

Virginia Investment Pool Trust Fund

Annual Financial Report

For the Year Ended June 30, 2018

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Prepared by:
VML/VACO Finance

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Virginia Investment Pool Trust Fund

LETTER OF TRANSMITTAL

May 31, 2019

Honorable Board of Trustees
Virginia Investment Pool Trust Fund
Richmond, Virginia

It is our pleasure to submit the re-issued *Annual Financial Report* (AFR) of the Virginia Investment Pool Trust Fund (Trust) for the year ended June 30, 2018. Please refer to Note 7 for additional information about the restatement. The AFR represents a compilation of financial data that details the Trust's financial status. Information contained in this report was prepared in strict conformance with accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board (GASB). The AFR is intended to provide readers with a clearly articulated, user-friendly reporting of the Trust's financial affairs. Responsibility for both the accuracy of the data, and the completeness and reliability of the presentation, including all disclosures, rests with the management of the Trust. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the net position and the activities of the Trust.

The AFR is presented in three sections:

- 1) *Introductory Section* – includes this letter of transmittal, identification of the Trust's administrative organization, and descriptions of administrative responsibilities.
- 2) *Financial Section* – consists of the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), basic financial statements, and the notes to the financial statements.
- 3) *Compliance Section* - consists of the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

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

Background

The Virginia Investment Pool Trust Fund was established in 2013 under the Joint Exercise of Powers statute of the Commonwealth of Virginia by founding participants, the City of Chesapeake and the City of Roanoke. The Trust operates under the Virginia Investment Pool Trust Fund Agreement, which was adopted by the Trust Fund Board on September 13, 2013. VIP is an Internal Revenue Code Section 115 governmental trust. It was created to provide political subdivisions of the Commonwealth of Virginia with an investment vehicle to pool their funds and to invest such funds into one or more investment portfolios under the direction and daily supervision of a professional fund manager. Income of the Trust is tax-exempt under Section 115 of the Internal Revenue Code.

The Trust is jointly sponsored by the Virginia Association of Counties (VACo) and the Virginia Municipal League (VML) and operates as the “VACo/VML Virginia Investment Pool.” Primary benefits of participation in the Trust include professional investment management of trust assets, competitive rates of return, two highly-rated portfolios, and convenient, secure online access. The Trust offers two investment portfolios, one designed for daily cash liquidity, and the other designed for surplus funds that can be invested in longer duration securities. Participants hold individual trust accounts wherein they can monitor the performance of their investments.

The Virginia Local Government Finance Corporation (VLGFC), operating as “VML/VACo Finance,” provides day-to-day administration of the Trust pursuant to a Memorandum of Agreement. A professional fund manager retained by the Trust provides ongoing investment management of Trust assets. A custodian bank has been contracted to hold in safekeeping cash and securities of the Trust.

FY 2018 Highlights

Fiscal Year 2018 is the fifth year of operations for the Virginia Investment Pool Trust. The net position of the Trust increased during the year, growing to \$1.4 billion on June 30, 2018, from \$967.2 million on June 30, 2017. Contributing to the growth in net position was the second year of offering a daily liquidity investment pool, the Stable NAV Liquidity Pool, which was established on October 3, 2016.

Effective July 1, 2017, jointly administered investment pools such as the VIP were recognized in the Code of Virginia as an allowable investment for political subdivisions. This streamlined the process for elected Treasurers to join the VIP Trust and contributed to the growth in the number of new participants joining the Trust. As of June 30, 2017, the Trust had fifty participants. During the fiscal year ending June 30, 2018, thirty-nine new participants joined the Trust,

bringing the total to eighty-nine. Thirty-four of the new participants made initial investments during FY 2018.

Summary of Financial Condition

The following table provides a summary of financial conditions of the Virginia Investment Pool Trust as of June 30, 2018.

Total Assets	\$ 1,392,826,288
Total Liabilities	\$ 130,245
Net Position Restricted for VIP	\$ 1,392,696,043
Total Additions	\$ 1,740,481,986
Total Deductions	\$ 1,314,990,080
Net Change	\$ 425,491,906
Beginning of Period Net Position	\$ 967,204,137

Please refer to the Financial Section of this Annual Financial Report for the basic financial statements and the notes to the financial statements, which provide more detail, and to the MD&A, which provides an overview and analysis of the basic financial statements.

