

STATE OF WASHINGTON
OFFICE OF THE STATE TREASURER

LOCAL GOVERNMENT INVESTMENT POOL
AN INVESTMENT POOL OF THE STATE OF WASHINGTON

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013





To accommodate persons with disabilities, this document will be made available in alternate formats upon request to the Office of the State Treasurer, Legislative Building, 2nd Floor, Olympia, Washington 98504-0200, Telephone: (360) 902-9000, FAX: (360) 902-9037, TTY Users Call: 7-1-1 or E-mail: watreas@tre.wa.gov.

Visit our web site at www.tre.wa.gov/

STATE OF WASHINGTON
OFFICE OF THE STATE TREASURER

LOCAL GOVERNMENT INVESTMENT POOL
AN INVESTMENT POOL OF THE STATE OF WASHINGTON

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Report prepared by:

Office of the State Treasurer

James L. McIntire, State Treasurer
Shad Pruitt, Deputy Treasurer
Mary Pheasant, Publication Editor

Accounting and Fiscal Services Division

Darrel Jensen, Director
Cindy Shave, Investment Accountant
Dixie Layman, Investment Accountant

Investment Division

Doug Extine, Deputy Treasurer
Kari Sample, LGIP Administrator

TABLE OF CONTENTS

State Treasurer’s Letter 1

Introductory Section

Letter of Transmittal 3
Certificate of Achievement for Excellence in Financial Reporting 6
Organizational Chart 7
Advisory Committee 8
Key Personnel 9
State Finance Committee 10

Financial Section

Independent Auditors’ Report 11
Management’s Discussion and Analysis 13
Basic Financial Statements
 Statement of Net Position 16
 Statement of Changes in Net Position 17
 Notes to the Financial Statements 18

Investment Section

Overview.....	25
Schedule of Investments & Deposits	27
Charts	
Distribution by Security Type	32
Maturity Analysis	32
Ownership Analysis as a Percent of Total Accounts	33
Ownership Analysis as a Percent of Total Balances	33
Net Rate of Return	34
Net Investment Income	34
Average Days to Maturity.....	35
LGIP Net Earnings Rate versus Federal Funds and iMoneyNet, Inc.	35
Position and Compliance Report	36
Schedule of Participants by Concentration.....	38
Schedule of Management Fees	38
Investment Policy	39

Statistical Section

Statistical Narrative	49
Tables	
Table 1 – Net Position	51
Table 2 – Changes in Net Position.....	52
Table 3 – Distribution by Security Type	53
Table 4 – Ownership Analysis as a Percent of Total Balances	54
Charts	
Average Invested Balances	55
Portfolio Yield Percentage	55
Net Investment Income	56
LGIP versus iMoneyNet, Inc.	56



James L. McIntire
Washington State Treasurer



JAMES L. McINTIRE
State Treasurer

State of Washington
Office of the Treasurer

The Local Government Investment Pool (LGIP) is an optional investment tool available to eligible governmental entities in the state of Washington. The LGIP, operated by the Office of the State Treasurer, was created by the Legislature in 1986 to enable governments to earn a competitive rate of return while maintaining the safety and liquidity of their excess funds.

During Fiscal Year 2013:

- The average balance in the LGIP portfolio was \$9.415 billion maintained by 545 participants.
- The LGIP had a net administrative charge of 0.871 basis points. This is the seventh year in a row that the LGIP has charged less than a basis point.
- The LGIP moved to a daily earnings factor, which includes a daily expense factor, giving participants access to a higher net earnings rate.

The LGIP has grown significantly, both in participation and portfolio size, since its inception in 1986. The Treasury Management System (TM\$) continues to be a valuable resource for participants. TM\$ and the automation it provides, helps keep LGIP administrative costs at a minimum.

I am proud to report the LGIP net rate of return during Fiscal Year 2013 outperformed its benchmark by 16 basis points. The benchmark is the iMoneyNet Inc. Government Only/Institutional Only Money Market Funds, which is comprised of privately managed money market funds similar to the LGIP. During Fiscal Year 2013, LGIP participants have earned \$15 million over what the average comparable money market fund would have generated.

On behalf of the staff at the Office of the State Treasurer, I want to thank you for your continued confidence in the LGIP. If you have questions or suggestions on how to improve our services, please call me at (360) 902-9001.

Sincerely,

A handwritten signature in black ink that reads "James L. McIntire". The signature is fluid and cursive.

James L. McIntire
State Treasurer



Introductory Section





JAMES L. McINTIRE
State Treasurer

State of Washington
Office of the Treasurer
Local Government Investment

October 21, 2013

The Honorable Jay Inslee, Governor
The Honorable Troy Kelley, State Auditor
Members of the State Finance Committee
Members of the Joint Legislative Audit and Review Committee
Participants in the Local Government Investment Pool

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the state of Washington Local Government Investment Pool (LGIP) for the fiscal year ended June 30, 2013. This report has been prepared by the Office of the State Treasurer (OST) pursuant to Revised Code of Washington (RCW) 43.250.080. It includes only activity of the LGIP and does not include data or information related to other state agencies or funds.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with OST management. A framework of internal controls has been established by management for this purpose, as well as to ensure information reported in the investment section is reliable. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

To the best of our knowledge, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in net position of the LGIP in conformance with generally accepted accounting principles (GAAP). All disclosures necessary to enable the reader to gain an understanding of the LGIP's financial activities have been included. Data presented in the investment section is prepared on a basis consistent with other sections of the report.

The LGIP's financial statements have been audited by Peterson Sullivan LLP, a firm of licensed certified public accountants. The independent auditor concluded the enclosed financial statements are presented fairly in conformance with GAAP. The independent auditors' report is included in the financial section of this report.

Management's Discussion and Analysis (MD&A), immediately following the independent auditors' report, provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter and should be read in conjunction with it.

LGIP Profile

The LGIP, created by the Washington State Legislature in 1986, is managed and operated by OST on behalf of participants. The State Finance Committee administers the statute that created the pool and adopts administrative rules and procedures. In 1995, the State Treasurer established the LGIP Advisory Committee to provide advice on the pool's operation. The advisory committee includes 12 members selected from active pool participants. Eight members are appointed by participant associations, and four are appointed by the State Treasurer.

The LGIP is operated as a business enterprise within the framework of state laws and regulations. The LGIP serves as an investment tool for eligible governmental entities. At their option, such entities may invest temporary cash surpluses to take advantage of the volume and management expertise of the state's investment program to earn a competitive rate of return while maintaining security and liquidity.

Investment Policies and Practices

The LGIP is considered extremely low risk. Funds are invested in a portfolio of securities in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940 as it currently stands. The portfolio is made up of high-quality, highly liquid securities, with relatively short average maturities to reduce the pool's price sensitivity to market interest rate fluctuations and credit risk. The LGIP also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The investment activity is guided by an investment policy, approved by the State Treasurer and follows the standard of the prudent investor. The objectives of the investment practices, in priority order, are safety, liquidity and return on investment. OST invests cash in excess of the daily liquidity requirements of LGIP participants. Investments authorized by statute include: U.S. Treasury and Agency securities, banker's acceptances, repurchase agreements, reverse repurchase agreements, commercial paper, and deposits with qualified public depositories.

The LGIP is managed diligently by professional treasury personnel to protect against losses from market and credit changes. However, the pool is not insured or guaranteed by any government. Therefore, the maintenance of principal is not fully assured.

Financial and Economic Information

The economic condition of the LGIP is based primarily upon investment earnings. Due to the short-term nature of the portfolio, and the types of investments utilized, yields closely follow the targeted federal funds rate. With \$10.6 billion in net assets as of June 30, 2013, the LGIP produced an average monthly portfolio yield of .17 percent. The LGIP exceeded its benchmark by 16 basis points, resulting in \$15 million in additional interest income for participants.

Fiscal year 2013 was marked by sustained monetary policy by the Federal Open Market Committee (FOMC). The FOMC did not change its target for the federal funds rate from July 2012 through June 2013 stating that inflation has been below its objective, although longer-term inflation expectations have remained stable. The targeted federal funds rate began and ended the fiscal year at 0 to 1/4 percent.

During the period, the FOMC remarked that economic activity expanded at a moderate pace; labor market conditions showed some improvement; the unemployment rate remained elevated; household spending and business fixed investment advanced; and, the housing sector strengthened further, albeit from depressed levels. Furthermore, the FOMC sees the downside risks to the economic outlook and labor market as having diminished since last fall.

Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. To support a stronger economic recovery and help ensure that inflation is at the rate most consistent with its mandate, the FOMC purchased agency mortgage-backed securities and longer-term Treasury securities monthly to maintain downward pressure on interest rates and make broader financial conditions more accommodative.

During the first quarter of fiscal year 2014, the FOMC maintained its target for the federal funds rate at 0 to 1/4 percent anticipating that this exceptionally low range will be appropriate as long as the unemployment rate remains above 6.5 percent and longer-term inflation expectations continue to be well anchored.

Major Initiatives

OST began calculating earnings and expenses for LGIP participants daily rather than monthly in March 2013. The daily expense factor is based on estimated annual expenses adjusted throughout the fiscal year for changes in those estimates. The daily earnings factor reflects accrued and accreted income, as well as capital gains and losses, less expenses. Amounts continue to be credited to participant accounts monthly.

OST is exploring the feasibility of offering a longer-term investment fund option to LGIP participants, similar to an intermediate bond fund, to complement the current 2a-7 like money market fund option. PFM Asset Management has been retained to provide oversight and guidance for the development and launch of this extended asset fund, as well as, assist in the education and outreach to participants. Upon completion of a prospectus and administrative rules, OST expects to begin operation when market conditions, such as the interest rate environment, are conducive.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the LGIP for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the sixteenth consecutive year the LGIP achieved this prestigious award. To be awarded a Certificate of Achievement, OST had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. OST believes this CAFR continues to meet the Certificate of Achievement Program's requirements and will submit it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report was accomplished with the professionalism and dedicated services of personnel in OST's Accounting and Fiscal Services Unit and its Investment Division. This CAFR reflects the State Treasurer's commitment to pool participants and citizens of the state of Washington to operate the LGIP in a responsible manner and to maintain financial statements in conformance with the highest standards of financial accountability.

Additional Information

A section of the State Treasurer's website is dedicated to the LGIP, and features information related to performance measures, historical rates, and portfolio holdings. This CAFR, plus additional information for participants and interested parties, may be accessed on the internet at: <http://www.tre.wa.gov/>.

Sincerely,



Shad Pruitt
Deputy State Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**State of Washington
Local Government Investment
Pool**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

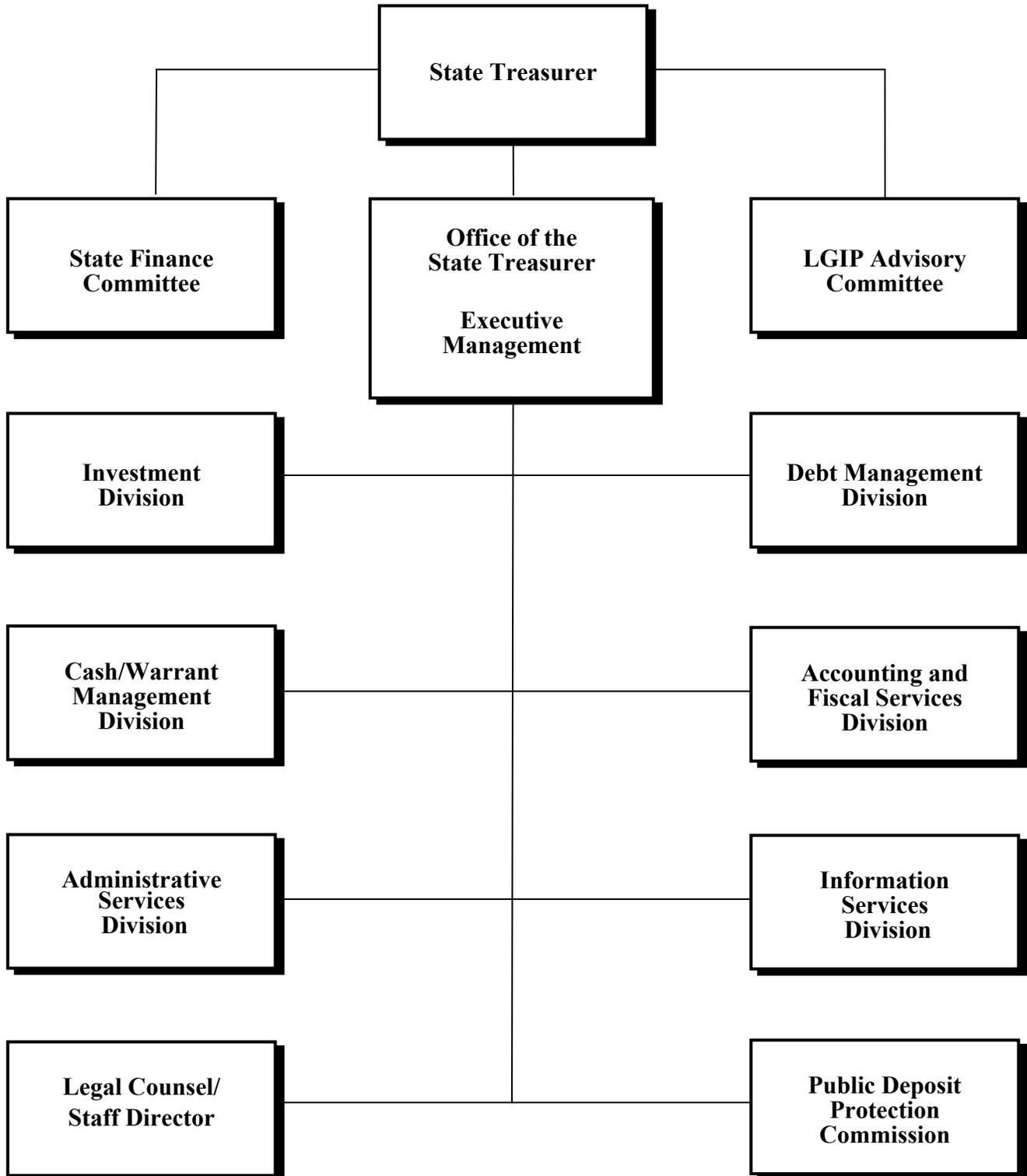
June 30, 2012

A handwritten signature in black ink, which appears to read "Jeffrey R. Emswiler". The signature is written in a cursive, flowing style.

