

- TABLE OF CONTENTS -

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS:

Statement of Assets and Liabilities

Statement of Operations

Statement of Changes in Net Assets

Notes to Financial Statements

SCHEDULES:

Schedule of Selected Participant Share and Ratio Information

Schedule of Investments

OFFICIALS

November 24, 1998

To the Virginia Treasury Board
and Pool Participants
Local Government Investment Pool

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of assets and liabilities of the **Local Government Investment Pool** as of June 30, 1998, including the related statement of operations and the statement of changes in net assets for the period then ended. 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 generally accepted auditing standards. 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, 1998, 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, 1998, the results of its operations and the changes in net assets for the period then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of selected participant share and ratio information and schedule of investments listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Local Government Investment Pool. 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

MSM:jld
jld:303

FINANCIAL STATEMENTS

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF ASSETS AND LIABILITIES
As of June 30, 1998

ASSETS

Investments in securities (Notes 1 & 2)	\$ 1,533,866,601
Interest receivable	<u>9,832,021</u>
Total assets	<u><u>\$ 1,543,698,622</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Administrative fee	\$ 1,294,122
Net assets	<u>1,542,404,500</u>
Total liabilities and net assets	<u><u>\$ 1,543,698,622</u></u>

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

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF OPERATIONS
For the year ended June 30, 1998

Investment income:	
Interest income	\$ 62,632,529
Net accrued interest	9,832,021
Change in unrealized appreciation of investments for the year	<u>(472,515)</u>
Total investment income	<u>71,992,035</u>
Expenses:	
Administrative fee	<u>1,294,122</u>
Increase in net assets resulting from operations	<u><u>\$ 70,697,913</u></u>

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

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF CHANGES IN NET ASSETS
For the year ended June 30, 1998

Increase in net assets resulting from operations	<u>\$ 70,697,913</u>
Increase from participant transactions:	
Proceeds from units admitted	3,084,746,643
Disbursements for units withdrawn	<u>(2,911,956,800)</u>
Net increase in net assets resulting from participant principal transactions	<u>172,789,843</u>
Total increase in net assets	<u>243,487,756</u>
Net assets:	
July 1, 1997	<u>1,298,916,744</u>
June 30, 1998	<u><u>\$ 1,542,404,500</u></u>

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

LOCAL GOVERNMENT INVESTMENT POOL

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Local Government Investment Pool (LGIP) was established January 1, 1981 pursuant to the Investment of Public Funds and Local Government Investment Pool Act, Section 2.1-234.1 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 SEC as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7. Agencies and component units of the Commonwealth as well as local governments, invest in the LGIP.

A. Basis of Presentation

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

B. Investment Valuation

Investments in the LGIP are stated at fair value, which generally is market value less accrued interest on discounted securities. Accrued interest (totaling \$3,051,502) is included as a portion of interest receivable on the balance sheet. Where fair value is unavailable, the investments are reported at cost, which due to their short-term nature approximates fair value.

Shares are purchased and redeemed at amortized cost. If the LGIP's current net asset fair value per share should deviate from its amortized cost price per share by an amount exceeding $\frac{1}{2}$ of 1 percent, the State Treasurer, Chair of the Treasury Board, shall assess the situation and determine what action, if any, is in the best interest of the LGIP and its participants. Market-based asset valuation 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, 1998 are as follows:

	<u>Maximum Permitted</u>	<u>June 30, 1998</u>
U. S. Treasury/Agency	100%	27%
Certificates of Deposit	25%	9%
Bankers' Acceptance	40%	0%
Commercial Paper	35%	36%
Corporate Notes and Bank Notes	25%	19%
Repurchase Agreements	50%	9%

The LGIP's investments are categorized below to give an indication of the level of credit risk assumed by the LGIP at June 30, 1998. 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, 1998.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments:		
U.S. Government Securities	\$ 433,118,469	\$ 433,107,242
Repurchase Agreements	136,000,000	136,000,000
Certificates Deposit	115,000,000	115,000,000
Corporate Notes	307,553,853	307,423,305
Bankers' Acceptances	973,875	973,875
Commercial Paper	536,562,466	536,574,426
Sub-Total	<u>1,529,208,663</u>	<u>1,529,078,848</u>
Short-Term Investment Fund	<u>4,787,753</u>	<u>4,787,753</u>
Total Investments	<u>\$ 1,533,996,416</u>	<u>\$ 1,533,866,601</u>

3. DISTRIBUTIONS

Net investment income is allocated to participants according to their daily invested balances. On the first day of each month, the total net earnings from the prior month are credited to each LGIP account.