Summary of Investment Portfolios

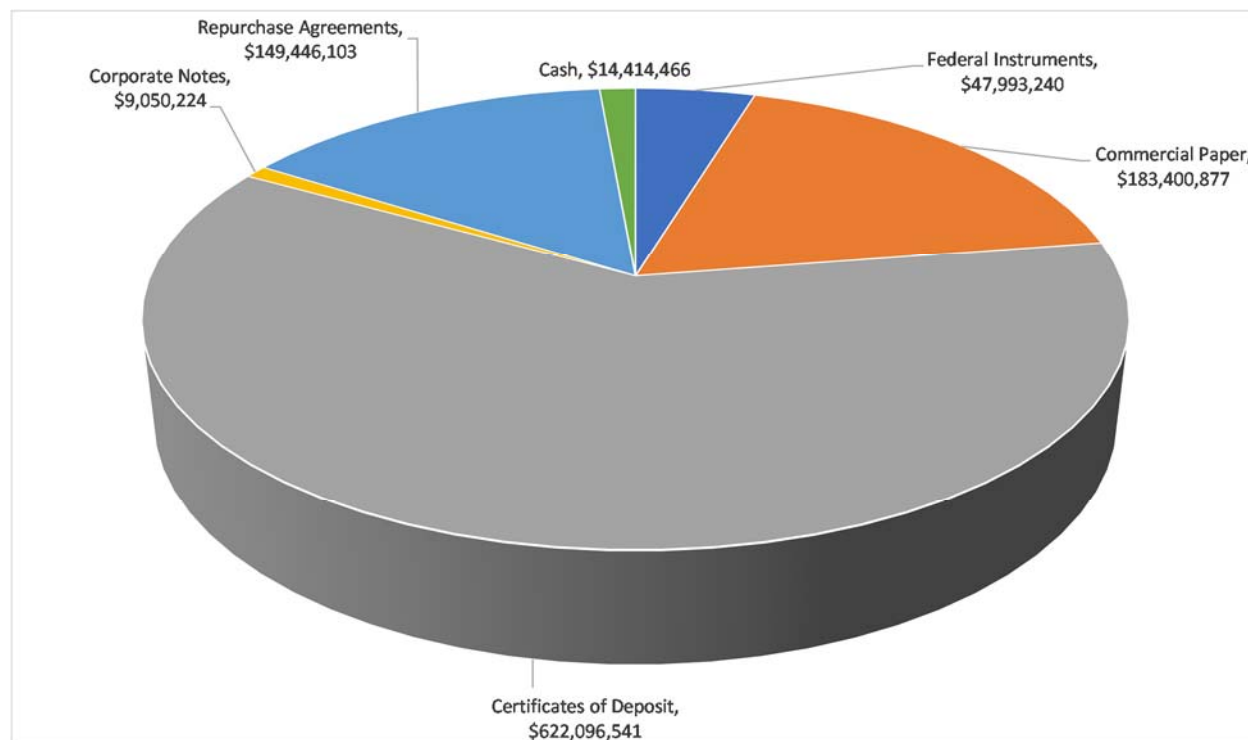
VIP offers two investment portfolios as follows:

VIP Stable NAV Liquidity Pool: The VIP Stable NAV Liquidity Pool was established in October 2016. The objective of the Liquidity Pool is to provide political subdivisions with a AAAM-rated (Standard & Poor's) investment vehicle offering daily liquidity at a stable net asset value. The net yield of the Liquidity Pool as of June 30, 2018, was 2.03%. As of June 30, 2018, the weighted average maturity to reset (WAMR) was 43.15 days, and the weighted average maturity to final (WAMF) was 56.87 days. Standard & Poor's guidelines permit a maximum WAMR of 60 days, and a maximum WAMF of 90-120 days.

The portfolio allocation of the VIP Stable NAV Liquidity Pool as of June 30, 2018, was as follows:

<u>Security Distribution</u>	<u>Portfolio Amount</u>	<u>Portfolio Allocation</u>
Federal Instruments	\$ 47,993,240	4.68%
Commercial Paper	183,400,877	17.87%
Certificates of Deposit	622,096,541	60.61%
Corporate Notes	9,050,224	0.88%
Repurchase Agreements	149,446,103	14.56%
Cash	14,414,466	1.40%
Total	\$ 1,026,401,451	100.00%

VIP Stable NAV Liquidity Pool
Portfolio Allocation by Market Value of Investments
As of June 30, 2018