Executive Director/CEO

ORGANIZATIONAL CHART

Office of the State Treasurer



ADVISORY COMMITTEE

Members

Dani Burton
County Treasurer
Klickitat County

Jana McQuade
Accounting Manager
City of Poulsbo

Tracy Butler
Treasurer
Sound Transit

Tabitha Miller
Director of Finance
Alderwood Water & Wastewater District

Meredith Green
County Treasurer
Kitsap County

Shawn Myers
County Treasurer
Thurston County

Toni Habegger
Assistant VP & CFO
Eastern Washington University

Mary Nelson
Director of Finance
Port of Grays Harbor

Carrie Lewellen
Treasurer
City of Vancouver

Shelley Pearson
Investment Officer
Kitsap County

Stan Lewis
Finance Department
City of North Bend

Sherry Speaks
Treasurer
Mason County PUD No. 3

KEY PERSONNEL
Office of the State Treasurer

James L. McIntire
Treasurer

Wolfgang Opitz
Assistant Treasurer

Shad Pruitt
Deputy Treasurer

Doug Extine
Deputy Treasurer

Darrel Jensen
Accounting Services Director

Ferdinand Pascual
Sr. Portfolio Manager

Cindy Shave
Investment Accountant

Jill Gravatt
Investment Officer

Dixie Layman
Investment Accountant

Kari Sample
LGIP Administrator

Joshua Freese
Portfolio Administrator

Amanda Scott
Assistant Portfolio Analyst

General Information

Legislative Building, Room 230
PO Box 40200
Olympia, Washington 98504-0200
Telephone: (360) 902-9000
Facsimile: (360) 902-9037
<http://www.tre.wa.gov/>

STATE FINANCE COMMITTEE
Members

James L. McIntire
State Treasurer and Chairman

Jay Inslee
Governor

Brad Owen
Lieutenant Governor

General Information
Legislative Building, Room 230
PO Box 40200
Olympia, Washington 98504-0200
Telephone: (360) 902-9001
Facsimile: (360) 902-9045
<http://www.tre.wa.gov/>



Financial Section



INDEPENDENT AUDITORS' REPORT

To the Office of the State Treasurer and Pool Participants
State of Washington Local Government Investment Pool
Olympia, Washington

We have audited the accompanying statement of net position of the State of Washington Local Government Investment Pool ("the LGIP") as of June 30, 2013, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements, which collectively comprise the LGIP's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 MAIN
(206) 382.7700 FAX

psepa.com

An independent firm associated with
MOORE STEPHENS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the LGIP as of June 30, 2013, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, 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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of investments and deposits as of June 30, 2013, contained in the investment section, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of investments and deposits is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory, investment (except for the schedule of investments and deposits described above), and statistical sections as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Peterson Sullivan LLP.

October 21, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Washington State Treasurer's Office provides the Management's Discussion and Analysis of the Local Government Investment Pool's (LGIP) Comprehensive Annual Financial Report (CAFR) for readers of the financial statements. This overview and analysis of the LGIP's financial activity is for the fiscal year ended June 30, 2013. Please read this analysis in conjunction with the letter of transmittal and the financial statements that follow.

Financial Highlights

- The LGIP reported net position as of June 30, 2013, in the amount of \$10.6 billion.
- The LGIP earned \$18 million for pool participants as a result of investment activity during the year. This was an increase of \$2 million from the previous year.

Overview of the Financial Statements

The LGIP invests in a portfolio of securities in a manner generally consistent with Rule 2a-7 money market funds, as currently recognized by the Securities and Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities to minimize both market and credit risk. Investments are reported on a trade date basis in accordance with generally accepted accounting principles (GAAP). This is based on the assumption that governments face custodial risk in connection with sold investments up to the date of settlement and face no custodial risk in association with purchases recorded on the balance sheet prior to the settlement date. This report consists of the Statement of Net Position, Statement of Changes in Net Position, Notes to the Financial Statements, and the Schedule of Investments and Deposits. This CAFR also contains supplementary and statistical information to aid the reader in further understanding the financial position of the LGIP and the results of its operation for the fiscal year. The following is a description of the basic financial statements:

Statement of Net Position - The Statement of Net Position presents all of the LGIP's assets and liabilities, with the difference between the two reported as net position. It also provides information on the types of investments held by the LGIP.

Statement of Changes in Net Position - The Statement of Changes in Net Position presents information on how the net position changed during the fiscal year. Additions consist of the contributions from participants and investment income. Deductions consist of distributions to participants and administrative expenses.

Notes to the Financial Statements - The Notes to the Financial Statements serve to describe the LGIP as a reporting entity and to further clarify its financial activity as reported in the financial statements.

Financial Analysis

To gain an understanding of the financial position of the LGIP, the reader should examine the financial statements as a whole, rather than in isolation from one another. This will provide a more comprehensive picture of the activity.

A summary of the LGIP's net position is presented below:

Table 1
Net Position
(expressed in thousands)

	2013	2012	Dollar Change
Pooled cash and investments	\$ 10,634,213	\$ 9,320,476	\$ 1,313,737
Receivables	714	1,078	(364)
Total Assets	10,634,927	9,321,554	1,313,373
Liabilities	90	491,388	(491,298)
Net Position	\$ 10,634,837	\$ 8,830,166	\$ 1,804,671

As the table shows, the LGIP experienced an increase in net position of \$1,804.7 million in 2013. Total assets were higher and liabilities were lower compared to last year. The large liabilities decrease was the result of the decrease in obligation under securities lending agreements and investment trades pending payables totaling \$491.0 million. The LGIP's net position total is a function of several parameters, some of which are independent of the performance of the LGIP. The remaining change in net position can best be explained simply by changes in deposits and withdrawals of the participants in the fund. Since the LGIP is a 100% voluntary investment option for local governments, participants may use the LGIP at their discretion. The percentage of total funds that individual participants have available for investment in the LGIP changes over time and can vary from near zero to 100%.

Table 2
Changes in Net Position
(expressed in thousands)

	2013	2012	Dollar Change
Contributions from Participants	\$ 17,487,171	\$ 16,479,607	\$ 1,007,564
Distributions to Participants	15,700,259	17,052,244	(1,351,985)
Net Investment Income	17,759	15,735	2,024
Change in Net Position	\$ 1,804,671	\$ (556,902)	\$ 2,361,573

Total Investment Income less administrative expenses ("Net Investment Income") was up 12.9 percent over the previous year. This increase was primarily due to the increase in portfolio yield, as presented in Table 3. Contributions increased and distributions decreased over the prior year. Due to the discretionary nature of the LGIP as an investment option, it is difficult to ascertain the reasons behind the changes in net position, as discussed in the previous paragraph.

Table 3
Average Annualized Monthly Yield

	2009	2010	2011	2012	2013
LGIP Portfolio Yield	1.59%	0.36%	0.23%	0.14%	0.17%
iMoneyNet Inc.	0.65%	0.03%	0.02%	0.01%	0.01%
Targeted Fed Funds	0.90%	0.00%- 0.25%	0.00%- 0.25%	0.00%- 0.25%	0.00%- 0.25%

The average annualized monthly yield represents the annualized percent return of LGIP investments based on the average invested balance for the month. Table 3 shows an average of the annualized monthly portfolio yields for each of the last five fiscal years. The average annualized monthly yields have shown a significant variation over the last five years. Those changes can be explained by the significant variation in the average level of the targeted Fed Funds rate during that time period. The targeted Fed Funds rate, which is the interest rate that banks charge each other for the use of funds, is set by the Federal Open Market Committee in an attempt to balance the competing forces of inflation and economic growth. Due to the short-term nature of the LGIP portfolio, and the types of investment that are utilized, the LGIP yields will closely follow the targeted Fed Funds rate.

The best measure of the LGIP's performance is not the change in the yield of the portfolio over time, but rather a comparison of the LGIP yield to the yield of its benchmark, iMoneyNet Inc., Government Only/Institutional Only Money Market Funds (formerly IBC Donoghue). This benchmark is comprised of privately managed money market funds similar in portfolio composition and investment guidelines to the LGIP. The LGIP net yield during the fiscal year was 16 basis points higher than that of the benchmark. The LGIP continues to be a sound investment option for local governments, obtaining a competitive yield while preserving principal and liquidity.

STATEMENT OF NET POSITION

June 30, 2013

ASSETS

Investments, at amortized cost:	
US Agency Securities	\$ 6,513,555,659
Repurchase Agreements	1,797,874,000
US Treasury Securities	1,399,597,889
Total Investments	<u>9,711,027,548</u>
Other Assets:	
Interest Bearing Bank Deposits	743,434,082
Negotiable Order of Withdrawal (NOW) Accounts	136,200,614
Time Certificate of Deposit (TCD) Investment Program	40,715,000
Certificates of Deposit	2,000,000
Cash	835,749
Interest Receivable	713,951
Total Other Assets	<u>923,899,396</u>
Total Assets	<u>10,634,926,944</u>

LIABILITIES

Accrued Expenses	89,963
Total Liabilities	<u>89,963</u>

NET POSITION

Held in Trust for Pool Participants	<u>\$ 10,634,836,981</u>
-------------------------------------	--------------------------

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

STATEMENT OF CHANGES IN NET POSITION

For the Fiscal Year Ended June 30, 2013

ADDITIONS

Contributions from Participants	\$ 17,487,171,053
Investment Income:	
Investment Earnings	18,662,940
Less: Expenses	<u>(84,480)</u>
Total Investment Income	18,578,460
Miscellaneous	<u>150</u>
Total Additions	<u>17,505,749,663</u>

DEDUCTIONS

Distributions to Participants	15,700,259,153
Administrative Expenses	<u>820,200</u>
Total Deductions	<u>15,701,079,353</u>

CHANGE IN NET POSITION

1,804,670,310

Net Position - Beginning of Year	<u>8,830,166,671</u>
Net Position - End of Year	<u>\$ 10,634,836,981</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Local Government Investment Pool (LGIP) have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. The more significant of the LGIP's accounting policies are as follows:

Reporting Entity – The LGIP was created by Chapter 294, Laws of 1986 and began operations in July 1986. The LGIP is a short-term investment pool of the state of Washington, available to eligible governmental entities as defined by Revised Code of Washington (RCW) 43.250.020. Participation in the LGIP is voluntary.

The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The assets and liabilities of the LGIP are included in the Comprehensive Annual Financial Report of the state of Washington. However, the accompanying financial statements present only the LGIP and are not intended to present fairly the financial position of the state of Washington and the results of its operations in conformity with GAAP.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Investment and Deposit Activity – The OST has adopted a formal investment policy for the LGIP which is reviewed for possible revisions annually. The policy is to invest in high-quality, short-term instruments. Investments are restricted to fixed rate securities that mature in 397 days or less, floating and variable rate securities that mature in 762 days or less, and the portfolio maintains a weighted average maturity of 60 days or less and a weighted average life of 120 days or less. The State Treasurer has the sole responsibility to set investment strategy for the LGIP.

Investments, other than bank deposits, are valued at amortized cost. The bank deposits are valued at historical cost. Both valuation methods approximate fair value. Security transactions are reported on a trade date basis in accordance with GAAP. At fiscal year end, there were no pending trades.

Deductions, Penalties, and Income Distribution to Participants – An administrative deduction is assessed for the administration of the LGIP in accordance with Washington Administrative Code (WAC) 210-10-100. The deduction covers costs associated with the LGIP operations.

Overdraft penalties due to failure to wire funds by a pool participant (after notification to the State Treasurer of an intended transfer) are assessed to the pool participant responsible for the overdraft.

Through February 28, 2013, the expenses of operating the pool were covered through an administrative fee of 3.5 basis points, charged monthly to participants based on their average daily balance in the pool. Fees in excess of the expenses incurred for pool operation were rebated to participants based on their pro rata share of the average daily balance in the pool for the period of July 1, 2012 to February 28, 2013. The amount assessed for the administration of the LGIP during this period plus overdraft charges totaled \$2,110,084.70. Expenses applied to this period were \$546,050.81 resulting in a rebate of \$1,564,033.89.

Beginning March 1, 2013, the LGIP changed to operating with a daily earnings factor. Net earnings are allocated to each LGIP account on a daily basis and credited to the account at the end of the month. On a daily basis, the total earnings, less the administrative fee, are allocated to the participants based on their pro rata share of the total deposits in the LGIP on that day. The daily expense factor is based on an estimate of the annual expenses to operate the LGIP and can be adjusted periodically.

The net administrative deduction for the fiscal year was 0.009 percent of each participant's average daily balance of the funds in the LGIP.

