NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2016

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 accounting policies follow:

A. 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 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 the policy 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 State Treasurer and designated investment officers adhere to all restrictions on the investment of funds established by law and policy. The policy was amended, subsequent to fiscal yearend, on September 8, 2016.

The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP does not have any legally binding guarantees of share values.

The LGIP is reported as a fiduciary fund in the state of Washington's Comprehensive Annual Financial Report. 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.

B. Financial Statements

The LGIP presents two basic financial statements: the Statement of Net Position and the Statement of Changes in Net Position. These statements report information on all fiduciary activities.

C. Measurement Focus and Basis of Accounting

The LGIP is accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Position. Operating statements present additions and deductions in total net position. Net position is held in trust for pool participants.

The LGIP is reported using 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.

Security transactions are reported on a trade date basis in accordance with GAAP. Pending purchases, at fiscal year end, settled at a total cost of $174,821,667 by July 7, 2016.

D. Other Information

Investment Objectives
The objectives of the LGIP investment policy, in priority order, are safety, liquidity and return on investment. Safety of principal is the primary objective. Investments are undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The investment portfolio is liquid to enable the State Treasurer to meet all cash requirements that might be reasonably anticipated. The LGIP is structured with the objective of attaining a market rate of return throughout the budgetary and economic cycles, commensurate with the investment risk parameters and cash flow characteristics of the pool.

Investment Restrictions
To provide for safety and liquidity of funds, the LGIP policy is to invest in only those high-quality, short-term instruments authorized by statute. Investments are restricted to fixed rate securities that mature in 397 days or less, except for securities utilized in repurchase agreements and U.S. government floating or variable rate notes which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a fair value that approximates their amortized cost. The portfolio's weighted average maturity (WAM) will not exceed 60 days, and a weighted average life (WAL) will not exceed 120 days. The State Treasurer has the sole responsibility to set investment strategy for the LGIP.

Valuation
Investments are stated at amortized cost which approximates fair value. For bank deposits and repurchase agreements, this cost-based measure equals their carrying amount. Fair value is determined monthly.

Administrative Expenses / Fees
OST oversees the operations of the LGIP and provides portfolio management and record keeping services. The costs for these services, including professional, custodial, and other operating costs, are accrued and charged as an expense. Administrative expenses applied to this fiscal year were $925,006.

To recover costs associated with the pool's operation, each participant is assessed a fee in accordance with Washington Administrative Code (WAC) 210-10-100. This administrative fee is based on an estimate of the annual administrative expenses. Estimates are reviewed periodically and the fee is adjusted as necessary. The fee for the fiscal year was 0.009 percent of each participant's average daily balance of funds in the LGIP.

Penalties
Overdraft penalties result from a pool participant's failure to wire funds after notifying the State Treasurer of an intended transfer. Charges, reported as Miscellaneous income, assessed to participants responsible for overdrafts totaled $80 for the fiscal year.

Income Distribution
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.

Participant Transactions
The LGIP transacts with its participants at a stable net asset value per share of $1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform OST of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m., at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Custodian
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 depositaries.

Risk Management
The state of Washington operates a self-insurance 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's 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 liabilities arising from employee bonds, and to limit the exposure to catastrophic losses. Otherwise, the self-insurance liability program services all claims against the state for injuries and property damage to third parties. The OST participates in the self-insurance liability program.

NOTE 2 – INVESTMENTS AND DEPOSITS

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 depositaries, and 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 obligations of the state of Washington or its political subdivisions in its portfolio.

The credit ratings of investments are as follows:

	Ratings		
Investment Type	**Moody's**	**S&P**	**Amortized Cost**
Repurchase Agreements	AAA	AA+	$ 3,584,529,000
U.S. Treasury Securities [1]			
U.S. Treasury Bills	AAA	AA+	1,098,442,319
U.S. Treasury Floating Rate Notes	AAA	AA+	49,891,083
U.S. Treasury Notes	AAA	AA+	225,201,656
			1,373,535,058
U.S. Agency Securities			
Federal Home Loan Bank	AAA	AA+	4,519,923,646
Federal Home Loan Mortgage Corporation	AAA	AA+	125,023,185
Federal Farm Credit Bank	AAA	AA+	2,117,335,164
Federal National Mortgage Association	AAA	AA+	99,991,391
			6,862,273,386
Total			**$ 11,820,337,444**

[1] 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 a depository institution or counterparty fails, the LGIP will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party.