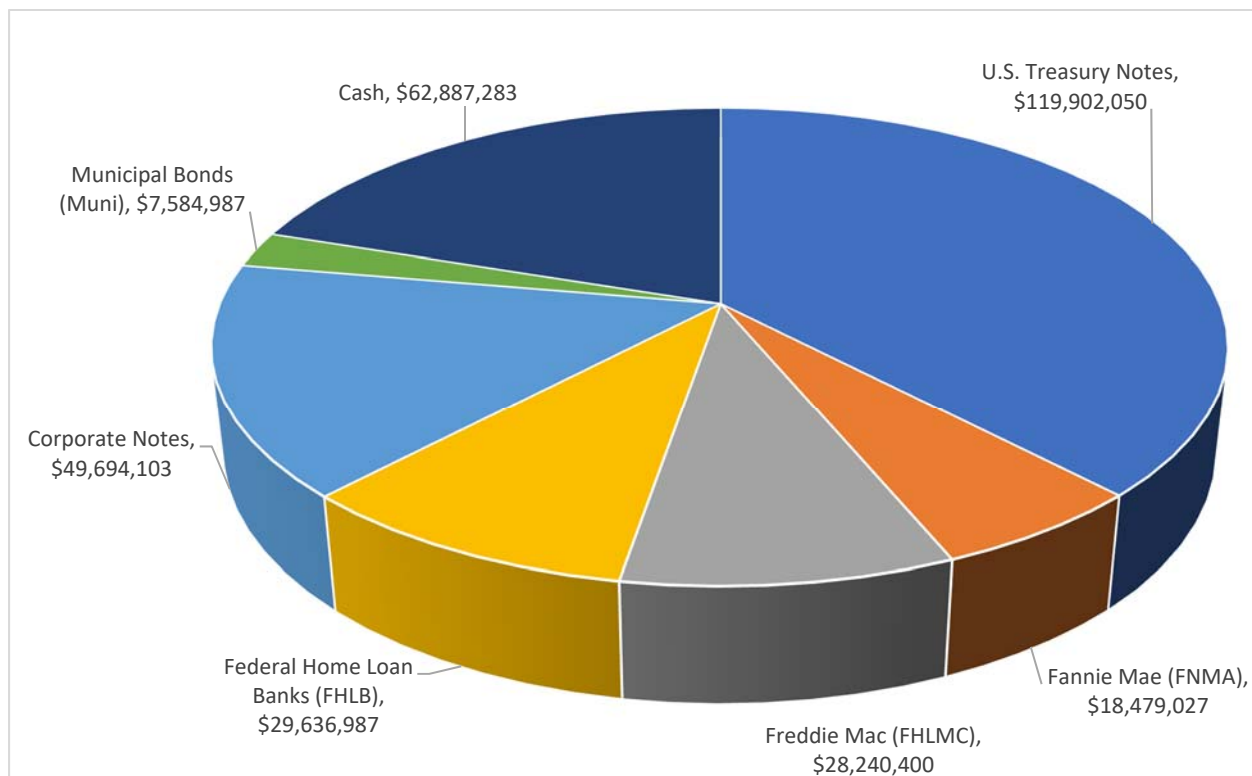
VIP 1-3 Year High Quality Bond Fund: The objective of the VIP 1-3 Year High Quality Bond Fund is to provide political subdivisions with surplus funds and an investment horizon of one year or longer an investment vehicle to pool and invest their funds. The 1-3 Year Bond Fund is rated AA+f/S1 by Standard & Poor's. The duration of the 1-3 Year Fund as of June 30, 2018, was 1.675 years compared with the duration of its benchmark (described below) of 1.800 years.

The 1-3 Year Bond Fund measures its returns against the Bank of America Merrill Lynch One-to Three-year Corporate & Government Index. The 1-3 Year Bond Fund aims to exceed the return of the benchmark over three-year periods while preserving participant capital. The total return (before fees) of the 1-3 Year Bond Fund for the year ending June 30, 2018, was 0.33% compared to 0.14% for the BAML Index.

The portfolio allocation of the VIP 1-3 Year Bond Fund as of June 30, 2018, was as follows:

<u>Security Distribution</u>	<u>Portfolio Amount</u>	<u>Portfolio Allocation</u>
U.S. Treasury Notes	\$ 119,902,050	37.89%
Fannie Mae (FNMA)	18,479,027	5.84%
Freddie Mac (FHLMC)	28,240,400	8.92%
Federal Home Loan Banks (FHLB)	29,636,987	9.37%
Corporate Notes	49,694,103	15.71%
Municipal Bonds (Muni)	7,584,987	2.40%
<u>Cash</u>	<u>62,887,283</u>	<u>19.87%</u>
Total	\$ 316,424,837	100.00%

VIP 1-3 Year High Quality Bond Fund
Portfolio Allocation by Market Value of Investments
As of June 30, 2018



Independent Audit

For the period ended June 30, 2018, the Trust's financial statements were audited by the certified public accounting firm of Dixon Hughes Goodman LLP to provide reasonable assurance that the financial statements of the Trust were free of material misstatement. The audit: a) examined activities, documents, and disclosures used to create the financial statements, b) assessed the accounting principles used by management, and c) evaluated the overall financial statement presentation.

Acknowledgements

The completion of this report reflects the combined efforts of the VIP Board of Trustees and staff of VML/VACo Finance. The report is intended to provide comprehensive and reliable information about the Trust and to allow for the evaluation of responsible stewardship of the funds of the Trust's net assets.

We express our gratitude to the members of the Board, the consultants, the auditors, and the many people who have worked so diligently to assure the successful operation of the Trust.