Participant Transactions – Participants can invest and withdraw their investments on a daily basis with a limit of one transaction per business day. The minimum transaction amount is five thousand dollars. There is no maximum transaction amount. For an investment or withdrawal of ten million dollars or more, a one-day notification prior to the transfer date is requested, but not required. The cut-off for same day deposits and withdrawals is 10 a.m. For all transactions greater than one million dollars, notification must be made by 9 a.m. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m., at the discretion of the OST. Factors considered are the timing of notification, the dollar amount, or any other issue that may affect OST's ability to accommodate the transaction. All participants are required to file with the State Treasurer a certified copy of an ordinance or resolution containing the names and titles of the officials authorized to invest or withdraw funds.

Distributions to local governments for state, federal, and local revenues electronically transferred utilizing the Treasury Management System can be directly invested in the LGIP. These investments are in addition to the one transaction per business day limit.

Service Providers – The State Treasurer oversees the operations of the LGIP and provides portfolio management and record keeping services. The costs for these services, together with professional fees, custodian fees, and other operating costs, are accrued and charged as an expense on a monthly basis.

Citibank N.A. provided securities lending services for the LGIP and served as securities custodian, maintaining custody of all investments other than deposits with qualified public depositories.

Risk Management – The state of Washington continues to operate a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state’s policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in an Internal Service Fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. The OST participates in the risk management liability program.

Securities Lending – The LGIP reports securities lent (the underlying securities) as assets in the Statement of Net Position. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets only if the borrower defaults. Liabilities resulting from these transactions are reported in the Statement of Net Position. Securities lending transactions collateralized by securities that the LGIP does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

2a-7 Like Pool – The LGIP is generally consistent with Rule 2a-7 money market funds, as currently recognized by the Securities Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. As such, investments are reported at amortized cost (which approximates fair value).

NOTE 2 – INVESTMENTS AND DEPOSITS

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The portfolio is invested in a manner generally consistent with the Securities and Exchange Commission’s Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds, as it currently stands. Much of the Rule 2a-7 investment guidelines are directed towards limiting interest rate risk, in order to maintain a stable net asset value. For example, the LGIP’s policy places a 60 day maximum on the weighted average maturity and a 120 day maximum on the weighted average life. Further, the maximum maturity of any security will not exceed 397 days, except for securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a fair value that approximates its amortized cost. As of June 30, the LGIP had a weighted average maturity of 58 days and a weighted average life of 98 days.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker’s acceptances, commercial paper, deposits with qualified public depositories, or obligations of the state of Washington or its political subdivisions. Banker’s acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. The LGIP currently does not have any banker’s acceptances, commercial paper, or municipal bonds in its portfolio. The credit ratings and book values of the investments are as follows:

Investment Type	Moody's Rating	S & P Rating	Book Value
Repurchase Agreements	AAA	AA+	<u>\$ 1,797,874,000</u>
U.S. Treasury Securities			
U.S. Treasury Bills*	AAA	AA+	<u>\$ 1,399,597,889</u>
U.S. Agency Securities			
Federal Home Loan Bank	AAA	AA+	3,398,628,928
Federal Home Loan Mortgage Corp.	AAA	AA+	1,602,354,955
Federal Farm Credit Bank	AAA	AA+	802,684,860
Federal National Mortgage Assoc.	AAA	AA+	<u>709,886,916</u>
			<u>6,513,555,659</u>
Total			<u>\$ 9,711,027,548</u>

*U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of the counter party, the state will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The OST investment policy requires that securities purchased by the office are to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The fair value of securities utilized in repurchase agreements must be at least 102% of the value of the repurchase agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The OST mitigates concentration of credit risk by limiting the percentage of the portfolio invested with any one issuer. With the exception of U.S. Treasury and U.S. Agency securities, the OST mitigates concentration of credit risk by limiting the purchase of securities of any one issuer to no more than five percent of the portfolio. Repurchase agreements comprise 16.9% of the total portfolio. OST limits the securities utilized in repurchase agreements to U.S. Treasury and U.S. Agency Securities. OST requires delivery of all securities utilized in repurchase agreements and the securities are priced daily. At fiscal year end, U.S. Treasury securities comprised 13.2% of the total portfolio. U.S. Agency securities comprised 61.2% of the total portfolio, including Federal Home Loan Bank (31.9%), Federal Home Loan Mortgage Corporation (15.1%), Federal Farm Credit Bank (7.5%), and Federal National Mortgage Association (6.7%).

At fiscal year end, the LGIP had the following investments, deposits, and related maturities:

Investment/Deposit Type	Book Value	Fair Value	Maturity	
			Less than 1 year	1-5 years
U.S. Agency Securities	\$ 6,513,555,659	\$ 6,513,555,659	\$ 6,035,423,773	\$478,131,886
Repurchase Agreements	1,797,874,000	1,797,874,000	1,797,874,000	
U.S. Treasury Securities	1,399,597,889	1,399,597,889	1,399,597,889	
Interest Bearing Bank Deposits	743,434,082	743,434,082	743,434,082	
Negotiable Order of Withdrawal Accounts	136,200,614	136,200,614	136,200,614	
Time Certificate of Deposit Program	40,715,000	40,715,000	40,715,000	
Certificates of Deposit	2,000,000	2,000,000	2,000,000	
Total	<u>\$10,633,377,244</u>	<u>\$10,633,377,244</u>	<u>\$10,155,245,358</u>	<u>\$478,131,886</u>

Securities Lending – State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with a lending agent to lend securities in the LGIP, and receives earnings for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. However, cash collateral received from the lending of non coupon-bearing securities shall not be valued at less than 102 percent of fair value, but not to exceed par. The cash is invested by the lending agent in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. One option available to the lending agent is to invest cash collateral into an OST account in the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loaned.

During the period, the LGIP lent U.S. Treasury securities in exchange for cash collateral. The cash collateral was reinvested in Repurchase Agreements. At fiscal year end, there were no securities on loan.

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During the fiscal year, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract requires the lending agent to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan. The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30% of the total portfolio. There were no violations of legal or contractual provisions, nor any losses resulting from a default of a borrower or lending agent during the fiscal year.

Repurchase Agreements – The fair value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The fair value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement. The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name. Collateralized Mortgage Obligations (CMO) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. At fiscal year end, repurchase agreements totaled \$1,797,874,000.

Reverse Repurchase Agreements – State law also permits the LGIP to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the fiscal year, there was no credit risk for the LGIP due to the fair value plus accrued interest of the underlying securities being less than the fair value plus accrued interest of the reinvested cash. At fiscal year end, there were no obligations under reverse repurchase agreements.

Deposits – All LGIP’s deposits are either insured or collateralized. The LGIP’s insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (PDPC). The PDPC, created by the Legislature per Chapter 39.58 of the Revised Code of Washington, constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC’s agent in the name of the collateral pool. At fiscal year end, deposits totaled \$923,185,445.

NOTE 3 – SUMMARY OF ACTIVITY

A summary of LGIP activity, including reporting required by RCW 43.250.080, is as follows:

	<u>FY 2013</u>
Total Investment Purchases	\$ 201,464,352,490
Total Sales	\$ 21,906,107,830
Total Maturities	\$ 178,250,863,000
Total Net Investment Income	\$ 17,758,410
Administrative Expenses	\$ 820,200
Average Annualized Monthly Yield	.17 percent
Average Weighted Maturity	58 days
Average Weighted Life	98 days
Pool Participant Contributions	\$ 17,487,171,053
Pool Participant Distributions	\$ 15,700,259,153





Investment Section



OVERVIEW

Administration

The pool was created by the Washington State Legislature in 1986 to provide a mechanism whereby eligible governmental entities, at their option, invest temporary cash surpluses and take advantage of the volume and expertise of the state's investment program to earn a competitive rate of return while maintaining the security and liquidity of the funds they manage.

The pool is managed and operated solely by the Office of the State Treasurer. In 1995, the Local Government Investment Pool Advisory Committee was created by the State Treasurer to advise the treasurer on the operation of the pool.

Eligible investments for the LGIP portfolio are defined by state statute. Further, investment activity for the LGIP is guided by an investment policy which is approved by the State Treasurer and follows the standard of the prudent investor. The portfolio is invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds, as it currently stands.

Participants are offered 100% liquidity on a daily basis, provided notification is made within specified times. Through February 28, 2013 the expenses of operating the pool were covered through an administrative fee of 3.5 basis points, charged monthly to participants based on their average daily balance in the pool. Fees in excess of the expenses incurred for pool operation were rebated to participants.

Beginning March 1, 2013, the LGIP changed to operating with a daily earnings factor. Net earnings are allocated to each LGIP account on a daily basis and credited to the account at the end of the month. On a daily basis, the total earnings, less the administrative fee, are allocated to the participants based on their pro rata share of the total deposits in the LGIP on that day. The daily expense factor is based on an estimate of the annual expenses to operate the LGIP and can be adjusted periodically.

LGIP Performance

Because the LGIP portfolio is invested in a manner generally consistent with a 2a-7 money market fund, and the net administrative fees charged are low, i.e., 0.871 basis points for the fiscal year, the net return of the LGIP closely follows the targeted federal funds rate. Accordingly, the net return during the fiscal year ranged from 0.12 – 0.23 percent, reflecting a targeted federal funds rate that ranged from 0.00 – 0.25 percent during the period. The general management strategy in effect for much of the fiscal year was to maintain a slightly longer than neutral weighted average maturity in an attempt to lag the decline in fed funds, while still ensuring adequate liquidity to participants.

Monthly statements are produced and distributed to participants, along with an enclosure containing various statistical information, e.g., historical yields and portfolio holdings by security type. For internal monitoring purposes, monthly reports are prepared which summarize the pool's activity and performance during the previous month.

The performance benchmark for the LGIP is the average net return of Government Only/Institutional Only Funds as reported in the Money Market Insight, iMoneyNet, Inc., Westborough MA. This group of Rule 2a-7 money market funds, which have similar investment parameters, provides an excellent benchmark for monitoring the pool's performance. Both the net and gross returns of the benchmark are monitored and compared to the net and gross returns of the pool. The net return provides an appropriate measure for what pool participants would receive if their funds were invested in the average benchmark

fund. The gross return is also used internally by the State Treasurer to monitor the performance of the portfolio manager.

Investment Risk Profile

The Local Government Investment Pool is considered extremely low risk. As the pool invests in a portfolio of securities in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, as it currently stands, the portfolio holdings are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The pool's portfolio is made up of high-quality, highly liquid securities, and its relatively short average maturity reduces the pool's price sensitivity to market interest rate fluctuations. The pool also has a strong degree of asset diversification to minimize risk and maintain adequate rates of return.

The investment activity is guided by an investment policy, which sets forth the parameters within which the portfolio manager may operate. The policy, which was approved by the State Treasurer, is reviewed annually and updated as necessary. Compliance with the policy is monitored by the investment accounting division of the Office of the State Treasurer, which is separate and distinct from the investment division.

While the pool is managed diligently by professional and dedicated personnel to protect against losses from market and credit changes, the pool is not insured or guaranteed by any government. Therefore, the maintenance of principal is not fully assured.

SCHEDULE OF INVESTMENTS & DEPOSITS

June 30, 2013

(expressed in thousands)

Principal	Description	Date of Maturity	Yield Percentage	Amortized Cost
U.S. AGENCY SECURITIES (61.2% of Total Portfolio)				
U. S. Agency Bullets				
\$ 50,000	Federal Farm Credit Bank	7/26/2013	0.1220	\$ 50,000
\$ 50,000				\$ 50,000
U. S. Agency Variable Rate Notes				
\$ 25,000	Federal National Mortgage Assoc.	8/12/2013	0.2125	\$ 24,999
45,800	Federal Farm Credit Bank	9/16/2013	0.2011	45,798
54,000	Federal Farm Credit Bank	9/23/2013	0.3406	53,989
25,000	Federal Home Loan Mortgage Corp.	11/4/2013	0.1942	24,997
25,000	Federal National Mortgage Assoc.	11/8/2013	0.1927	24,997
60,000	Federal National Mortgage Assoc.	11/8/2013	0.1922	59,994
24,750	Federal Farm Credit Bank	11/29/2013	0.3809	24,748
50,000	Federal Farm Credit Bank	1/6/2014	0.2111	49,997
25,000	Federal Farm Credit Bank	3/24/2014	0.2210	25,000
50,000	Federal Farm Credit Bank	9/24/2014	0.2311	49,994
28,000	Federal Farm Credit Bank	9/24/2014	0.2310	27,997
25,000	Federal Farm Credit Bank	1/16/2015	0.1860	24,998
50,000	Federal Farm Credit Bank	2/5/2015	0.1714	49,992
50,000	Federal National Mortgage Assoc.	2/27/2015	0.1892	49,979
50,000	Federal Farm Credit Bank	3/11/2015	0.1824	49,983
25,000	Federal Farm Credit Bank	3/26/2015	0.1712	24,996
25,000	Federal Farm Credit Bank	4/1/2015	0.2010	25,000
25,000	Federal Farm Credit Bank	5/18/2015	0.1711	24,995
\$ 662,550				\$ 662,453
U. S. Agency Floating Rate Notes				
\$ 25,000	Federal Farm Credit Bank	7/29/2013	0.3200	\$ 25,000
25,000	Federal National Mortgage Assoc.	8/9/2013	0.3700	25,000
25,000	Federal National Mortgage Assoc.	8/9/2013	0.3701	25,000
25,000	Federal National Mortgage Assoc.	8/9/2013	0.3700	25,000
50,000	Federal Home Loan Mortgage Corp.	8/12/2013	0.3299	49,998
25,000	Federal Home Loan Mortgage Corp.	9/3/2013	0.3399	24,999
25,000	Federal National Mortgage Assoc.	10/17/2013	0.3300	25,000
25,000	Federal National Mortgage Assoc.	10/25/2013	0.3699	24,999
100,000	Federal Home Loan Bank	11/8/2013	0.2093	99,986
50,000	Federal Home Loan Bank	11/15/2013	0.2198	49,991
50,000	Federal Home Loan Mortgage Corp.	11/18/2013	0.3999	49,998
50,000	Federal Home Loan Bank	12/6/2013	0.2100	49,996
50,000	Federal Home Loan Bank	12/20/2013	0.2100	49,993

