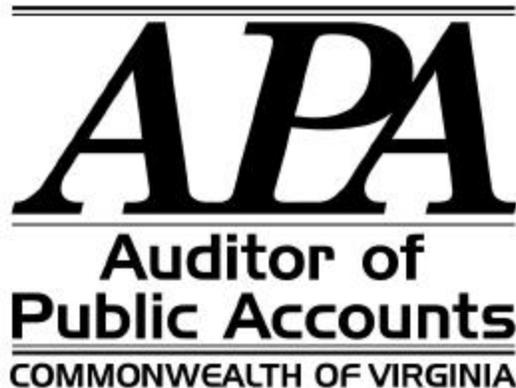


**LOCAL GOVERNMENT INVESTMENT POOL
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



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OFFICIALS

January 21, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
And Review Commission

The Virginia Treasury Board
And Pool Participants
Local Government Investment Pool

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Local Government Investment Pool as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 2002, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Investment Pool as of June 30, 2002, and the changes in financial position thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Local Government Investment Pool's basic financial statements. The Schedule of Selected Participant Share and Ratio Information and Schedule of Investments listed in the Table of Contents

are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects to the financial statements taken as a whole.

AUDITOR OF PUBLIC ACCOUNTS

WJK/kva
kva:64

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Local Government Investment Pool (LGIP) annual financial report presents an analysis of the Local Government Investment Pool's financial performance during the fiscal year that ended on June 30, 2002. The reader should consider this information in conjunction with the information contained in the financial statements, which follow this section.

LGIP Activities and Highlights

The LGIP, established in 1981, enables governmental entities to maximize their return on investments by providing for a state-administered fund to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the Investment Company Act of 1940 as defined by the Governmental Accounting Standards Board.

Overview of the Financial Statements

This discussion and analysis is an introduction to the LGIP's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. The LGIP has only one fund and therefore the government-wide and fund financial statements are the same since the LGIP reports all of its activity as a fiduciary fund, which uses the same measurement focus for all statements.

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

Financial Analysis

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

Local Government Investment Pool's Net Assets (in millions)

	<u>2002</u>	<u>2001</u>
Total assets	\$2,646	\$2,310
Total liabilities	—	—
Total net assets	<u>\$2,646</u>	<u>\$2,309</u>

The increase in net assets in fiscal year 2002 is primarily due to amounts received from participating entities exceeding amounts withdrawn. Active accounts increased from 719 to 802 during the year. The decrease in liabilities reflects the change in the timing of the transfer of administrative fees to the Commonwealth of Virginia's General Fund. In past years, this transfer occurred in July each year. In fiscal year 2002, the similar transfer occurred in June.

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

	<u>2002</u>	<u>2001</u>
Additions:		
Proceeds from units earned	\$4,988	\$4,592
Investment earnings	<u>56</u>	<u>106</u>
Total additions	5,044	4,698
Deductions:		
Disbursements for units withdrawn	<u>4,707</u>	<u>4,107</u>
Increase in net assets	337	591
Net assets, July 1, 2001	<u>2,309</u>	<u>1,718</u>
Net assets June 30, 2002	<u>\$2,646</u>	<u>\$2,309</u>

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

On July 1, 2001, the LGIP lowered the annual administrative fee charged to participants by two basis points from 0.08 percent to 0.06 percent of average net assets. The last fee reduction occurred in fiscal year 1999, also by two basis points.

Interest income and accrued income is lower this year due to significantly lower interest rates. The federal funds rate was 3.75 percent at the beginning of the period and underwent five decreases during the period to 1.75 percent.

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF FIDUCIARY NET ASSETS - INVESTMENT TRUST FUND
As of June 30, 2002

ASSETS

Investments in cash equivalents, at value (Notes 1 and 2)	\$ 1,757,660,923
Investments in securities, at value (Notes 1 and 2)	<u>884,838,701</u>
Net investments	2,642,499,624
Interest receivable	<u>3,909,733</u>
Total assets	<u>2,646,409,357</u>

LIABILITIES

Administrative fee payable	<u>2,264</u>
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NET ASSETS

Held in Trust for pool participants	<u><u>\$ 2,646,407,093</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - INVESTMENT TRUST FUND
For the year ended June 30, 2002

Additions:

Contributions:

Proceeds from units admitted \$ 4,987,536,152

Investment earnings:

Interest income 54,816,103

Net accrued interest 3,909,733

Net change in unrealized appreciation of investments for the year (922,791)

Less administrative fee (1,353,668)

Net investment earnings 56,449,377

Total additions 5,043,985,529

Deductions:

Disbursements for units withdrawn 4,706,516,999

Change in net assets 337,468,530

Net assets - July 1, 2001 2,308,938,563

Net assets - June 30, 2002 \$ 2,646,407,093

The accompanying Notes to Financial Statements are an integral part of this statement.