Respectfully submitted,



Robert W. Lauterberg
Managing Director
VML/VACo Finance



Steven C. Mulroy
Managing Director
VML/VACo Finance

Virginia Investment Pool Trust Fund

Governing Board and Administration

June 30, 2018

Board of Trustees

Fred W. Parker, *Chairman*
Treasurer
Washington County

Evelyn W. Powers, *Vice Chairman*
Treasurer
City of Roanoke

Jody Acosta
Treasurer
City of Falls Church

Barbra O. Carraway
Treasurer
City of Chesapeake

Carla de la Pava
Treasurer
Arlington County

Josephine S. Gilbert
Investment Manager
Fairfax County

Leigh Henderson
Chief Deputy Treasurer
City of Virginia Beach

Michael Longhi
Chief Financial Officer
Northern Virginia Transportation Authority

Ellen Minga
Treasurer
Town of Smithfield

Delores W. Smith
Treasurer
Wise County

Kendel Taylor
Director of Finance
City of Alexandria

Valerie Tweedie
Treasurer
Town of Christiansburg

Dean A. Lynch (ex officio)
Executive Director
Virginia Association of Counties

Michelle Gowdy (ex officio)
Executive Director
Virginia Municipal League

Administrative Staff

Robert W. Lauterberg
Managing Director
VML/VACo Finance

Steven C. Mulroy
Managing Director
VML/VACo Finance

Investment Manager

Public Trust Advisors
Denver, CO

Custodian

Wells Fargo
Denver, CO

Independent Auditors' Report

Board of Trustees
Virginia Investment Pool Trust Fund
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Investment Pool Trust Fund, which comprise the statement of net position and the related statement of changes in net position, as of and for the year ended June 30, 2018, and the related notes to the financial statements.

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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Virginia Investment Pool Trust Fund as of June 30, 2018, and the respective changes in financial position for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Restatement

As discussed in Note 7 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Virginia Investment Pool Trust Fund's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied on the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019 on our consideration of the Virginia Investment Pool Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to prove an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Virginia Investment Pool Trust Fund's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Richmond, Virginia
May 31, 2019**

Virginia Investment Pool Trust Fund Management's Discussion and Analysis For the year ended June 30, 2018

Management offers the following discussion and analysis as a narrative introduction to the basic financial statements and an analytical overview of the Trust's financial activities for the fiscal year ended June 30, 2018. It has been updated to reflect the restated amounts described in Note 7 to the financial statements. This narrative is intended as a supplement and should be read in conjunction with the financial statements.

Overview of the Financial Statements

The Trust's financial statements include the following components:

- Statement of Net Position
- Statement of Changes in Net Position
- Notes to Financial Statements

The *Statement of Net Position* presents the Trust's assets and liabilities and the resulting net position. This statement reflects a year-end snapshot of the Trust's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The *Statement of Changes in Net Position* presents information showing how the Trust's net assets held in trust changed during the period. This statement includes additions for investments by participants and investment earnings and deductions for payments, withdrawals and administrative expenses.

The *Notes to Financial Statements* are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of data reported in the financial statements.

Financial Highlights

- Net position at June 30, 2018, totaled \$1.4 billion compared with \$967.2 million on June 30, 2017, a 43.99% increase.
- Investments from participants during FY 2018 totaled \$1.7 billion, a 148% increase over investments from participants of \$699.3 million during FY 2017.
- Interest income grew 132% in fiscal year 2018 compared with fiscal year 2017, coming in at \$13.7 million in FY 2018 versus \$5.9 million in FY 2017. The higher interest income was a function of growth in Trust Fund assets as well as an increase in interest rates, which pushed the earnings yields of the Trust Fund higher. See below for additional comments on the interest rate environment and the yields of the Trust Fund.
- The 1-3 Year Bond Fund experienced a net depreciation in the fair value of investments in FY 2018 of -\$4.4 million. In FY 2017, the 1-3 Year Bond Fund had a net depreciation in the fair value of

investments of -\$4.0 million. As discussed below, the Federal Funds rate increased 0.75% (75 basis points) during the course of FY 2018; and, there is an inverse relationship between the price of fixed income securities and yields.

- Participant withdrawals during FY 2018 totaled \$1.3 billion compared with participant withdrawals of \$109.5 million during FY 2017.
- At June 30, 2018, there was \$60,000,000 in participant accounts held in money market funds that were pending investment in the portfolio. There was an additional \$50,000,000 in contribution receivables that were accepted by the Custodian Bank after the 2pm cutoff. This amount was transferred into the Trust investment portfolio on the first business day of FY 2019.
- Accounts payable at fiscal year-end 2018 was \$130,245 compared with \$60,973 as of June 30, 2017. Accounts payable represents accrued expenses primarily for program administration and investment management.

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Condensed Financial Information

The following is a summary of the Trust's financial statements for fiscal year 2018 and fiscal year 2017.