SCHEDULE OF INVESTMENTS & DEPOSITS (Continued)

June 30, 2013

(expressed in thousands)

Principal	Description	Date of Maturity	Yield Percentage	Amortized Cost
50,000	Federal Home Loan Bank	1/2/2014	0.2250	49,996
50,000	Federal Home Loan Bank	4/4/2014	0.1800	49,996
50,000	Federal Farm Credit Bank	6/4/2014	0.3000	49,995
25,000	Federal Home Loan Bank	6/4/2014	0.2449	24,999
25,000	Federal Farm Credit Bank	6/11/2014	0.2400	25,002
25,000	Federal Farm Credit Bank	6/11/2014	0.2400	25,002
25,000	Federal National Mortgage Assoc.	6/23/2014	0.3001	25,015
50,000	Federal Farm Credit Bank	7/10/2014	0.1596	49,998
25,200	Federal Farm Credit Bank	7/21/2014	0.1600	25,208
25,000	Federal Farm Credit Bank	8/1/2014	0.2300	25,000
50,000	Federal Farm Credit Bank	10/23/2014	0.1800	49,993
\$ 925,200				\$ 925,164
U. S. Agency Discount Notes				
\$ 50,000	Federal Home Loan Mortgage Corp.	7/10/2013	0.1014	\$ 49,999
200,000	Federal Home Loan Bank	7/10/2013	0.0507	199,997
70,000	Federal Home Loan Bank	7/10/2013	0.0507	69,999
50,000	Federal Home Loan Mortgage Corp.	7/16/2013	0.1014	49,998
100,000	Federal Home Loan Mortgage Corp.	7/16/2013	0.1014	99,996
50,000	Federal Home Loan Mortgage Corp.	7/16/2013	0.1014	49,998
50,000	Federal Home Loan Mortgage Corp.	7/16/2013	0.1014	49,998
50,000	Federal Home Loan Mortgage Corp.	7/16/2013	0.1014	49,998
100,000	Federal Home Loan Bank	7/19/2013	0.0761	99,996
42,000	Federal Home Loan Bank	7/19/2013	0.0558	41,999
100,000	Federal Home Loan Bank	7/24/2013	0.0710	99,995
50,000	Federal Home Loan Bank	7/24/2013	0.0710	49,998
50,000	Federal Home Loan Bank	7/26/2013	0.0761	49,997
100,000	Federal Home Loan Bank	7/31/2013	0.0781	99,994
150,000	Federal Home Loan Bank	8/7/2013	0.0761	149,988
50,000	Federal National Mortgage Assoc.	8/7/2013	0.0710	49,996
50,000	Federal Home Loan Bank	8/14/2013	0.0720	49,996
25,000	Federal Home Loan Mortgage Corp.	8/26/2013	0.1217	24,995
135,000	Federal Home Loan Mortgage Corp.	8/28/2013	0.0710	134,985
50,000	Federal Home Loan Bank	8/28/2013	0.0913	49,993
50,000	Federal National Mortgage Assoc.	9/3/2013	0.1522	49,987
100,000	Federal Home Loan Bank	9/10/2013	0.1014	99,980
100,000	Federal Home Loan Mortgage Corp.	9/23/2013	0.1065	99,975
100,000	Federal Home Loan Bank	9/25/2013	0.1116	99,974
100,000	Federal Home Loan Bank	9/25/2013	0.1095	99,974
50,000	Federal National Mortgage Assoc.	9/25/2013	0.1014	49,988

SCHEDULE OF INVESTMENTS & DEPOSITS (Continued)

June 30, 2013

(expressed in thousands)

Principal	Description	Date of Maturity	Yield Percentage	Amortized Cost
50,000	Federal Home Loan Bank	9/25/2013	0.1014	49,988
100,000	Federal National Mortgage Assoc.	9/25/2013	0.1014	99,976
50,000	Federal National Mortgage Assoc.	9/25/2013	0.1014	49,988
50,000	Federal National Mortgage Assoc.	9/25/2013	0.1014	49,988
50,000	Federal Home Loan Bank	9/26/2013	0.1116	49,987
300,000	Federal Home Loan Bank	9/27/2013	0.1034	299,925
100,000	Federal Home Loan Mortgage Corp.	10/7/2013	0.1116	99,970
50,000	Federal Home Loan Bank	10/16/2013	0.1116	49,984
50,000	Federal Home Loan Bank	10/18/2013	0.1217	49,982
104,400	Federal Home Loan Bank	10/18/2013	0.1075	104,366
79,500	Federal Home Loan Mortgage Corp.	10/22/2013	0.1116	79,473
65,000	Federal Home Loan Mortgage Corp.	10/22/2013	0.1116	64,978
50,000	Federal Home Loan Bank	10/23/2013	0.1014	49,984
55,000	Federal Home Loan Bank	10/23/2013	0.1014	54,983
55,000	Federal Home Loan Bank	10/23/2013	0.1014	54,983
100,000	Federal Home Loan Bank	10/23/2013	0.1014	99,968
100,000	Federal Home Loan Bank	10/25/2013	0.1014	99,968
59,000	Federal Home Loan Bank	10/30/2013	0.1045	58,980
165,000	Federal Home Loan Bank	10/30/2013	0.1045	164,943
100,000	Federal Home Loan Bank	11/1/2013	0.1014	99,966
50,000	Federal Home Loan Bank	11/1/2013	0.1014	49,983
45,000	Federal Home Loan Bank	11/1/2013	0.1014	44,985
100,000	Federal Home Loan Mortgage Corp.	11/4/2013	0.1014	99,965
50,000	Federal Home Loan Mortgage Corp.	11/4/2013	0.0989	49,983
54,000	Federal Home Loan Bank	11/6/2013	0.1065	53,980
50,000	Federal Home Loan Mortgage Corp.	11/12/2013	0.1217	49,978
50,000	Federal National Mortgage Assoc.	11/13/2013	0.1065	49,980
25,000	Federal Home Loan Bank	11/15/2013	0.0994	24,991
50,000	Federal Home Loan Bank	11/22/2013	0.1014	49,980
50,000	Federal Home Loan Mortgage Corp.	11/25/2013	0.1116	49,977
50,000	Federal Home Loan Bank	12/13/2013	0.1167	49,974
100,000	Federal Home Loan Bank	12/13/2013	0.1167	99,947
50,000	Federal Home Loan Bank	12/13/2013	0.1167	49,974
50,000	Federal Home Loan Bank	12/13/2013	0.1167	49,974
50,000	Federal Home Loan Mortgage Corp.	12/18/2013	0.1014	49,976
58,275	Federal Home Loan Mortgage Corp.	12/18/2013	0.1014	58,247
100,000	Federal Home Loan Mortgage Corp.	12/19/2013	0.1014	99,952
90,000	Federal Home Loan Mortgage Corp.	12/19/2013	0.1014	89,957
50,000	Federal Home Loan Mortgage Corp.	2/26/2014	0.1116	49,963
\$ 4,877,175				\$ 4,875,939
\$ 6,514,925	TOTAL U.S. AGENCY SECURITIES			\$ 6,513,556

SCHEDULE OF INVESTMENTS & DEPOSITS (Continued)

June 30, 2013

(expressed in thousands)

Principal	Description	Date of Maturity	Yield Percentage	Amortized Cost
U.S. TREASURY SECURITIES (13.2% of Total Portfolio)				
U.S. Treasury Bills				
\$ 50,000	U.S. Treasury Bills	8/22/2013	0.1340	\$ 49,990
50,000	U.S. Treasury Bills	8/22/2013	0.1340	49,990
50,000	U.S. Treasury Bills	8/22/2013	0.1330	49,990
50,000	U.S. Treasury Bills	9/5/2013	0.1280	49,988
50,000	U.S. Treasury Bills	9/12/2013	0.1150	49,989
50,000	U.S. Treasury Bills	9/19/2013	0.1120	49,988
50,000	U.S. Treasury Bills	9/19/2013	0.1120	49,988
50,000	U.S. Treasury Bills	9/26/2013	0.1090	49,987
50,000	U.S. Treasury Bills	9/26/2013	0.1090	49,987
50,000	U.S. Treasury Bills	9/26/2013	0.1090	49,987
50,000	U.S. Treasury Bills	10/10/2013	0.0990	49,986
50,000	U.S. Treasury Bills	10/10/2013	0.0940	49,987
50,000	U.S. Treasury Bills	10/17/2013	0.0890	49,987
50,000	U.S. Treasury Bills	10/24/2013	0.0870	49,986
50,000	U.S. Treasury Bills	10/31/2013	0.0790	49,987
50,000	U.S. Treasury Bills	10/31/2013	0.0820	49,986
50,000	U.S. Treasury Bills	11/7/2013	0.0840	49,985
50,000	U.S. Treasury Bills	11/7/2013	0.0860	49,985
50,000	U.S. Treasury Bills	11/14/2013	0.0820	49,985
50,000	U.S. Treasury Bills	11/14/2013	0.0820	49,985
50,000	U.S. Treasury Bills	11/21/2013	0.0840	49,983
50,000	U.S. Treasury Bills	11/21/2013	0.0830	49,984
50,000	U.S. Treasury Bills	11/29/2013	0.0830	49,983
50,000	U.S. Treasury Bills	11/29/2013	0.0830	49,983
50,000	U.S. Treasury Bills	12/5/2013	0.0810	49,983
50,000	U.S. Treasury Bills	12/12/2013	0.0810	49,982
50,000	U.S. Treasury Bills	12/19/2013	0.0780	49,982
50,000	U.S. Treasury Bills	12/26/2013	0.1020	49,975
\$ 1,400,000	TOTAL U.S. TREASURY SECURITIES			\$ 1,399,598
REPURCHASE AGREEMENTS (16.9% of Total Portfolio)				
\$ 57,874	UBS Warburg	7/1/2013	0.0100	\$ 57,874
200,000	Jefferies and Company, Inc.	7/1/2013	0.1300	200,000
200,000	Barclays Capital Inc.	7/1/2013	0.0600	200,000
350,000	Scotia Capital	7/2/2013	0.0900	350,000
200,000	Societe Generale	7/3/2013	0.0700	200,000
290,000	Scotia Capital	7/8/2013	0.1000	290,000
300,000	Barclays Capital Inc.	7/15/2013	0.0700	300,000
200,000	Jefferies and Company, Inc.	7/15/2013	0.0700	200,000
\$ 1,797,874	TOTAL REPURCHASE AGREEMENTS			\$ 1,797,874

SCHEDULE OF INVESTMENTS & DEPOSITS (Continued)

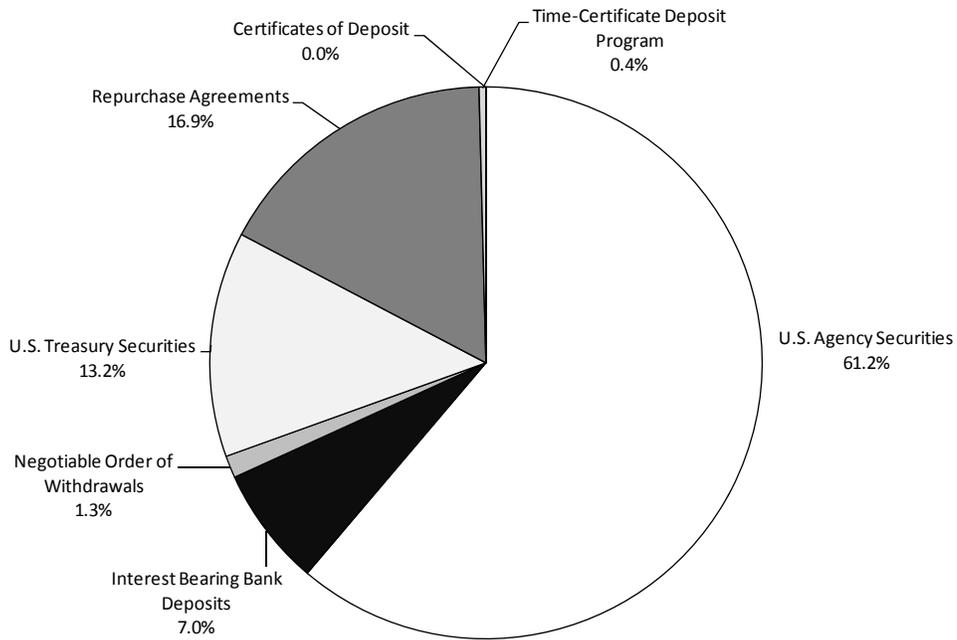
June 30, 2013

(expressed in thousands)

