capital Corp. 0.11% due 7/9/2012                       | 0.11%    | 39,571,130.44              | 39,569,899.22              | 0.01                      |
| State Street Corp. 0.23% due 7/31/2012                        | 0.23%    | 44,964,350.00              | 44,963,600.00              | 0.01                      |
| State Street Corp. 0.20% due 8/31/2012                        | 0.20%    | 19,989,888.80              | 19,985,483.31              | 0.01                      |
| Svenska Handelsbanken Inc. 0.25% due 8/10/2012                | 0.25%    | 19,987,222.22              | 19,987,222.22              | 0.01                      |
| Toyota Motor Credit Corp. 0.28% due 7/3/2012                  | 0.28%    | 24,976,666.67              | 24,976,708.34              | 0.01                      |
| Toyota Motor Credit Corp. 0.33% due 7/25/2012                 | 0.33%    | 24,967,916.67              | 24,969,250.00              | 0.01                      |
| Toyota Motor Credit Corp. 0.37% due 8/31/2012                 | 0.37%    | 9,983,041.67               | 9,983,719.44               | 0.00                      |
| Toyota Motor Credit Corp. 0.29% due 11/1/2012                 | 0.29%    | 12,984,501.14              | 12,972,064.45              | 0.00                      |
| Union Bank of Switzerland - Finance DE 0.31% due 7/2/2012     | 0.31%    | 12,993,059.44              | 12,993,081.10              | 0.00                      |
| US Bank NA 0.15% due 7/31/2012                                | 0.15%    | 80,000,000.00              | 79,993,111.52              | 0.03                      |
| Wal-Mart Corp. 0.12% due 7/31/2012                            | 0.12%    | 10,998,496.67              | 10,997,305.00              | 0.00                      |
| Wal-Mart Corp. 0.13% due 8/7/2012                             | 0.13%    | 44,990,250.00              | 44,984,700.00              | 0.01                      |
| <b>Total Commercial Paper</b>                                 |          | <b>677,120,866.96</b>      | <b>677,079,083.68</b>      | <b>0.22</b>               |
| <b>Corporate Note</b>   |          |                            |                            |                           |
| Berkshire Hathaway Inc 0.89685% due 2/11/2013                 | 0.90%    | 6,531,859.15               | 6,529,393.75               | 0.00                      |
| <b>Total Corporate Note</b>                                   |          | <b>6,531,859.15</b>        | <b>6,529,393.75</b>        | <b>0.00</b>               |
| <b>Money Market Funds:</b>                                    |          |                            |                            |                           |
| J P Morgan US Govt Money Market Fund 0.01% due 7/2/2012       | 0.01%    | 5,847,432.34               | 5,847,432.34               | 0.00                      |
| J P Morgan US Treasury Money Market Fund 0.0000% due 7/2/2012 | 0.00%    | 1,000,000.00               | 1,000,000.00               | 0.00                      |
| <b>Total Money Market Funds</b>                               |          | <b>6,847,432.34</b>        | <b>6,847,432.34</b>        | <b>0.00</b>               |
| <b>Total Investments</b>                                      |          | <b>\$ 3,114,665,827.56</b> | <b>\$ 3,114,342,678.33</b> | <b>1.00</b>               |



# Commonwealth of Virginia

*Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

November 15, 2012

The Honorable Robert F. McDonnell  
Governor of Virginia

The Virginia Treasury Board and Local  
Government Investment Pool Participants

The Honorable John M. O'Bannon, III  
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 the **Local Government Investment Pool (LGIP)**, as of and for the year ended June 30, 2012, 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.

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 the LGIP. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, 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 previously present fairly, in all material respects, the respective financial position of the LGIP as of June 30, 2012, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one and two be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Selected Participant Share and Ratio Information and the Schedule of Investments have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Selected Participant Share and Ratio Information and the Schedule of Investments are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 on our consideration of the 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