LOCAL GOVERNMENT INVESTMENT POOL

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Local Government Investment Pool (LGIP) was established January 1, 1981, pursuant to the Local Government Investment Pool Act, Section 2.2-4600 of the Code of Virginia. The LGIP enables governmental entities to maximize their return on investments by providing for a state-administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 as defined by the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of 2a7-like pools.

A. Basis of Presentation

The Treasury Board of Virginia administers the LGIP and presents the activity on an accrual basis. Earnings and expenses accrue daily, but are credited or charged to participants' accounts on a monthly basis. The LGIP's data is included in the Commonwealth Comprehensive Annual Financial Report as part of the Investment Trust Fund.

B. Investment Valuation

Investments in the LGIP are stated at market value, where available. However, market value does not include market accrued interest (totaling \$1,029,074), which is included as a portion of interest receivable on the Statement of Fiduciary Net Assets. Where market value is unavailable, the investments are reported at cost, which due to their short-term nature approximates market value.

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

2. INVESTMENTS

Funds in the LGIP are invested in accordance with Treasury Board investment guidelines and include obligations of the United States Government or agencies thereof, repurchase agreements, bankers' acceptances, commercial paper, short-term corporate and bank notes, and certificates of deposit. The maximum average maturity for the portfolio may not exceed 90 days. The maximum percentage of the fund permitted in each eligible security and the percentage in each category at June 30, 2002, are as follows:

	<u>Maximum Percentage Permitted</u>	<u>Actual Percentage at June 30, 2002</u>
U.S. Treasury/Agency	100%	32%
Banker's acceptances, negotiable certificates of deposit and/or negotiable bank deposit notes	40%	16%
Commercial paper	35%	23%
Corporate notes and bank notes	25%	8%
Repurchase agreements	50%	21%

The LGIP's investments are categorized below to give an indication of the level of credit risk assumed by the LGIP at June 30, 2002. Credit risk is the risk that the LGIP may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by LGIP or its safekeeping agent in the LGIP's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the LGIP's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the LGIP's name. There are no investments in category 2 or 3 at June 30, 2002.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Short term investment fund	\$ 1,585,553	\$ 1,585,553
Money market funds	275,500,000	275,500,000
U.S. Treasury/Agency	132,940,858	132,944,431
Commercial paper	597,625,764	597,630,588
Negotiable certificates of deposit	200,000,000	200,000,351
Repurchase agreements	<u>550,000,000</u>	<u>550,000,000</u>
 Total cash and cash equivalents	 <u>\$1,757,652,175</u>	 <u>\$1,757,660,923</u>
Investments:		
U.S. Treasury/Agency	\$ 444,689,600	\$ 444,850,113
Negotiable certificates of deposit	211,381,935	211,424,783
Banker's/Acceptances	4,973,205	4,973,644
Corporate notes and bank notes	<u>224,281,486</u>	<u>223,590,161</u>
 Total investments	 <u>\$ 885,326,226</u>	 <u>\$ 884,838,701</u>

3. DISTRIBUTIONS

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

4. SURETY BOND

The Commonwealth of Virginia, through its Department of the Treasury, Division of Risk Management, maintains faithful performance of duty bonding for its agencies, employees, and agents in the amount of \$3,000,000.

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF SELECTED PARTICIPANT SHARE AND RATIO INFORMATION

Selected ratios and data for the average number of shares outstanding
throughout the years ended June 30, 2000, 2001 and 2002

	June 30, 2002	June 30, 2001	June 30, 2000
Investment income	\$ 0.02654	\$ 0.05923	\$ 0.05891
Expenses	0.00062	0.00080	0.00082
Investment income, Net	0.02592	0.05843	0.05809
Income distributions	0.02592	0.05843	0.05809
Increase in net value	\$ -	\$ -	\$ -
Net asset value:			
Beginning of period	\$ 1.00000	\$ 1.00000	\$ 1.00000
End of period	\$ 1.00000	\$ 1.00000	\$ 1.00000
Ratio of investment income, Net to average net assets	2.59%	5.84%	5.81%
Ratio of expenses to average net assets	0.06%	0.08%	0.08%