Face Amount	Issuer	Date of Maturity	Yield Percentage	Historical Cost
CERTIFICATES OF DEPOSIT (0.0% of Total Portfolio)				
\$ 2,000	Liberty Bay Bank	7/25/2013	0.4200	\$ 2,000
\$ 2,000	TOTAL CERTIFICATES OF DEPOSIT			\$ 2,000
INTEREST BEARING BANK DEPOSITS (7.0% of Total Portfolio)				
\$ 349,910	US Bank	---	0.0500	\$ 349,910
55,387	Umpqua Bank	---	0.3000	55,387
280,302	Key Bank	---	0.1500	280,302
118	Sterling Savings Bank	---	0.1500	118
2,569	Coastal Community Bank	---	0.5000	2,568
30,079	Umpqua Bank	---	0.3000	30,079
25,070	Umpqua Bank	---	0.3000	25,070
\$ 743,435	TOTAL INTEREST BEARING BANK DEPOSITS			\$ 743,434
NEGOTIABLE ORDER OF WITHDRAWAL (NOW) ACCOUNTS (1.3% of Total Portfolio)				
\$ 436	Whidbey Island\City Bank	---	0.0500	\$ 436
122	Union Bank\Frontier Bank	---	0.2000	123
14,888	First Citizens Bank\Venture Bank	---	0.2000	14,888
40,262	Union Bank\Frontier Bank	---	0.2000	40,262
80,491	EastWest Bank	---	0.1500	80,491
\$ 136,199	TOTAL NOW ACCOUNTS			\$ 136,200
TIME CERTIFICATE OF DEPOSIT (TCD) INVESTMENT PROGRAM (0.4% of Total Portfolio)				
\$ 4,150	Anchor Mutual Savings Bank	7/10/2013	0.4200	\$ 4,150
4,150	Commencement Bank	7/10/2013	0.4200	4,150
2,175	Core Business Bank	7/10/2013	0.4200	2,175
7,500	East West Bank	7/10/2013	0.4200	7,500
4,150	First Federal Savings & Loan Assn.	7/10/2013	0.4200	4,150
1,415	1st Security Bank of Washington	7/10/2013	0.4200	1,415
2,175	Plaza Bank	7/10/2013	0.4200	2,175
7,500	Whidbey Island Bank	7/10/2013	0.4200	7,500
7,500	Yakima Federal Savings & Loan Assn.	7/10/2013	0.4200	7,500
\$ 40,715	TOTAL TCD INVESTMENT PROGRAM			\$ 40,715
\$ 10,635,148	TOTAL INVESTMENTS & DEPOSITS			\$10,633,377

DISTRIBUTION BY SECURITY TYPE

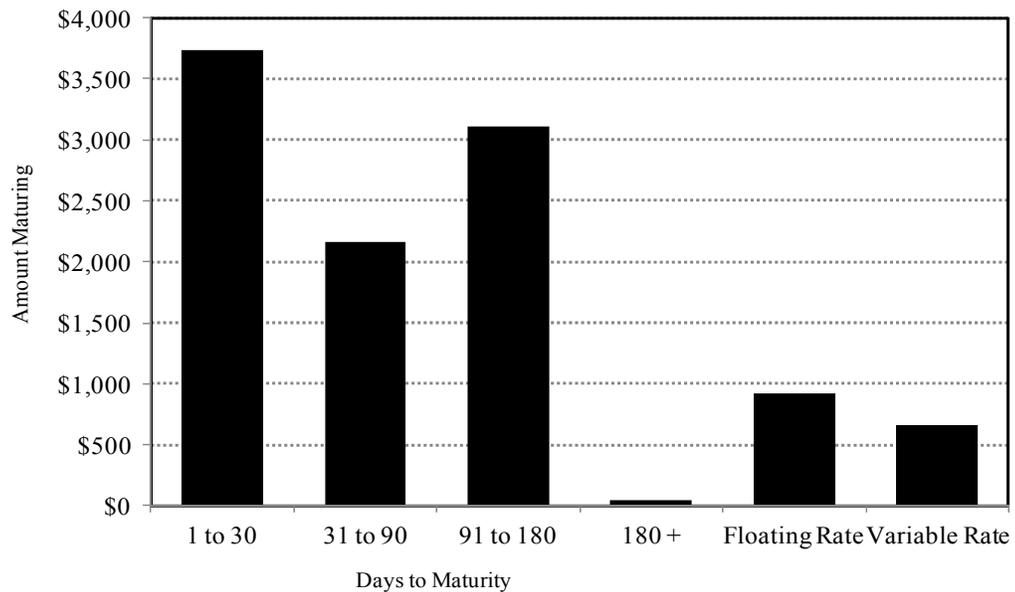
June 30, 2013



MATURITY ANALYSIS

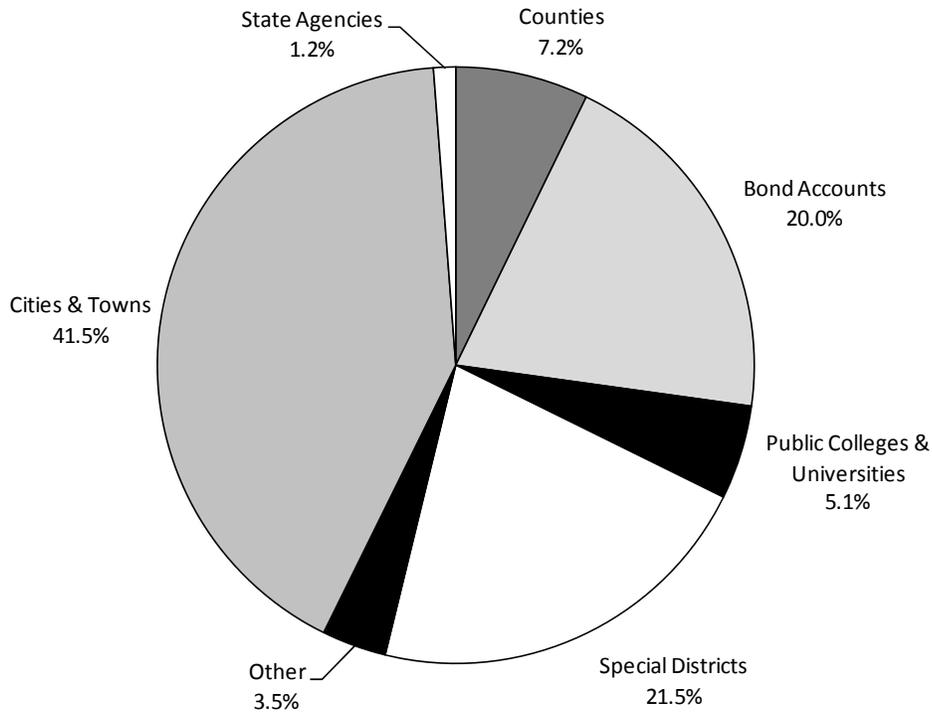
June 30, 2013

(expressed in millions)



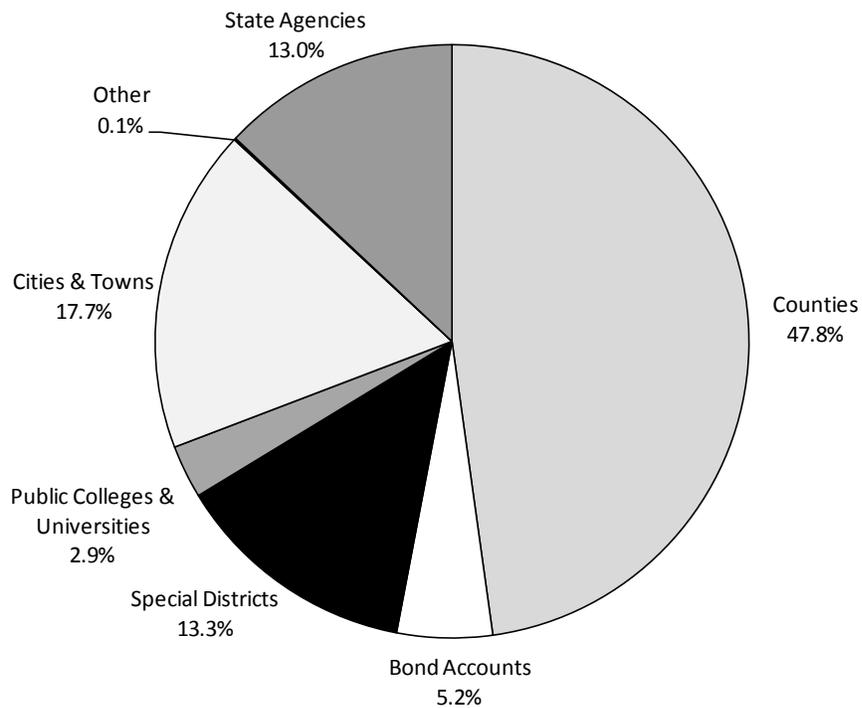
OWNERSHIP ANALYSIS AS A PERCENT OF TOTAL ACCOUNTS

June 30, 2013

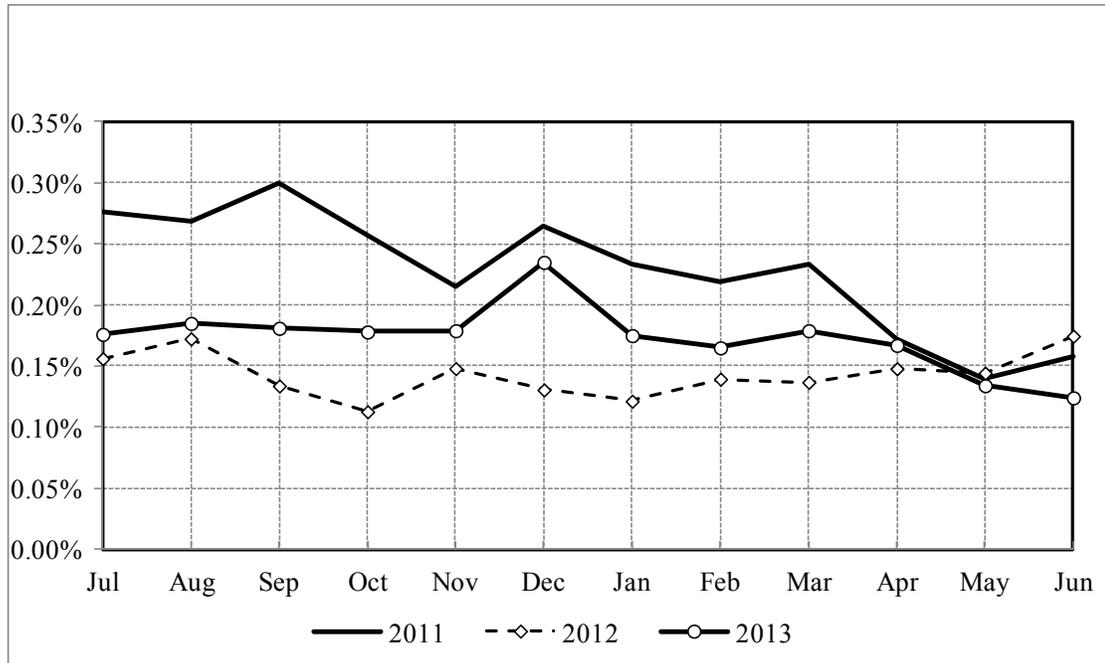


OWNERSHIP ANALYSIS AS A PERCENT OF TOTAL BALANCES

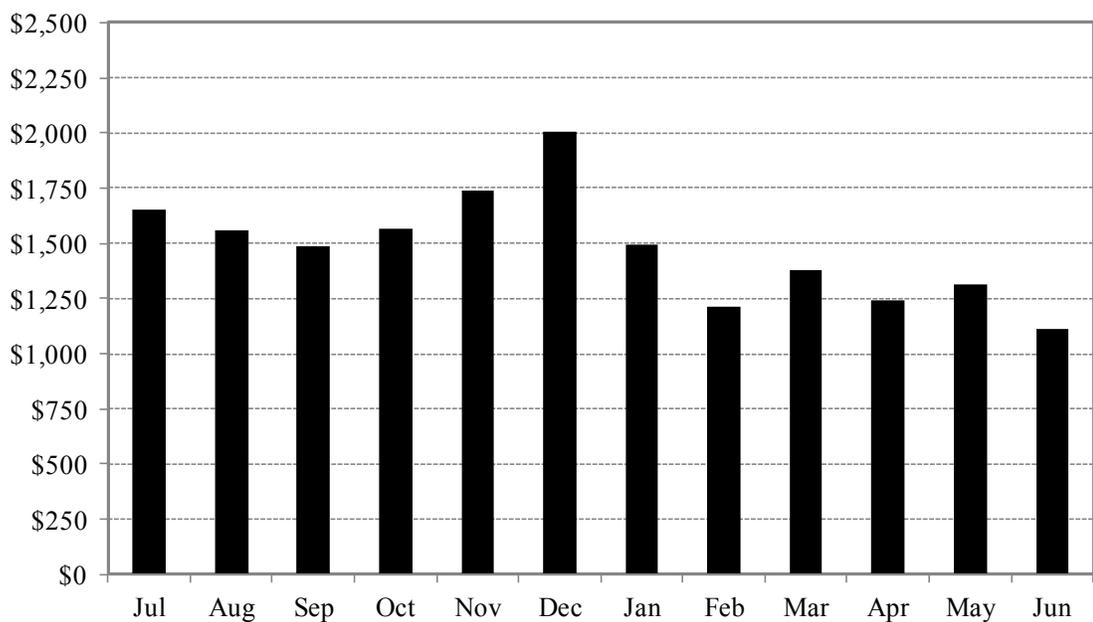
June 30, 2013



NET RATE OF RETURN Fiscal Years 2011 – 2013

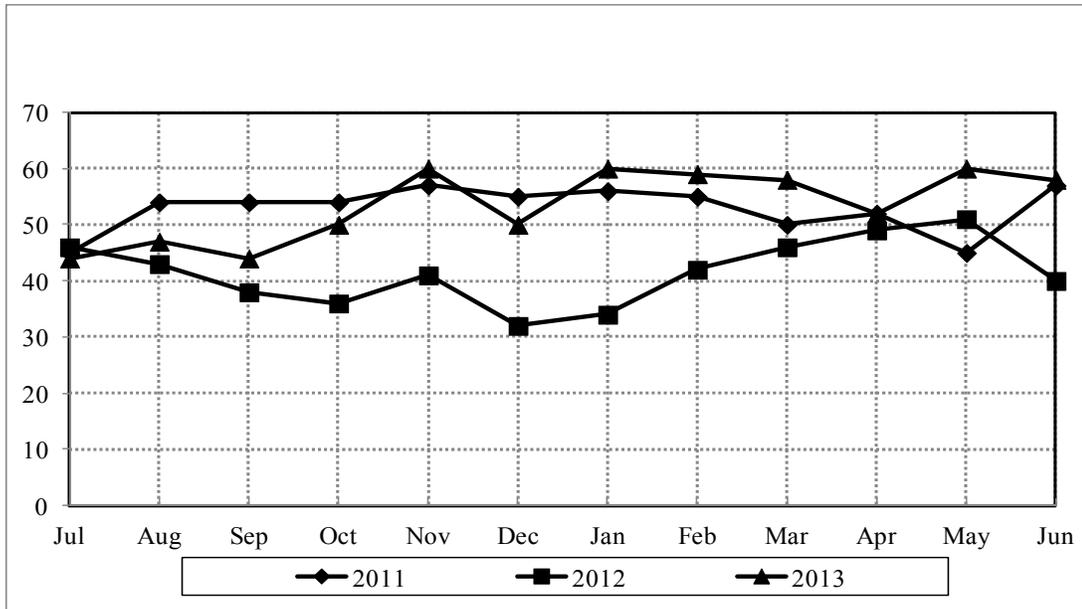


NET INVESTMENT INCOME Fiscal Year 2013 (expressed in thousands)