4. SURETY BOND

Susan F. Dewey, Treasurer of Virginia, was covered under a Faithful Performance of Duty Bond in the amount of \$500,000 with the Fidelity and Deposit Company of Maryland as surety.

The Commonwealth of Virginia, through its Department of General Services, Division of Risk Management, provides employee dishonesty coverage to its agencies and institutions with coverage in the amount of \$500,000 for each loss. All employees of the Commonwealth, as well as parties acting on behalf of the Commonwealth, are covered under the policy.

5. YEAR 2000 READINESS

Many existing computer programs use only two digits to identify a year in the date field. These programs were designed and developed without considering the impact of the upcoming change in the century. If not corrected, these programs could fail or create additional problems. The LGIP recognizes the need to ensure that its operations will not be adversely impacted by Year 2000 software failures.

The LGIP does not have any internal critical systems. In addition, management has received assurance from the financial institutions used by the LGIP that Year 2000 compliant systems have been implemented or will be implemented prior to the Year 2000.

SCHEDULES

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, 1998, 1997, and 1996

	June 30, 1998	June 30, 1997	June 30, 1996
Investment income	\$ 0.05686	\$ 0.05502	\$ 0.05663
Expenses	<u>0.00102</u>	<u>0.00102</u>	<u>0.00101</u>
Investment income - net	0.05584	0.05400	0.05562
Income distributions	<u>0.05584</u>	<u>0.05400</u>	<u>0.05562</u>
Increase in net value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Asset Value:			
Beginning of period	<u>\$ 1.00000</u>	<u>\$ 1.00000</u>	<u>\$ 1.00000</u>
End of period	<u>\$ 1.00000</u>	<u>\$ 1.00000</u>	<u>\$ 1.00000</u>
Ratio of investment income- Net to average net assets	5.58%	5.40%	5.56%
Ratio of expenses to average net assets	0.10%	0.10%	0.10%