	2018 As Restated*	2017	Change	% Change
ASSETS				
Cash & cash equivalents	\$ 226,747,852	\$ 123,331,095	\$ 103,416,757	84%
Contributions receivable	50,000,000			
Investments	1,116,078,436	843,934,015	272,144,421	32%
TOTAL ASSETS	1,392,826,288	967,265,110	425,561,178	44%
LIABILITIES				
Accounts payable	130,245	60,973	69,272	114%
TOTAL LIABILITIES	130,245	60,973	69,272	114%
NET POSITION RESTRICTED FOR VIP	\$ 1,392,696,043	\$ 967,204,137	\$ 425,491,906	44%
	2018 As Restated*	2017	Change	% Change
ADDITIONS				
Investments	\$ 1,731,199,391	\$ 699,310,484	\$ 1,031,888,907	148%
Net appreciation/(depreciation) in fair value of investments	(4,396,413)	(3,971,662)	(424,751)	11%
Interest income	13,679,008	5,891,807	7,787,201	132%
TOTAL ADDITIONS	1,740,481,986	701,230,629	1,039,251,357	148%
DEDUCTIONS				
Professional services, investment management, administration and program expenses	1,011,065	644,638	366,427	57%
Withdrawals	1,313,979,015	109,463,308	1,204,515,707	1100%
TOTAL DEDUCTIONS	1,314,990,080	110,107,946	1,204,882,134	1094%
NET CHANGE	425,491,906	591,122,683	(165,630,777)	-28%
NET POSITION:				
BEGINNING OF PERIOD	967,204,137	376,081,454	591,122,683	157%
ENDING OF PERIOD	\$ 1,392,696,043	\$ 967,204,137	\$ 425,491,906	44%

* See Footnote 7.

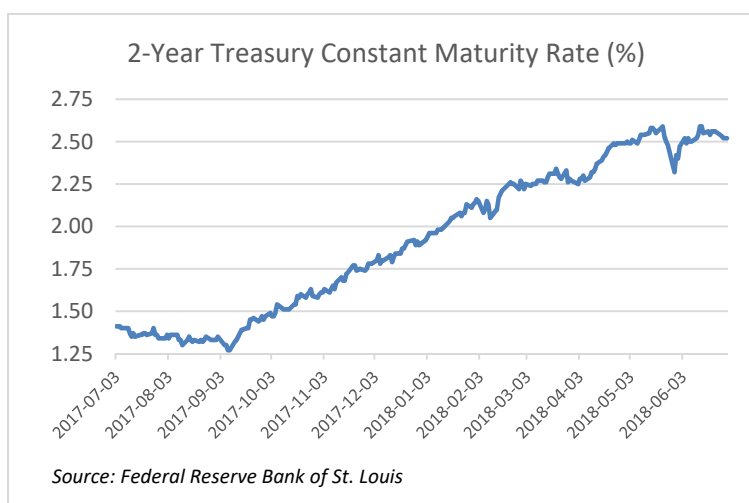
Interest Rate Environment

Interest rate levels have a significant impact on the performance of fixed income investments, including the Virginia Investment Pool's portfolios. The Federal Reserve's Federal Open Market Committee (FOMC) establishes the federal funds rate, a key interest rate in the fixed income markets. The federal funds rate is the overnight interest rate at which depository institutions lend reserve balances to other depository institutions. During FY 2018, the FOMC raised the target federal funds rate three times by 0.25% each time.

Federal Funds Rate:

<u>Date</u>	<u>Increase</u>	<u>Target Range</u>
December 2017	0.25%	1.25 – 1.50%
March 2018	0.25%	1.50 – 1.75%
June 2018	0.25%	1.75 – 2.00%

In addition to the federal funds rate, the 2-Year Treasury yield also has a significant effect on the performance of the VIP 1-3 Year High Quality Bond Fund. The 2-Year Treasury constant maturity rate was 1.41% at the beginning of FY 2018. At the end of FY 2018, the 2-Year Treasury yield was 2.52%, an increase of 1.11 percentage points during the fiscal year.



Analysis of Financial Position and Results of Operations

The Trust's net position was \$1.4 billion at June 30, 2018, compared with \$967.2 million at June 30, 2017. The year-over-year increase in the net position of \$425.5 million represents a 43.99% increase. The Trust continues to grow as a result of a number of factors, including:

- Additions to the VIP Trust during FY 2018 from Investments totaled \$1.73 billion, a 148% increase over FY 2017 Investments of \$699.3 million. Thirty-four participants made initial investments in the Trust during fiscal year 2018.

- In 2017, the General Assembly unanimously approved recognizing in the Code of Virginia jointly administered investment pools such as the VIP as an allowable investment for political subdivisions. Effective July 1, 2017, this streamlined the process for elected Treasurers to join the VIP Trust.
- As of June 30, 2018, the Trust had eighty-nine participants compared with fifty at the beginning of the fiscal year.
- FY 2018 was the second year the VIP Stable NAV Liquidity Pool was offered to political subdivisions in Virginia. The market value of the Liquidity Pool on June 30, 2018, was \$1.03 billion compared with \$624.2 million as of June 30, 2017, a \$402.2 million increase.
- The net yield of the Liquidity Pool increased during the fiscal year by 96 basis points (0.96%) to 2.10% on June 29, 2018, from 1.14% on June 30, 2017.