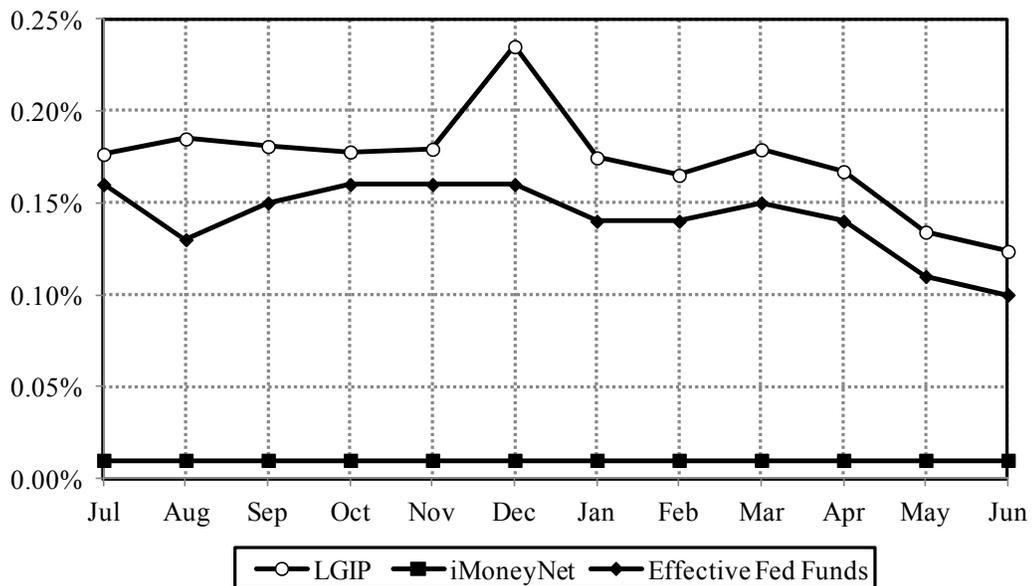


AVERAGE DAYS TO MATURITY

Fiscal Years 2011 – 2013



LGIP NET EARNINGS RATE Versus EFFECTIVE FEDERAL FUNDS and iMoneyNet, Inc. Fiscal Year 2013



POSITION AND COMPLIANCE REPORT

(Settlement Date Basis)

June 30, 2013

(expressed in thousands)

Investments & Deposits by Security Type

Portfolio Holdings	Cost	Percentage of Portfolio
Agency Bullets	50,000	0.47
Agency Discount Notes	4,875,939	45.86
Agency Floating Rate Notes	925,164	8.70
Agency Variable Rate Notes	662,453	6.23
Certificates of Deposit	2,000	0.02
Interest Bearing Bank Deposits	743,434	6.99
NOW Accounts	136,200	1.28
Repurchase Agreements	257,874	2.43
Statutory CD Programs	40,715	0.38
Term Repurchase Agreements	1,540,000	14.48
U.S. Treasury Bills	1,399,598	13.16
Total	\$ 10,633,377	100.00%

POSITION AND COMPLIANCE REPORT (Continued)
(Settlement Date Basis)

June 30, 2013
(expressed in thousands)

Policy Limitations

Size Limitations	Holdings	Percentage of Portfolio	Policy Limitations Percentage
Floating Rate and Variable Rate Notes	\$ 1,587,617	14.93%	30%
Other Structured Notes	.....	0.00%	10%
Term Repo > 30 days	.....	0.00%	30%
Certificates of Deposit	\$ 2,000	0.02%	10%
Demand Deposit Accounts	\$ 879,634	8.27%	50%
Bankers' Acceptances	.....	0.00%	20%
Commercial Paper	.....	0.00%	25%
Reverse Repo	.....	0.00%	30%
Security Lending	.....	0.00%	30%

Maturity Limitations	Currently	Policy Limitations
Weighted Average Maturity	58 days	60 days
Weighted Average Life	98 days	120 days
Maximum Maturity		
Bullet Maturities	26 days	397 days
Floating Rate and Variable Rate Notes	687 days	762 days
Repos	15 days	180 days
Reverse Repos	0 days	90 days

Repo Limits Per Dealer	June 30, 2013	Total Repo Percentage (20% limit)
Barclays Capital Inc.	\$ 500,000	5%
Jefferies and Company, Inc.	400,000	4%
Scotia Capital	640,000	6%
Societe Generale	200,000	2%
UBS Warburg	57,874	1%
Total	\$ 1,797,874	

SCHEDULE OF PARTICIPANTS BY CONCENTRATION

June 30, 2013

Participant Type	Number of Accounts		Ownership Value	
Counties	39	7.2%	\$ 5,080,565,172	47.8%
Cities & Towns	226	41.5%	1,884,111,791	17.7%
Special Districts	117	21.5%	1,415,820,558	13.3%
State Agencies	7	1.2%	1,385,092,115	13.0%
Bond Accounts	109	20.0%	548,845,659	5.2%
Public Colleges & Universities	28	5.1%	311,129,279	2.9%
Other	19	3.5%	7,665,844	0.1%
Total	545	100.0%	\$ 10,633,230,418	100.0%

SCHEDULE OF MANAGEMENT FEES

For the Fiscal Year Ended June 30, 2013

Category	Amount
Internal Fees ^[1]	\$ 569,154
External Fees ^[2]	<u>251,046</u>
Total	<u>\$ 820,200</u>
<p>^[1] Includes salaries/benefits and other administrative expenses.</p> <p>^[2] Includes custodian, legal, and other financial services.</p>	

INVESTMENT POLICY

I. Statement of Purpose

This statement is intended to *describe the policies* that the State Treasurer has established as useful and prescribed guidelines for the prudent management of the funds in the Local Government Investment Pool (LGIP). This statement also lists and describes realistic parameters and goals in investing those public funds.

It aims to *establish reasonable expectations, objectives and guidelines in the investment process*. It will set forth an investment structure detailing the universe of permitted investments and restrictions for their utilization. Creating this framework will lessen confusion as it sets expectations of generally acceptable returns at a level of risk suitable to the stated funds.

The goal of this investment policy and the corresponding investment function is to *clarify the prescribed duties* delegated to the State Treasurer with regards to the investment of LGIP funds.

This statement is *intended to be an abstract of the investment philosophy* that serves as a general guidance to individuals so authorized. The Treasurer has liberty to make amendments as deemed necessary.

II. Identification of Funds

This policy applies to all public funds on deposit with the Local Government Investment Pool (LGIP) as defined by RCW 43.250.020.

III. Objectives

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be: safety, liquidity, and return on investment.

1. **Safety:** Safety of principal is the primary objective of the State Treasurer. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To obtain this objective the OST portfolio manager will :
 - limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in Section VII of this policy;
 - maintain a Weighted Average Maturity (WAM) of 60 days or shorter, as described in Section VII.3;
 - maintain a Weighted Average Life (WAL) of 120 days, as described in Section VII.3;
 - limit the purchase of investments in securities other than those issued by the U.S. government or its agencies; and,
 - prepare regular reports of portfolio activity.

2. **Liquidity:** The investment portfolio will remain liquid to enable the State Treasurer to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations.
 - OST will have an understanding of historical cash flow patterns to manage expectations.
 - OST will hold securities that can be converted to liquid cash to be incorporated in liquidity structure.
3. **Return on Investment:** The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

IV. Standards of Care

1. Delegation of Authority.

The State Treasurer is an executive officer of the state, as established by the Constitution of the State of Washington (Article III, Section 1), and “will perform such duties as will be prescribed by law” (Article III, Section 19).

As prescribed by the Revised Code of Washington (RCW), “The legislature finds and declares that the public interest is found in providing maximum prudent investment of surplus funds, thereby reducing the need for additional taxation. The legislature also recognizes that not all political subdivisions are able to maximize the return on their temporary surplus funds. The legislature therefore provides in this chapter a mechanism whereby political subdivisions may, at their option, utilize the resources of the Office of the State Treasurer (OST) to maximize the potential surplus funds while ensuring the safety of public funds” (RCW 43.250.010).

To “ensure effective cash management of public funds,” (RCW 43.08.015) the State Treasurer may designate investment officers who will have the authority to perform the duties of the state treasurer, and will maintain a current list (available upon request) of those individuals so authorized.

2. Prudence.

The State Treasurer and authorized investment officers will perform their duties in a manner consistent with the standard of a “prudent person,” as defined by RCW 43.250.040:

“In investing and reinvesting moneys in the public funds investment account and in acquiring, retaining, managing, and disposing of investments of the investment pool, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.”

Authorized investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions to control adverse developments as may be possible in consideration of the particular circumstances and within other provisions of this policy.

3. Ethics and Conflicts of Interest.

The State Treasurer, assistant treasurer, and authorized investment officers will adhere to standards of conduct as stipulated by the following:

- Public Disclosure Act, RCW 42.16;
- Ethics in Public Service Act, RCW 42.52 and section 292-110-010 Washington Administrative Code; and,
- Standards of Conduct for Executive Branch Employees, Executive Order 93-02.

All authorized investment officers will file personal financial disclosure forms with the Public Disclosure Commission consistent with the provisions of RCW 42.17.

V. Controls

1. Custody.

Safekeeping and Custody: Prudent treasury management dictates that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution. Deposits will only be made in depositories approved by the Washington Public Deposit Protection Commission.

The State Treasurer shall designate all safekeeping arrangements and an agreement of the terms executed in writing. The third-party custodian shall be required to provide a statement to the State Treasurer listing at a minimum each specific security, description, maturity date, market value, par value, purchase date, and cusip number.

2. Authorized Financial Dealers and Institutions.

The State Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the state. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

- financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- primary dealers recognized by the Federal Reserve Bank; or,
- non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and a certified member of the National Association of Securities Dealers.

Each authorized dealer or institution will make available annual reports, including audited financial statements, and other information as determined by the State Treasurer.

3. Competitive Transactions.

- It will be the policy of the state treasurer to transact securities purchases or sales through appropriately competitive processes.
- Electronic trading is the preferred option for the purchase and sale of investment instruments, when appropriate.
- Offers or bids for securities may be received from approved broker/dealers by the following means:
 - a. by phone

- b. by e-mail or other electronic communication
- c. through electronic trading platform
- d. from inventory listings supplied by approved broker/dealers for underwritten new issues.

4. Share Price Calculation.

The current price per share, for purposes of distribution, redemption and repurchase, will be computed by use of the Amortized Cost Method. It is the intent to manage the portfolio to maintain a stable net asset value at \$1.00, like 2a7 funds. However maintenance of a stable net asset value at 1.00 is not guaranteed.

5. Internal Controls.

The State Treasurer will maintain internal controls to protect against the loss of public funds arising from negligence, theft or misuse. These controls will include, but not be limited to:

- the use of third party custody and safekeeping;
- the execution of all securities transactions on a DVP basis;
- the clear delegation of investment authority;
- the separation of transaction authority from record keeping;
- the use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the state; and,
- the use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

Daily reports monitoring investment operations to ensure compliance with the terms of this policy will be produced and provided to staff responsible for oversight of the LGIP.

6. External Controls.

As prescribed by RCW 43.09.050, the state auditor will “audit the accounts” and “inspect the books” of the State Treasurer to determine the compliance of investment activities with state statutes and this policy. In addition, the LGIP will contract for an outside independent audit of LGIP financial statements.

The market value of the portfolio will be calculated monthly by the master custodian or by an independent pricing service under contract with the State Treasurer’s Office.

This policy will be reviewed/revised at least annually. The State Treasurer will formally approve any changes to this policy after consultation with the LGIP Advisory Committee.

VI. Eligible and Suitable Investments

1. Eligible Investments

Eligible investments are only those securities and deposits authorized by statute. (RCW 39.58, 39.59, and 43.84.080) Eligible investments include, but are not limited to:

- obligations of the U.S. government;
- obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government;

- obligations of government-sponsored corporations which are, or may become, eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve;
- banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two designated Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations;
- commercial paper, provided that the OST adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7));
- certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission and made in accordance with the provisions of RCW 39.58; and,
- obligations of the state of Washington or its political subdivisions.