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 1998

	Yield @ Purchase	Carrying Amount	Fair Value	Percentage of Investments at Fair Value
U.S. Government Agency Notes:				
Federal Farm Credit Bank 5.6% due 1/29/99	5.60%	\$ 10,175,000.00	\$ 10,171,820.31	0.01
Federal Home Loan Bank FRN 5.426% due 07/07/98	5.52%	24,977,957.50	25,000,000.00	0.02
Federal Home Loan Bank 5.795% due 12/08/98	5.83%	14,995,689.23	15,009,375.00	0.01
Federal Home Loan Bank 5.42% due 12/08/98	5.85%	4,977,723.85	4,995,312.50	0.00
Federal Home Loan Bank 5.835% due 12/17/98	5.82%	5,000,850.00	5,004,687.50	0.00
Federal Home Loan Bank 5.76% due 12/24/98	5.81%	4,997,600.00	5,003,125.00	0.00
Federal Home Loan Bank 5.435% due 2/2/99	5.52%	24,979,000.00	24,960,937.50	0.02
Federal Home Loan Bank 5.605% due 3/12/99	5.64%	14,994,960.00	14,990,625.00	0.01
Federal Home Loan Bank 5.7% due 3/17/99	5.70%	25,000,000.00	24,976,562.50	0.02
Federal Home Loan Bank 5.5% due 3/19/99	5.60%	19,980,800.00	19,968,750.00	0.01
Federal Home Loan Bank 5.625% due 3/23/99	5.64%	19,996,875.00	19,990,600.00	0.01
Federal Home Loan Bank 5.56% due 3/25/99	5.67%	9,990,400.00	9,987,500.00	0.01
Federal Home Loan Bank 5.5% due 3/26/99	5.50%	14,977,700.25	14,976,562.50	0.01
Federal Home Loan Bank 5.695% due 5/6/99	5.75%	14,992,095.00	14,995,312.50	0.01
Federal Home Loan Mortgage Corp. Discount Note due 7/01/98	5.93%	64,989,437.50	64,969,125.00	0.04
Federal Home Loan Mortgage Corp. Discount Note due 7/24/98	5.60%	6,170,636.11	6,170,636.22	0.00
Federal Home Loan Mortgage Corp. Discount Note due 7/27/98	5.59%	29,778,547.52	29,791,815.53	0.02
Federal Home Loan Mortgage Corp. Discount Note due 7/31/98	5.59%	99,324,736.22	99,308,119.81	0.06
Federal National Mortgage Association 5.76% due 11/4/98	5.82%	7,845,761.00	7,859,812.50	0.00
Federal National Mortgage Association 5.41% due 2/23/99	5.60%	14,972,700.00	14,976,562.50	0.01
Total U.S. Government Agency Notes		433,118,469.18	433,107,241.87	0.27
Repurchase Agreements Collateralized by U.S. Government Obligations:				
Bankers Trust 5.63% due 7/7/98	5.63%	116,000,000.00	116,000,000.00	0.08
Lehman 5.85% due 7/1/98	5.85%	20,000,000.00	20,000,000.00	0.01
Total Repurchase Agreements Collateralized by U.S. Government Obligations		136,000,000.00	136,000,000.00	0.09
Corporate Notes and Bank Notes:				
Bank of America 5.55% due 7/13/98	5.54%	12,998,891.20	13,000,000.00	0.01
Bear Sterns Companies, Inc. FRN 5.626% due 4/26/99	5.63%	25,000,000.00	25,000,000.00	0.02
Bear Sterns Companies, Inc. FRN 5.62625% due 5/14/99	5.63%	25,000,000.00	25,000,000.00	0.02
Chase Manhattan MTN 7.58% due 7/23/99	5.72%	4,076,240.00	4,057,500.00	0.00
Chrysler Finance MTN 6.28% due 6/22/99	5.79%	5,024,100.00	5,011,718.75	0.00
Colgate Palmolive 6.79% due 12/1/98	5.81%	8,583,376.50	8,538,515.63	0.00
Corestates Bank FRN 5.60234% due 9/4/98	5.60%	25,000,000.00	25,000,000.00	0.02
Corestates Bank FRN 5.586% due 4/14/99	5.59%	25,000,000.00	25,000,000.00	0.02
Duke Power Co. MTN 5.17% due 9/1/98	5.62%	10,473,120.00	10,492,101.61	0.01
Fifth Third Bank 5.53% due 7/7/98	5.54%	24,999,778.87	25,000,000.00	0.02
First Tennessee Bank 5.66% due 2/12/99	5.70%	18,942,420.00	18,932,234.38	0.01
First Tennessee Bank 5.8% due 4/8/99	5.80%	15,000,000.00	15,000,000.00	0.01
General Electric Credit Corp. 6.44% due 8/24/98	5.65%	3,404,692.00	3,403,378.24	0.00
General Motors Acceptance Corp 6.04% due 3/19/99	5.73%	8,777,037.50	8,754,101.56	0.00
Harris Trust & Savings 5.53% due 7/8/98	5.53%	20,000,000.00	20,000,000.00	0.01
IBM Credit FRN 5.5492% due 9/10/98	5.55%	9,992,960.00	10,003,125.00	0.01
IBM Credit MTN 5.47% due 2/10/99	5.47%	9,996,000.00	9,982,812.50	0.01
Marshall & Ilsley MTN 6.2% due 7/23/99	5.72%	5,024,300.00	5,014,843.75	0.00
Merrill Lynch & Co. FRN due 8/13/98	5.85%	15,017,460.00	15,002,331.61	0.01
Merrill Lynch & Co. MTN 6.26% due 3/17/99	5.70%	5,026,700.00	5,013,281.25	0.00
Morgan Stanley Group 5.625 due 3/1/99	5.71%	5,220,976.75	5,215,020.00	0.00
Norwest Financial 6.23% due 9/1/98	5.94%	5,013,400.00	5,002,340.28	0.00
PNC FRN 5.719341% due 7/1/98	5.81%	19,982,400.00	20,000,000.00	0.01
Total Corporate Notes and Bank Notes		307,553,852.82	307,423,304.56	0.19