Cash and cash equivalents totaled \$226.7 million at fiscal year-end 2018 compared with \$123.3 million at fiscal year-end 2017. The increase in cash and cash equivalents of \$103.4 million is primarily the result of the \$60 million investment received on June 29, 2018, and pending investment in the portfolio and the growth in cash and cash equivalents in the Liquidity Pool as that fund's market value increased year-over-year by 64.4%.

The net depreciation in fair value of the investments in the 1-3 Year Bond Fund equaled -\$4.4 million as of June 30, 2018. During the fiscal year, the FOMC raised the Fed funds target rate three times for a total increase of 0.75%. Another key interest rate impacting the performance of the 1-3 Year Bond Fund is the 2-Year Treasury note. The yield of the 2-Year Treasury note increased by 1.11%. There is an inverse relationship between yield and the price of fixed income securities. As the yield increases, the market value of securities declines. A significant portion of the net depreciation is unrealized.

As of June 30, 2017, the net depreciation in fair value of the investments in the 1-3 Year Bond Fund equaled -\$4.0 million. Similar to FY 2018, during FY 2017, the FOMC raised the Fed funds target rate three times for a total increase of 0.75%. The yield of the 2-Year Treasury note increased by 0.79%.

Withdrawals from the VIP Trust totaled \$1.3 billion during FY 2018. The majority of this activity occurred in the Liquidity Pool, which offers daily liquidity since it is designed for managing daily operating funds.

While Investments and Total Additions grew 148% during FY 2018, expenses increased by a comparatively smaller 57% to \$1.0 million from \$644,638 in FY 2017. Expenses include items such as investment management, program administration, custody, legal, and ratings (not exhaustive).

Requests for Information

This financial report is designed to provide a general overview of the Trust's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Managing Director
VML/VACo Finance
8 E. Canal Street, Suite 100
Richmond, VA 23219
(804) 648-0635

Virginia Investment Pool Trust Fund

Statement of Net Position

		As of June 30, 2018
		As Restated*
ASSETS		
	Cash and cash equivalents	\$ 226,747,852
	Contributions Receivable	50,000,000
	Long term investments at fair value	<u>1,116,078,436</u>
		<u>1,392,826,288</u>
LIABILITIES		
	Accounts payable	<u>130,245</u>
NET POSITION RESTRICTED FOR VIP		<u>\$ 1,392,696,043</u>

***See Footnote 7**

The accompanying notes are an integral part of these financial statements.

Virginia Investment Pool Trust Fund

Statement of Changes in Net Position

	For the Year Ended June 30, 2018 As Restated*
ADDITIONS	
Investments from participants	<u>\$ 1,731,199,391</u>
Investment income	
Net depreciation in fair value of investments	(4,396,413)
Interest income	<u>13,679,008</u>
	<u>9,282,595</u>
TOTAL ADDITIONS	<u>1,740,481,986</u>
DEDUCTIONS	
Professional services, investment management, administrative and program expenses	1,011,065
Withdrawals	<u>1,313,979,015</u>
TOTAL DEDUCTIONS	<u>1,314,990,080</u>
NET CHANGE	425,491,906
NET POSITION:	
BEGINNING OF YEAR	<u>967,204,137</u>
END OF YEAR	<u>\$ 1,392,696,043</u>

*See Footnote 7

The accompanying notes are an integral part of these financial statements.

Virginia Investment Pool Trust Fund

Notes to Financial Statements

June 30, 2018

1. Organization and Nature of Activities

The Virginia Investment Pool Trust Fund (Trust) was established September 13, 2013, to provide a pooled investment alternative for political subdivisions of the Commonwealth of Virginia that have excess funds with an investment horizon longer than that of money market instruments, typically one year or longer. In October 2016, the Trust established a second portfolio that provides daily liquidity and a stable net asset value for daily operating funds. The Trust is not a component unit of another governmental entity.

The Trust's Board of Trustees has fiduciary responsibility for the investment of monies and administration of the Trust pursuant to the Trust Agreement. The Board of Trustees is currently composed of twelve voting members and two ex-officio members. Trustees are treasurers or chief investment officers of participating political subdivisions and are elected for staggered three-year terms by the participants in the Trust. Notwithstanding this practice, pursuant to the Trust Agreement the two local governments that initially founded the Trust through the joint exercise of powers statute of the Commonwealth of Virginia, the Cities of Chesapeake and Roanoke, are each entitled to representation on the Board of Trustees until the annual meeting in fiscal year 2021.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The financial statements of the Trust are presented as a fiduciary fund type. The economic resources measurement focus and the accrual basis of accounting are used in the preparation of the financial statements. Investments are recognized upon receipt by the custodian bank if received by the 2pm cutoff time. Funds received after 2pm will not be in the investment account until the next business day. There are not separate participant accounts to hold participant funds during this interim period.