VII. Investment Parameters

To provide for the safety and liquidity of LGIP funds, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy and there may be separate guidelines containing additional, more restrictive limitations for certain investment instruments. All restrictions are based on a settlement date basis. The investments of cash collateral and securities accepted as collateral by a securities lending agent are subject to the restrictions and limits of sections VI and VII of this policy.

Maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded, e.g., due to fluctuations in fund balances. Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made.

1. Liquidity Provisions

The fund will be structured to maintain a sufficient degree of liquidity necessary to meet reasonably foreseeable redemption requests and reduce the likelihood that a fund will have to meet redemptions by selling portfolio securities into a declining market.

- 10% will be maintained in “daily liquid assets” and that includes (i) cash (ii) direct obligations of the US Government, (iii) demand deposits, (iv) overnight repurchase agreements and (v) securities that mature that day.
- 30% of the portfolio will be maintained in “weekly liquid assets” — and includes (i) cash, (ii) direct obligations of the US Government, (iii) Government Agency discount notes that have remaining maturity of 60 days or less and (iv) securities that will mature, or have a demand feature exercisable and payable within 5 business days.

2. Diversification and Percentage Limitations

Cash raised as a result of securities lending or reverse repurchase agreement transactions will not increase the dollar amount of the following limitations.

a. Government Securities

Investments in government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

Floating and Variable Rate Notes (aggregate total)	30%
Other Structured Notes	10%

For the purposes of this policy the following definitions shall apply:

Floating Rate Note: securities which at all times can reasonably be expected to have a market value that approximates their amortized cost. This would include those who reset based on indices such as Fed Funds or the prime lending rate. Floating Rate Notes that reset based on any other index must be approved by either the state treasurer or the assistant state treasurer prior to purchase.

Variable Rate Notes: securities which on any reset date can reasonably be expected to have a market value that approximates their amortized cost. This would include those who reset based on indices such as LIBOR or US Treasury Bills. Variable Rate Notes that reset based on any other index must be approved by either the state treasurer or the assistant state treasurer prior to purchase.

Other Structured Notes: all other debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and which may have embedded forwards or options.

- Structured notes whose cash flows can no longer fluctuate will not count against the 10% limitation.

b. Non-government Securities

Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

Bankers Acceptances	20%
Commercial Paper	25%
Certificates of Deposit	10%
Demand Deposit Accounts	50%

The aggregate amount for Commercial Paper and Bankers Acceptances will not exceed 35% of the portfolio. Additionally, individual issuers of commercial paper or bankers acceptances will be limited to no more than 5% of the portfolio.

3. Investment Maturity

A. Maximum Final Maturity The maximum final maturity of any security will not exceed 397 days, with the following exceptions:

- The maximum maturity of the variable rate and floating rate securities meeting the requirements listed above will not exceed 762 days; and
- Securities utilized in repurchase agreements

B. Weighted Average Maturity (WAM)

The weighted average maturity (WAM) of the portfolio will not exceed 60 days. For the purposes of calculating the WAM:

- A variable rate security meeting the requirements listed above will be deemed to have a maturity equal to the period remaining to the next reset date, provided that on any reset date such security can be reasonably expected to have a market value that approximates its amortized cost; and
- A floating rate security meeting the requirements listed above will be deemed to have a remaining maturity of one day, provided that at any time prior to maturity such security can reasonably be expected to have a market value that approximates its amortized cost.

C. Weighted Average Life (WAL)

The weighted average life (WAL) of the portfolio shall not exceed 120 days. For the purpose of calculating the WAL:

- A variable rate security will be calculated using its final maturity; and,
- A floating rate security will be calculated using its final maturity.

D. Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements will be subject to the following additional restrictions:

- transactions will be conducted only with primary dealers, the state's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement approved by the Public Securities Association;
- repurchase agreements with any single primary dealer or financial institution will not exceed 20% of the portfolio;
- the maximum term of repurchase agreements will be 180 days;
- the share of the portfolio allocated to repurchase agreements with maturities beyond 30 days will not exceed 30% of the total portfolio;
- the maximum term of reverse repurchase agreements will be 90 days and must be matched to anticipated cash flows adequate to liquidate the transaction; and,
- the maximum portion of the portfolio allocated to reverse repurchase agreements or engaged in a securities lending program will not exceed 30% of the total portfolio.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

- securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced at least weekly;
- all substitutions will be approved by the OST before the existing purchased security is released to the broker/dealer;
- the market value, plus accrued income, of treasury, agency and money market securities utilized in repurchase agreements will be 102% of the value of the repurchase agreement;
- the market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105% of the value of the repurchase agreement;
- collateralized mortgage obligation (CMO) securities utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or will not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency; and,
- only securities authorized in statute for the investment of public funds will be utilized in repurchase agreements.

Additional operating guidelines will provide details relating to the frequency of security pricing, substitutions, and margin calls.

VIII. Professional Services

The State Treasurer may contract for professional services as necessary for the efficient management of investments.

1. Appointment of Master Custodian

The State Treasurer may select one or more firms to provide the state with master custodial services. Master custodial services will include, but not be limited to:

- executing transactions involving all securities held in custody, including on-line security clearing, settlement of securities on a delivery-versus-payment basis (DVP), and settlement of physically-held securities;
- providing regular reports on the activity and value of the securities in custody; and,
- providing for the safekeeping of all documents and financial instruments physically held in custody.

2. Appointment of Securities Lending Agent

The State Treasurer may select one or more firms to provide securities lending management services. Securities lending services will include, but not be limited to:

- ensuring all loans of coupon-bearing securities are supported by collateral valued at not less than 102% of market value of the securities, including accrued income;
- ensuring all loans of non coupon-bearing securities supported by cash collateral, shall not be valued at less than 102% of market value, but not to exceed par;
- ensuring all loans of non coupon-bearing securities supported by non-cash collateral, shall not be valued at less than 102% of market value;
- ensuring the average maturity of securities on loan and of the securities purchased are for 14 days or less;
- ensuring that the investment of cash collateral be only in securities authorized in this policy, and that the restrictions on investments found in sections V and VI of this policy also apply to investments made by a securities lending agent;
- providing next day liquidity for all securities on loan; and,
- providing monthly accounting, performance, compliance, and management reports.

The services of a master custodian and securities lending agent will be obtained through an evaluation of competitive proposals submitted in response to a regularly issued request for proposals.

Securities purchased by the office are to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department.

Collateral is to be similarly held or held by an independent third party with whom the office has a current master repurchase agreement.

All securities transactions are to be conducted on a DVP basis only, and a trade confirm/safekeeping receipt is to be provided to the Treasurer's Office.

IX. Advisory Committee

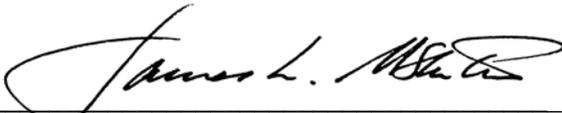
The State Treasurer created the LGIP Advisory Committee to provide advice on the operation of the pool. Of the committee members, all of whom are active LGIP participants, some members are appointed by participant associations, and some members are appointed by the State Treasurer. The LGIP Advisory Committee will meet quarterly or at the discretion of the State Treasurer.

X. Performance Benchmark

A performance benchmark provides an appropriate comparison of risk and return based on a investment funds policy criteria. The imoney.net, Govt Only Institutional Index is an index that is comprised of 2a7 government only portfolios and represents the LGIP investment objectives. Therefore, this index will be used as a comparison for risk and return results.

XI. Reporting Requirements

The State Treasurer will prepare regular reports summarizing characteristics and holdings in the fund. In accordance with Washington Administrative Code 210-01-110, each pool participant will be provided a monthly statement of account. In accordance with RCW 43.250.080, the State Treasurer will submit an annual summary of LGIP activity to the governor, the state auditor, and the Joint Legislative Audit and Review Committee.



Approved by James L. McIntire, State Treasurer

11-15-10

Date

Effective Date: November 10, 2010





Statistical Section



STATISTICAL NARRATIVE

This section presents detailed information on the Investment Pool with historical perspective as a context for understanding the information in the Financial and Investment Sections of this report.

The following tables and charts contain ten-year trend information to help the reader assess changes over time.

- ***Table 1 – Net Position***
This table allows the reader to evaluate the movements of increases and decreases in assets, liabilities, and net position.
- ***Table 2 – Changes in Net Position***
This table allows the reader to evaluate movements in the Additions, Deductions, and Changes in Net Position.
- ***Table 3 – Distribution By Security Type***
This table presents the historical amounts and percentages of various securities in the portfolio to help the reader assess the changes in investment types held at yearend.
- ***Table 4 – Ownership Analysis as a Percent of Total Balances***
This table presents the historical amounts and percentages of balances held by various classes of participants to help the reader assess changes in ownership.
- ***Average Invested Balances***
This chart presents the average balances invested by participants to help the reader assess the size of the portfolio.
- ***Portfolio Yield Percentage***
This chart presents the annual yields to help the reader assess the percentage return of the portfolio.
- ***Net Investment Income***
This chart presents the amount of net earnings to help the reader assess the dollar value return of the portfolio.
- ***LGIP versus iMoneyNet, Inc***
This chart presents the Compounded Annual Yield and Cumulative Yield of the LGIP to its benchmark to help the reader assess performance.



TABLE 1
NET POSITION
Last Ten Fiscal Years
(expressed in thousands)

	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Assets										
Investments ¹										
Repurchase Agreements	\$ 683,906	\$ 1,566,853	\$ 3,280,925	\$ 3,820,672	\$ 215,768	\$	\$ 2,600,000	\$ 250,000	\$ 3,609,500	\$ 1,797,874
U.S. Agency Securities	3,763,313	2,769,258	1,115,036	1,486,788	5,624,473	4,123,550	5,082,699	6,565,888	3,324,955	6,513,556
U.S. Treasury Securities	351,151	49,766	19,919	149,795	.....	2,922,171	449,640	1,900,331	1,649,151	1,399,598
Total	4,798,370	4,385,877	4,415,880	5,457,255	5,840,241	7,045,721	8,132,339	8,716,219	8,583,606	9,711,028
Securities Lending Investments ¹										
Repurchase Agreements	298,799	80,899	44,790	91,105	113,595	.....	.....	.....	.....	.....
Total Investments (Settlement Date Basis)	5,097,169	4,466,776	4,460,670	5,548,360	5,953,836	7,045,721	8,132,339	8,716,219	8,583,606	9,711,028
Due from Brokers ¹										
(Securities Purchased But Not Settled)	449,477	43,661	.....	98,770	.....	.....	.....	.....	49,989	.....
U.S. Agency Securities										
Total Investments (Trade Date Basis)	5,546,646	4,510,437	4,460,670	5,647,130	5,953,836	7,045,721	8,132,339	8,716,219	8,633,595	9,711,028
Other Assets										
Interest Bearing Bank Deposits	39,820	429,234	674,006	378,726	381,110	302,774	728,893	444,200	363,253	743,434
Certificates of Deposit	105,000	143,250	188,500	255,350	646,350	229,000	38,000	39,000	40,000	2,000
Negotiable Order of Withdrawal (NOW) Accounts	.....	.....	.....	.....	.....	1,105,436	97,435	115,404	235,788	136,200
Time Certificate of Deposit (TCD) Program	.....	.....	.....	.....	.....	.....	.....	70,365	47,840	40,715
Cash	.....	1	1	.....	105	3,250	673	.....	.....	836
Interest Receivable	4,747	9,086	13,046	21,659	18,655	5,430	1,542	1,988	1,078	714
Investment Maturities Pending Receivable	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total Other Assets	149,567	581,571	875,553	653,735	1,046,220	1,645,891	866,543	670,957	687,959	923,899
Total Assets	5,696,213	5,092,008	5,336,223	6,302,865	7,000,056	8,691,612	8,998,882	9,387,176	9,321,554	10,634,927
Liabilities										
Cash Drawn in Excess of Bank Balance	.....	.....	.....	.....	.....	.....	.....	.....	274	.....
Accrued Expenses	413	153	419	750	337	58	57	108	125	90
Obligations Under Securities Lending Agreements	298,799	80,899	44,790	91,105	113,595	.....	.....	.....	441,000	.....
Securities Sold Under Agreements to Repurchase	.....	.....	.....	.....	.....	199,675	.....	.....	.....	.....
Investment Trades Pending Payable	449,477	43,903	.....	98,770	.....	.....	.....	.....	49,989	.....
Total Liabilities	748,689	124,955	45,209	190,625	113,932	199,733	57	108	491,388	90
Net Position	\$ 4,947,524	\$ 4,967,053	\$ 5,291,014	\$ 6,112,240	\$ 6,886,124	\$ 8,491,879	\$ 8,998,825	\$ 9,387,068	\$ 8,830,166	\$ 10,634,837