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 2002

	Yield @ Purchase	Carrying Value
U.S. Government Agency Notes:		
Federal Agricultural Mortgage Corp. Discount Note due 7/01/2002	1.82%	\$ 24,895,673.61
Federal Home Loan Bank 6.88% due 7/18/2002	3.66%	10,298,750.00
Federal Home Loan Bank 6.00% due 8/15/2002	1.89%	11,653,295.00
Federal Home Loan Bank Step-up due 1/23/2003	2.08%	50,000,000.00
Federal Home Loan Bank 2.41% due 3/06/2003	2.39%	25,000,000.00
Federal Home Loan Bank Step-up due 4/30/2003	2.23%	25,000,000.00
Federal Home Loan Bank 2.75% due 6/13/2003	2.73%	25,000,000.00
Federal Home Loan Bank Step-up due 6/13/2003	1.96%	25,000,000.00
Federal Home Loan Bank Step-up due 6/24/2003	2.00%	50,000,000.00
Federal Home Loan Bank Discount Note 1.84% due 7/03/2002	1.85%	34,839,000.00
Federal Home Loan Bank Discount Note 1.79% due 8/02/2002	1.80%	31,282,204.82
Federal Home Loan Bank FRN 1.72% due 8/20/2002	1.72%	24,991,900.00
Federal Home Loan Mortgage Corp. Discount Note due 7/11/2002	1.78%	7,872,034.00
Federal Home Loan Mortgage Corp. Discount Note due 7/18/2002	1.78%	14,344,068.00
Federal Home Loan Mortgage Corp. Step-up due 3/12/2003	2.30%	50,000,000.00
Federal National Mortgage Association 3.95% due 7/05/2002	3.93%	15,000,000.00
Federal National Mortgage Association 2.55% due 11/05/2002	2.54%	69,996,875.00
Federal National Mortgage Association Discount Note due 7/01/2002	1.81%	19,707,877.80
Federal National Mortgage Association Discount Note due 10/04/2002	1.91%	14,051,307.50
Federal National Mortgage Association Discount Note due 12/20/2002	1.98%	24,708,722.22
Student Loan Mortgage Association 2.58% due 6/20/2003	2.61%	23,988,750.00
Total U.S. Government Agency Notes		<u>577,630,457.95</u>
Repurchase Agreements Collateralized by U.S. Government Obligations:		
Goldman Sachs 1.98% due 7/01/2002	1.98%	400,000,000.00
Lehman 1.95% due 7/01/2002	1.95%	150,000,000.00
Total Repurchase Agreements Collateralized by U.S. Government Obligations		<u>550,000,000.00</u>
Corporate Notes and Bank Notes:		
American Express Centurion Bank 1.83% due 3/12/2003	1.83%	25,000,000.00
Bear Stearns & Co., Inc. FRN MTN 1.84% due 4/02/2003	1.84%	25,000,000.00
Bear Stearns & Co., Inc. MTN 1.84% due 4/09/2003	1.84%	25,000,000.00
Donaldson Lufkin & Jenrette, Inc. 7.07 due 12/19/2002	2.05%	4,703,962.50
General Electric Capital Corp. FRN 1.87 due 7/09/2003	1.87%	25,000,000.00
Heller Financial, Inc. 6.4% due 1/15/2003	2.25%	4,679,235.00
Merrill Lynch & Co. FRN 2.18% due 11/13/2002	2.18%	20,040,840.00
Merrill Lynch & Co. FRN 1.82% due 4/03/2003	1.82%	25,000,000.00
Merrill Lynch & Co. FRN 1.89% due 7/11/2003	1.89%	25,000,000.00
Merrill Lynch & Co. FRN MTN 1.82% due 12/16/2002	1.82%	25,000,000.00
SunTrust Banks, Inc. 7.38% due 7/01/2002	4.24%	5,162,000.00
Wells Fargo Financial Corp. 6.38% due 7/16/2002	4.05%	14,695,448.35
Total Corporate Notes and Bank Notes		<u>224,281,485.85</u>

	Fair Value	% of Investments at Fair Value
\$	24,895,673.61	0.01
	10,021,875.00	0.00
	11,557,500.00	0.00
	50,203,125.00	0.02
	25,007,812.50	0.01
	25,031,250.00	0.01
	25,023,437.50	0.01
	25,000,000.00	0.01
	49,984,375.00	0.02
	34,842,577.78	0.01
	31,284,717.14	0.01
	25,000,000.00	0.01
	7,870,980.67	0.00
	14,342,604.00	0.01
	50,000,000.00	0.02
	15,004,650.00	0.01
	70,168,000.00	0.03
	19,707,877.80	0.01
	14,055,443.96	0.00
	24,725,444.44	0.01
	24,067,200.00	0.01
	577,794,544.40	0.22
	400,000,000.00	0.15
	150,000,000.00	0.06
	550,000,000.00	0.21
	24,999,500.00	0.01
	25,000,000.00	0.01
	25,000,000.00	0.01
	4,603,359.38	0.00
	25,007,812.50	0.01
	4,602,656.25	0.00
	20,012,500.00	0.01
	24,996,093.75	0.01
	25,000,000.00	0.01
	25,000,000.00	0.01
	5,000,000.00	0.00
	14,368,238.90	0.00
	223,590,160.78	0.08