Cash and Cash Equivalents

The Trust considers all cash and highly liquid investments with original maturities of three months or less to be cash equivalents, including money market funds. All cash equivalents are recorded at amortized cost, which approximates fair value.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 and Note 4 for discussion of investment risk and fair value measurements. Net investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, and interest income earned. Realized gains and losses on the sale of investments are recognized on the specific identification basis to match with the cost basis of the investments sold.

In order to account for each participant's activity, separate accounts are maintained by the Trust. As such, investments and expenses are separately accounted for and maintained for each participant.

Taxes

The Trust is exempt from taxation under Section 115 of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include a provision for federal or state income taxes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Termination

The Trust Agreement specifically allows for the termination of the Trust once "all participation interests of all participating political subdivisions have been terminated in their entirety." Partial termination would occur when a participating political subdivision's interest in the Trust is terminated or when a Trust Joinder Agreement has been terminated. In case of termination, either in whole or in part, affected assets of the Trust are distributed or transferred in accordance with the Trust Agreement.

Subsequent events

In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through May 31, 2019, the date the financial statements were available to be issued.

3. Investments and Risk

The following information regarding disclosures of credit and interest rate risk are designed to inform financial statement users about investment risks which could affect the Trust's ability to meet its obligations. The standard of prudence to be used by investment officials of the Trust shall be the "prudent person" and shall be applied in the context of managing the portfolios.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. The Trust's investment policy states that at no time shall the remaining maturity of an investment exceed 60 months, unless such investment has a put option.

Credit Risk - Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Trust. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. government or obligations

explicitly guaranteed by the U.S. government are not considered to have credit risk and disclosure is not required. The Investment Policy states that no investment shall be purchased if its ratings from nationally recognized ratings firms are not at or above the minimum required in the Code of Virginia (for Corporate Notes: Aa by Moody's and AA by Standard & Poor's, and, for Commercial Paper at least two of the following: P1 by Moody's, A-1 by Standard & Poor's, F-1 by Fitch, and D-1 by Duff and Phelps).

Concentration of Credit Risk - Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer or security type. The Trust's investment policy states that no more than 35% of each portfolio's assets shall be invested in commercial paper, no more than 5% of each portfolio shall be invested in the commercial paper of a single issuing corporation, and that the investment manager shall endeavor to maintain appropriate diversification across instruments and institutions in order to reduce overall portfolio risk. There are no limits on the use of U.S. government, agency, or guaranteed issues. The Trust invests solely in fixed income securities.

As of June 30, 2018, the Trust had the following maturity and credit rating distributions in the **VIP Stable NAV Liquidity Pool**, excluding cash and cash equivalents:

Maturity	Portfolio Allocation	Fair Value
0 to 30 Days	36.55%	\$ 315,224,060
30 to 60 Days	18.31%	157,917,206
60 to 90 Days	14.49%	125,012,820
90 to 120 Days	16.72%	144,220,764
120 to 150 Days	4.50%	38,814,457
150 to 180 Days	6.36%	54,895,350
180 to 210 Days	0.00%	-
210 to 240 Days	3.07%	26,456,225
240 to 270 Days	0.00%	-
Greater than 270 Days	0.00%	-
Total	100.00%	\$ 862,540,882

S&P Rating Distribution	Allocation	Fair Value
Short-Term Rating Distribution		
A-1+	39.49%	\$ 340,621,828
A-1	53.16%	458,479,229
Total Short-Term Ratings	92.65%	\$ 799,101,057
Long-Term Rating Distribution		
AAA	0.00%	-
AA	7.35%	63,439,825
A	0.00%	-
Below A	0.00%	-
Total Long Term Ratings	7.35%	\$ 63,439,825
Total Portfolio	100.00%	\$ 862,540,882

As of June 30, 2018, the Trust had the following maturity and credit rating distributions in the **VIP I-3 Year Bond Fund**, excluding cash and cash equivalents:

Maturity	Portfolio Allocation	Fair Value
0-3 Months	0.45%	\$ 1,135,922
3-6 Months	1.09%	2,772,188
6-9 Months	0.33%	828,619
9-12 Months	4.65%	11,786,135
1-2 Years	68.00%	172,410,758
2-3 Years	25.29%	64,110,209
3-4 Years	0.19%	493,723
4 Years +	0.00 %	-
Total	100.00%	\$ 253,537,554

S&P Rating Distribution	Allocation	Fair Value
Short-Term Rating Distribution		
A-1+	-	-
A-1	-	-
Total Short Term Ratings	0.00%	\$ -
Long-Term Rating Distribution		
AAA	3.31%	\$ 8,381,911
AA	96.69%	245,155,643
A	0.00%	-
Below A	0.00%	-
Total Long-Term Ratings	100.00%	\$ 253,537,554
Total Portfolio	100.00%	\$ 253,537,554