Investments held as deposits in financial institutions are insured by the Federal Deposit Insurance Corporation and / or collateralized. Collateral protection is administered 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 comprised of securities pledged to secure uninsured public deposits. Pledged securities are held by the PDPC's agent in the name of the collateral pool.

The LGIP investment policy requires that securities purchased 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 LGIP'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 percent 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 LGIP mitigates concentration of credit risk by limiting the purchase of securities of any one issuer, with the exception of U.S. Treasury and U.S. Agency securities, to no more than five percent of the portfolio.

Repurchase agreements comprise 27.7 percent of the total portfolio. The LGIP limits the securities utilized in repurchase agreements to U.S. Treasury and U.S. Agency securities. The LGIP requires delivery of all securities utilized in repurchase agreements and the securities are priced daily.

At fiscal year end, U.S. Treasury securities comprised 10.6 percent of the total portfolio. U.S. Agency securities comprised 53.1 percent of the total portfolio, including Federal Home Loan Bank (34.9 percent), Federal Home Loan Mortgage Corporation (1.0 percent), Federal Farm Credit Bank (16.4 percent), and Federal National Mortgage Association (0.8 percent).

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. To mitigate the effect of interest rate risk, the portfolio is invested in high quality, highly liquid obligations with limited maximum and average maturities. The LGIP's policy establishes weighted average maturity (WAM), and weighted average life (WAL) limits not to exceed 60 and 120 days respectively. As of June 30, the LGIP had a WAM of 35 days and a WAL of 100 days. The following schedule presents the investments and related maturities as of fiscal year end.

		Maturity (in Years)	
Investment Type	**Amortized Cost**	**Less Than 1**	**1 - 5**
U.S. Agency Securities	$ 6,862,273,386	$ 5,923,735,860	$ 938,537,526
Repurchase Agreements	3,584,529,000	3,584,529,000	
U.S. Treasury Securities	1,373,535,058	1,323,643,975	49,891,083
Interest Bearing Bank Deposits	851,079,930	851,079,930	
Negotiable Order of Withdrawal Accounts	187,542,037	187,542,037	
Time Certificate of Deposit Program	42,320,000	42,320,000	
Certificates of Deposit	30,000,000	30,000,000	
Total	**$ 12,931,279,411**	**$ 11,942,850,802**	**$ 988,428,609**

Fair Value Hierarchy

Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. U.S. Agency and U.S. Treasury Securities classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 1 or Level 3 security classifications to report. Repurchase agreements and bank deposits are valued using a cost based measure to determine fair value.

		Fair Value Measurement Using		
Investments By Fair Value	**6/30/2016**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Agency Securities	$ 6,862,856,926	$ ---	$ 6,862,856,926	$ ---
U.S. Treasury Securities	1,374,308,500	---	1,374,308,500	---
Total By Fair Value Level	**$ 8,237,165,426**	**$ 0**	**$ 8,237,165,426**	**$ 0**
Repurchase Agreements	3,584,529,000			
Bank Deposits	1,110,941,967			
Total By Fair Value	**$ 12,932,636,393**			

Securities Lending

State statutes permit the LGIP to lend its securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP has contracted with Citibank, N.A. as a lending agent to lend securities and receives a share of income earned from 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. Cash collateral received from the lending of non coupon-bearing securities shall not be valued at less than 102 percent of fair value, 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 with the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loans.

Securities lent (the underlying securities) are reported 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. Liabilities resulting from cash transactions are reported in the Statement of Net Position. Securities received as collateral are reported as assets only if the borrower defaults. 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.

During the fiscal year, the LGIP lent U.S. Agency and Treasury securities. Cash collateral was reinvested in the LGIP and interest bearing bank deposits. At fiscal year end, the fair value of securities on loan was $49,931,500 and securities were received for collateral with a fair value of $50,982,074.

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 borrowers owed the LGIP. Also, contracts require the lending agent to indemnify the LGIP if borrowers fail to return securities and 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 percent of the total portfolio. There were no violations of legal or contractual provisions and no 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 all other securities utilized in 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 $3,584,529,000.

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 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, the LGIP did not enter into any reverse repurchase agreements.

NOTE 3 – SUMMARY OF ACTIVITY

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

	FY 2016
Investments Purchased	$ 492,732,198,053
Investments Sold	$ 15,078,156,178
Investments Matured	$ 476,177,545,000
Net Investment Income	$ 32,938,554
Administrative Expenses	$ 925,006
Average Annualized Monthly Yield	0.31 percent
Weighted Average Maturity (WAM)	35 days
Weighted Average Life (WAL)	100 days
Participant Contributions	$ 43,302,522,970
Participant Distributions	$ 41,521,751,691