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS, cont.
As of June 30, 2002

	Yield @ Purchase	Market Value
Negotiable Certificates of Deposit:		
Bank of Montreal-Chicago 1.77% due 7/31/2002	1.77%	25,000,000.00
Bank of Montreal-Chicago 1.78% due 7/31/2002	1.78%	50,000,000.00
Branch Banking & Trust Co. 1.80% due 7/01/2002	1.80%	75,000,000.00
Deutsche Bank-NY 1.76% due 9/30/2002	1.76%	66,384,396.00
Deutsche Bank-NY 2.20% due 8/5/2002	2.20%	25,000,000.00
First Tennessee Bank 1.79% due 7/22/2002	1.79%	25,000,000.00
First Tennessee Bank 1.79% due 8/09/2002	1.80%	25,000,000.00
Mellon Bank 1.92% due 8/19/2002	1.92%	25,000,000.00
National Bank Commerce-Tennessee 1.84% due 7/18/2002	1.84%	19,995,340.00
Societe Generale-NY 1.85% due 9/30/2002	1.82%	25,002,199.23
State Street Bank & Trust 1.80% due 10/16/2002	1.80%	25,000,000.00
State Street Bank & Trust 1.86% due 11/12/2002	1.86%	25,000,000.00
Total Negotiable Certificates of Deposit		<u>411,381,935.23</u>
Bankers' Acceptances:		
Toronto Dominion-NY due 9/18/2002	1.83%	<u>4,973,205.56</u>
Total Bankers' Acceptances		<u>4,973,205.56</u>
Commercial Paper:		
Aspen Funding Corp. due 7/16/2002	1.78%	29,952,533.33
Citicorp due 7/31/2002	1.77%	49,901,666.67
Citicorp due 8/01/2002	1.78%	29,937,700.00
Edison Asset Securitization due 7/1/2002	2.00%	24,995,833.33
Enterprise Funding due 7/02/2002	1.78%	18,785,917.06
General Electric Capital Corp. due 7/10/2002	1.78%	49,913,472.22
General Electric Financial Assurance due 7/31/2002	1.81%	24,928,750.00
Kitty Hawk Funding due 7/19/2002	1.78%	24,962,916.67
Mortgage Interest Networking Trust due 7/01/2002	2.00%	24,995,833.33
Mortgage Interest Networking Trust due 7/12/2002	1.80%	24,965,000.00
Philip Morris Co. due 7/15/2002	1.83%	24,893,833.33
Siemens Capital Corp. due 7/17/2002	1.80%	14,469,241.15
Sigma Finance, Inc. due 7/01/2002	2.00%	49,991,666.67
Trident Capital Finance, Inc. 7/01/2002	2.00%	49,991,666.65
UBS Finance Delaware due 7/01/2002	2.00%	124,979,166.67
Windmill Funding Corp.	1.82%	29,960,566.68
Total Commercial Paper		<u>597,625,763.76</u>
Money Market Funds:		
Dreyfus Government Cash Management Institutional Shares	1.87%	275,500,000.00
Short Term Investment Fund 1.6963% due 7/01/2002	1.70%	<u>1,585,552.87</u>
Total Money Market Funds		<u>277,085,552.87</u>
Total Investments		<u>\$ 2,642,978,401.22</u>

Accrued Interest	% of Investments at Fair Value
24,999,768.12	0.01
49,999,954.60	0.02
75,000,023.67	0.03
66,396,395.09	0.02
25,010,323.90	0.01
25,000,099.93	0.01
25,000,505.11	0.01
25,004,421.66	0.01
20,000,583.28	0.01
25,004,341.44	0.01
25,001,412.36	0.01
25,007,304.67	0.01
411,425,133.83	0.16
4,973,644.44	0.00
4,973,644.44	0.00
29,952,783.33	0.01
49,902,083.34	0.02
29,938,216.66	0.01
24,995,833.33	0.01
18,785,927.51	0.01
49,913,722.22	0.02
24,929,583.33	0.01
24,963,166.67	0.01
24,995,833.33	0.01
24,965,305.56	0.01
24,894,416.66	0.01
14,469,498.63	0.00
49,991,666.67	0.02
49,991,666.65	0.02
124,979,166.67	0.05
29,961,716.67	0.01
597,630,587.23	0.23
275,500,000.00	0.10
1,585,552.87	0.00
277,085,552.87	0.10
\$ 2,642,499,623.55	1.00

LOCAL GOVERNMENT INVESTMENT POOL
Richmond, Virginia

MEMBERS OF THE TREASURY BOARD

As of June 30, 2002

Jody M. Wagner, Chair, Treasurer of Virginia

K. David Boyer, Jr.	Kenneth Thorson
Kenneth Daniels	David Von Moll
Palmer Garson	Wayne Wilbanks