¹ valued at amortized cost

TABLE 2
CHANGES IN NET POSITION
Last Ten Fiscal Years
(expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ADDITIONS										
Contributions from Participants	\$ 12,262,144	\$ 11,537,145	\$ 12,891,202	\$ 13,138,868	\$ 15,913,825	\$ 18,143,386	\$ 18,527,197	\$ 17,578,161	\$ 16,479,607	\$ 17,487,171
Investment Income:										
Investment Earnings	57,656	103,852	205,216	306,142	277,538	112,859	34,539	23,439	16,522	18,663
Less: Expenses	(2,736)	(3,547)	(5,731)	(4,519)	(3,330)	(445)	(52)		(157)	(84)
Total Investment Income	54,920	100,305	199,485	301,623	274,208	112,414	34,487	23,439	16,365	18,579
Miscellaneous	2	2	1	4	1	3				
Total Additions	<u>12,317,066</u>	<u>11,637,452</u>	<u>13,090,688</u>	<u>13,440,495</u>	<u>16,188,034</u>	<u>18,255,803</u>	<u>18,561,684</u>	<u>17,601,600</u>	<u>16,495,972</u>	<u>17,505,750</u>
DEDUCTIONS										
Distributions to Participants	12,547,682	11,617,385	12,766,205	12,618,725	15,413,583	16,649,428	18,054,132	17,212,633	17,052,244	15,700,259
Administrative Expenses	550	538	522	544	567	621	606	724	630	820
Total Deductions	<u>12,548,232</u>	<u>11,617,923</u>	<u>12,766,727</u>	<u>12,619,269</u>	<u>15,414,150</u>	<u>16,650,049</u>	<u>18,054,738</u>	<u>17,213,357</u>	<u>17,052,874</u>	<u>15,701,079</u>
CHANGE IN NET POSITION	(231,166)	19,529	323,961	821,226	773,884	1,605,755	506,946	388,243	(556,902)	1,804,671
Net Position - Beginning of Year	5,178,690	4,947,524	4,967,053	5,291,014	6,112,240	6,886,124	8,491,879	8,998,825	9,387,068	8,830,166
Net Position - End of Year	<u>4,947,524</u>	<u>4,967,053</u>	<u>5,291,014</u>	<u>6,112,240</u>	<u>6,886,124</u>	<u>8,491,879</u>	<u>8,998,825</u>	<u>9,387,068</u>	<u>8,830,166</u>	<u>10,634,837</u>

TABLE 3
DISTRIBUTION BY SECURITY TYPE
 Last Ten Fiscal Years
 (expressed in thousands, except percentages)

Investment/Deposit Type	6/30/2013		6/30/2012		6/30/2011		6/30/2010		6/30/2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Certificates of Deposit	\$ 2,000	0.0%	\$ 40,000	0.4%	\$ 39,000	0.4%	\$ 38,000	0.4%	\$ 229,000	2.6%
Interest Bearing Bank Deposits	743,434	7.0%	363,253	3.9%	444,200	4.7%	728,893	8.1%	302,774	3.5%
Negotiable Order of Withdrawal Accounts	136,200	1.3%	235,788	2.6%	115,404	1.2%	97,435	1.1%	1,105,436	12.7%
Time Certificate of Deposit Program	40,715	0.4%	47,840	0.5%	70,365	0.8%	.....	.....	.....	.....
Repurchase Agreements	1,797,874	16.9%	3,168,500	34.0%	250,000	2.7%	2,600,000	28.9%	.....	.....
U.S. Agency Securities	6,513,556	61.2%	3,374,944	36.2%	6,565,888	70.0%	5,082,699	56.5%	4,123,550	47.5%
U.S. Treasury Securities	1,399,598	13.2%	1,649,151	17.7%	1,900,331	20.2%	449,640	5.0%	2,922,171	33.7%
Securities Lending Investments	.....	.....	441,000	4.7%	.....	.....	.....	.....	.....	.....
Total	\$10,633,377	100.0%	\$9,320,476	100.0%	\$9,385,188	100.0%	\$8,996,667	100.0%	\$8,682,931	100.0%

Investment/Deposit Type	6/30/2008		6/30/2007		6/30/2006		6/30/2005		6/30/2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Certificates of Deposit	\$ 646,350	9.2%	\$ 255,350	4.1%	\$ 188,500	3.5%	\$ 143,250	2.8%	\$ 105,000	1.9%
Interest Bearing Bank Deposits	381,110	5.5%	378,726	6.0%	674,006	12.7%	429,234	8.4%	39,820	0.7%
Negotiable Order of Withdrawal Accounts	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Time Certificate of Deposit Program	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Repurchase Agreements	215,768	3.1%	3,820,672	60.8%	3,280,925	61.7%	1,566,853	30.8%	683,906	12.0%
U.S. Agency Securities	5,624,473	80.6%	1,585,558	25.3%	1,115,036	20.9%	2,812,919	55.4%	4,212,790	74.0%
U.S. Treasury Securities	.....	.....	149,795	2.4%	19,919	0.4%	49,766	1.0%	351,151	6.2%
Securities Lending Investments	113,595	1.6%	91,105	1.4%	44,790	0.8%	80,899	1.6%	298,799	5.2%
Total	\$ 6,981,296	100.0%	\$ 6,281,206	100.0%	\$ 5,323,176	100.0%	\$ 5,082,921	100.0%	\$ 5,691,466	100.0%

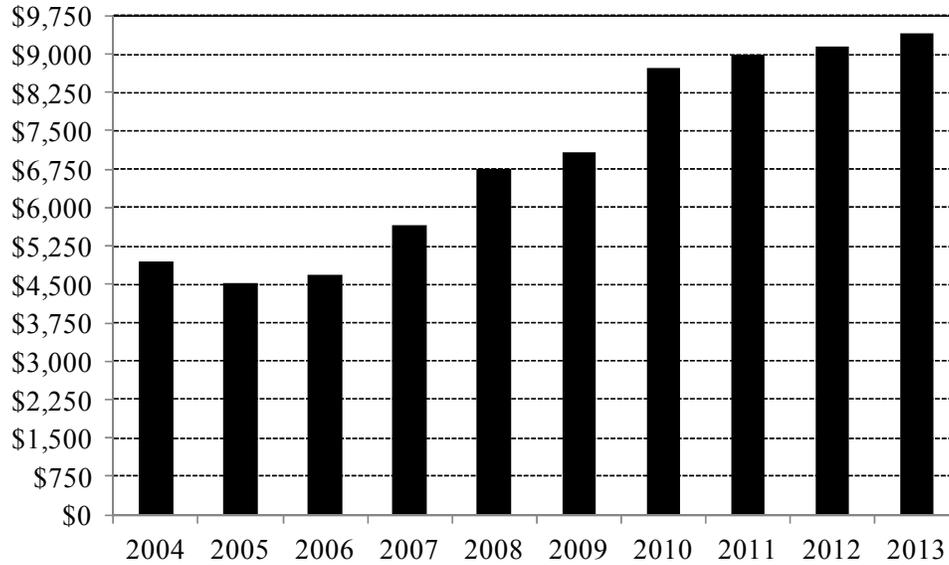
TABLE 4
OWNERSHIP ANALYSIS AS A PERCENT OF TOTAL BALANCES
Last Ten Fiscal Years
(expressed in thousands, except percentages)

Participant	6/30/2013		6/30/2012		6/30/2011		6/30/2010		6/30/2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Counties	\$ 5,080,565	47.8%	\$4,487,652	50.8%	\$4,991,508	53.2%	\$4,486,720	49.9%	\$4,321,316	50.9%
Cities & Towns	1,884,112	17.7%	1,869,098	21.2%	2,048,715	21.8%	2,081,657	23.1%	2,030,971	23.9%
Special Districts	1,415,820	13.3%	1,329,718	15.1%	1,431,314	15.2%	1,420,901	15.8%	1,489,755	17.6%
Bond Accounts	548,846	5.2%	473,644	5.4%	586,876	6.3%	647,402	7.2%	374,999	4.4%
Public Colleges & Universities	311,129	2.9%	306,887	3.5%	306,936	3.3%	359,692	4.0%	272,964	3.2%
State Agencies	1,385,092	13.0%	357,340	4.0%	4,252	0.0%	.....	.....	.....	.....
Other	7,666	0.1%	3,238	0.0%	15,050	0.2%	.....	.....	.....	.....
Total	\$ 10,633,230	100.0%	\$ 8,827,577	100.0%	\$ 9,384,651	100.0%	\$ 8,996,372	100.0%	\$ 8,490,005	100.0%

Participant	6/30/2008		6/30/2007		6/30/2006		6/30/2005		6/30/2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Counties	\$ 3,133,787	45.5%	\$2,595,477	42.5%	\$2,334,879	44.1%	\$2,048,362	41.3%	\$2,378,004	48.1%
Cities & Towns	2,013,555	29.3%	1,857,247	30.4%	1,628,605	30.8%	1,391,925	28.0%	1,462,142	29.6%
Special Districts	1,290,384	18.7%	1,079,027	17.6%	885,888	16.8%	735,283	14.8%	714,100	14.4%
Bond Accounts	277,300	4.0%	401,273	6.6%	301,473	5.7%	660,347	13.3%	267,938	5.4%
Public Colleges & Universities	169,256	2.0%	177,720	2.9%	139,018	2.6%	130,063	2.6%	124,094	2.5%
State Agencies	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total	\$ 6,884,282	100.0%	\$ 6,110,744	100.0%	\$ 5,289,863	100.0%	\$ 4,965,980	100.0%	\$ 4,946,278	100.0%

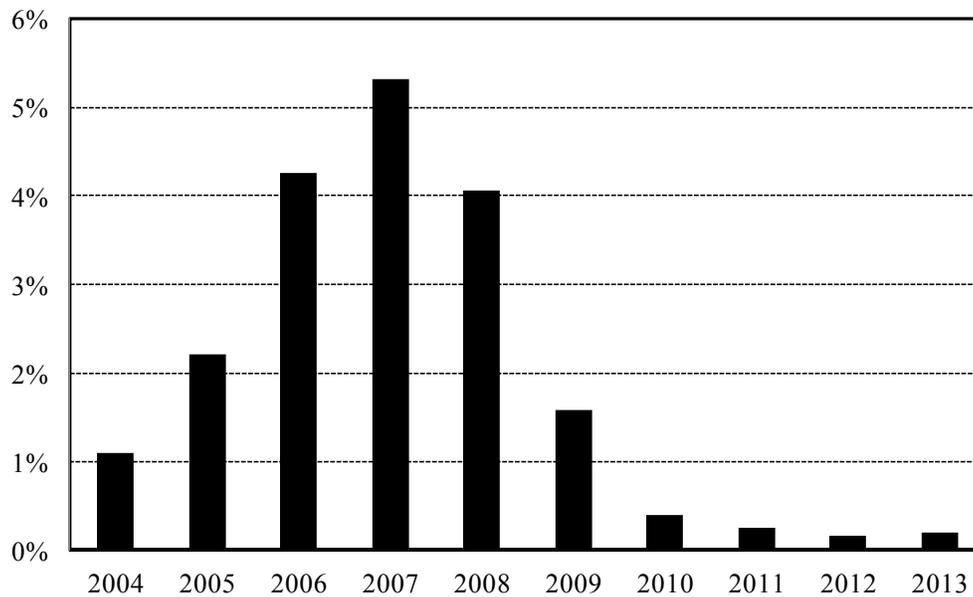
AVERAGE INVESTED BALANCES

Last Ten Fiscal Years
(expressed in millions)

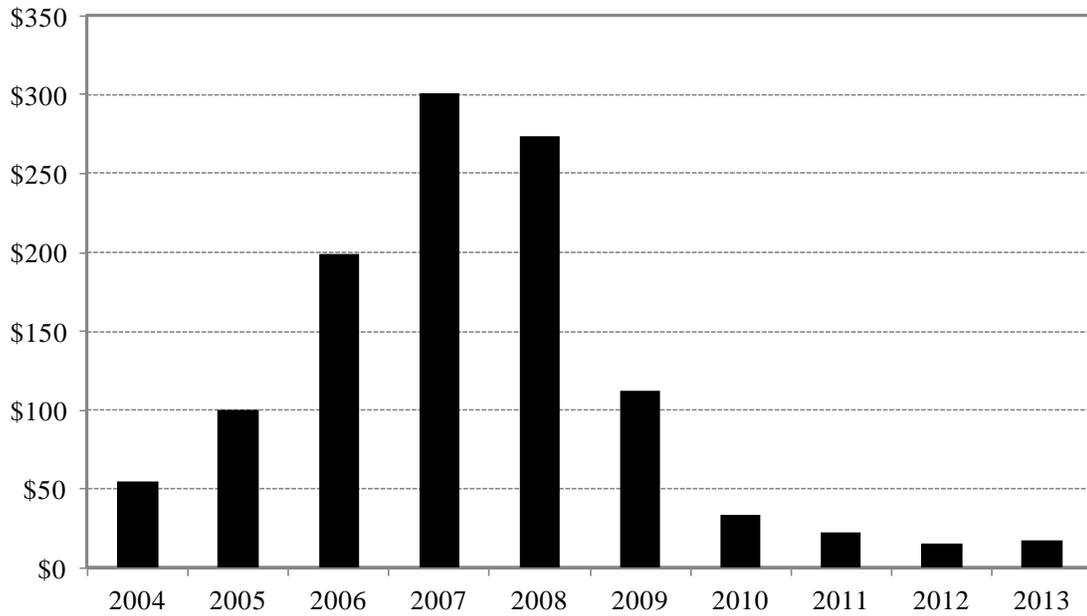


PORTFOLIO YIELD PERCENTAGE

Last Ten Fiscal Years



NET INVESTMENT INCOME
 Last Ten Fiscal Years
 (expressed in millions)



LGIP versus iMoneyNet, Inc

	1 Yr	3 Yrs	5 Yrs	7Yrs	10 Yrs
Compounded Annual Yield (%)					
LGIP	0.173%	0.186%	0.512%	1.717%	1.951%
iMoneyNet	0.010%	0.012%	0.145%	1.270%	1.501%
Cumulative Yield (%)					
LGIP	0.173%	0.560%	2.588%	12.663%	21.338%
iMoneyNet	0.010%	0.038%	0.727%	9.246%	16.083%

State of Washington
Local Government Investment Pool
PO Box 40200
Olympia WA 98504-0200