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 1998

	Yield @ Purchase	Carrying Amount	Fair Value	Percentage of Investments at Fair Value
Certificates of Deposit:				
Crestar Bank 5.54% due 7/1/98	5.54%	25,000,000.00	25,000,000.00	0.02
Crestar Bank 5.53% due 7/1/98	5.53%	15,000,000.00	15,000,000.00	0.01
Crestar Bank 5.55% due 7/6/98	5.53%	25,000,000.00	25,000,000.00	0.02
Crestar Bank 5.59% due 10/1/98	5.59%	10,000,000.00	10,000,000.00	0.01
Crestar Bank 5.6% due 10/2/98	5.60%	25,000,000.00	25,000,000.00	0.02
Crestar Bank 5.62% due 1/29/99	5.62%	15,000,000.00	15,000,000.00	0.01
Total Certificates of Deposit		115,000,000.00	115,000,000.00	0.09
Bankers' Acceptances:				
Mellon Bank due 12/4/98	5.73%	973,875.00	973,875.00	0.00
Total Bankers' Acceptances		973,875.00	973,875.00	0.00
Commercial Paper:				
Atlantic Richfield Co. due 7/31/98	5.67%	24,826,562.50	24,827,604.17	0.02
Barton Capital Corp. due 7/27/98	5.71%	20,803,468.47	20,804,980.58	0.01
Bankers Trust New York Corp. due 7/17/98	5.63%	28,208,300.00	28,207,011.11	0.02
Bankers Trust New York Corp. due 9/2/98	5.68%	24,341,458.33	24,340,145.83	0.02
Centric Capital due 8/19/98	5.67%	7,413,593.75	7,413,900.00	0.00
Centric Capital due 8/24/98	5.68%	14,815,666.67	14,816,341.67	0.01
Ciesco LP due 7/1/98	6.29%	17,222,033.47	17,222,033.47	0.01
Credit Suisse First Boston Inc. due 9/14/98	5.67%	49,280,638.89	49,283,763.89	0.03
General Electric Capital Corp. due 7/6/98	5.64%	14,891,900.00	14,891,941.67	0.01
General Electric Capital Corp. due 7/15/98	5.67%	24,520,500.00	24,520,305.56	0.02
General Electric Capital Corp. due 7/31/98	5.63%	9,921,941.67	9,922,025.00	0.01
ING American due 7/21/98	5.64%	7,258,992.70	7,259,114.46	0.00
J.P. Morgan & Co. Inc. due 12/11/98	5.70%	24,315,490.28	24,318,886.11	0.02
Merrill Lynch & Co. Inc. due 7/1/98	5.64%	19,870,966.67	19,870,966.67	0.01
Merrill Lynch & Co. Inc. due 7/30/98	5.67%	24,776,861.11	24,777,666.66	0.02
Mont Blanc Capital due 7/27/98	5.65%	24,819,506.94	24,820,048.60	0.02
Morgan Stanley Group due 7/1/98	6.34%	12,997,743.06	12,997,743.06	0.01
Morgan Stanley Group due 7/16/98	5.65%	49,669,138.89	49,669,972.23	0.03
Pharmacia Upjohn due 7/10/98	5.69%	11,970,133.33	11,970,433.33	0.01
Prudential Funding Corp. due 7/1/98	6.39%	49,991,250.00	49,991,250.00	0.03
Sigma Finance Corp. due 9/10/98	5.68%	24,655,000.00	24,656,972.23	0.02
Xerox Corp. due 7/1/98	6.34%	49,991,319.44	49,991,319.44	0.03
Total Commercial Paper		536,562,466.17	536,574,425.74	0.36
Money Market Funds:				
Short Term Investment Fund 5.57% due 7/1/98	5.57%	4,787,753.33	4,787,753.33	0.00
Total Investments		\$ 1,533,996,417	\$ 1,533,866,601	1.00

LOCAL GOVERNMENT INVESTMENT POOL

MEMBERS OF THE TREASURY BOARD

As of June 30, 1998

Susan F. Dewey, Chairman, Treasurer of Virginia

Diana F. Cantor

John H. Clements

Spencer H. Elmore

William E. Landside

Danny M. Payne

Dr. Charles D. Whyte