4. Fair Value Measurement

Fair value, as defined under GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and are generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S government agency securities, corporate securities, and commercial paper.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entities own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

There have been no changes in the methodologies as of used June 30, 2018 and June 30, 2017. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a description of the valuation methodologies used for assets measured at fair value:

**VIP Stable NAV Liquidity Pool
Valuation Inputs Summary
For the fiscal period ended June 30, 2018**

	Valuation Inputs			
	Level 1	Level 2	Level 3	Total
<i>Fair Value as of June 30, 2018*:</i>				
U.S. Treasury	\$ -	\$ -	\$ -	\$ -
Federal Instruments	-	47,993,240	-	47,993,240
Commercial Paper	-	183,400,877	-	183,400,877
Certificates of Deposit	-	622,096,541	-	622,096,541
Corporate Notes	-	9,050,224	-	9,050,224
Total	\$ -	\$ 862,540,882	\$ -	\$ 862,540,882

*For the fiscal year ended June 30, 2018, the Trust did not have any unobservable inputs (Level 3) used in determining fair value. Thus, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

**VIP 1-3 Year High Quality Bond Fund
Valuation Inputs Summary
For the fiscal period ended June 30, 2018**

	Valuation Inputs			
	Level 1	Level 2	Level 3	Total
<i>Fair Value as of June 30, 2018*:</i>				
U.S. Treasury	\$ -	\$ 119,902,050	\$ -	\$ 119,902,050
Fannie Mae (FNMA)	-	18,479,027	-	18,479,027
Freddie Mac (FHLMC)	-	28,240,400	-	28,240,400
Federal Home Loan Banks (FHLB)	-	29,636,987	-	29,636,987
Corporate Notes	-	49,694,103	-	49,694,103
Municipal Bonds	-	7,584,987	-	7,584,987
Total	\$ -	\$ 253,537,554	\$ -	\$ 253,537,554

*For the fiscal year ended June 30, 2018, the Trust did not have any unobservable inputs (Level 3) used in determining fair value. Thus, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

There were no transfers between levels in the fair value hierarchy during the period.

5. Related Party Transactions

The Trust has an agreement with Virginia Local Government Finance Corporation (VLGFC) whereby VLGFC serves as administrator for the Trust. The Trust compensates VLGFC to provide administrative services through a quarterly program fee charged as a percentage of invested assets. The administrative fee during fiscal year 2018 amounted to \$389,701.

6. Subsequent Events

From July 1, 2018 through April 30, 2019 the Trust added twenty-four new participants. The fair market value at April 30, 2019, of the 1-3 Year Fund was \$411,201,765 and of the Liquidity Pool was \$865,889,007, representing a 30% increase and 16% decrease, respectively, from June 30, 2018.

7. Restatement

The Trust's 2017 financial statements have been restated and reissued to correct errors that occurred during the change in service providers during 2017. These errors were identified and corrected in the 2017 financial statements and have now been adjusted in the beginning net position of the 2018 financial statements. Contributions that were remitted during 2018, but not received until fiscal year 2019 have been recorded as contributions receivable.

In addition, certain amounts of cash and cash equivalents were previously recorded as investments but have now been reclassified to cash and cash equivalents.

Certain line items in the statement of net position as of June 30, 2018, and the statement of changes in net position for the year then ended have been restated as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
Statement of net position:			
Cash and cash equivalents	\$ 62,335,078	\$ 164,412,774	\$ 226,747,852
Contributions receivable	\$ -	\$ 50,000,000	\$ 50,000,000
Long-term investments	\$ 1,277,405,977	\$ (161,327,541)	\$ 1,116,078,436
Assets	\$ 1,339,741,055	\$ 53,085,233	\$ 1,392,826,288
Net position restricted for VIP	\$ 1,339,610,810	\$ 53,085,233	\$ 1,392,696,043
Statement of changes in net position:			
Investments from participants	\$ 1,681,199,391	\$ 50,000,000	\$ 1,731,199,391
Interest income	\$ 15,273,117	\$ (1,594,109)	\$ 13,679,008
Investment income	\$ 10,876,704	\$ (1,594,109)	\$ 9,282,595
Total additions	\$ 1,692,076,095	\$ 48,405,891	\$ 1,740,481,986
Net change	\$ 377,086,015	\$ 48,405,891	\$ 425,491,906
Net position - beginning of year	\$ 962,524,795	\$ 4,679,342	\$ 967,204,137
Net position - end of year	\$ 1,339,610,810	\$ 53,085,233	\$ 1,392,696,043

The footnotes have been updated to consider the restated amounts.

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Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Trustees
Virginia Investment Pool Trust Fund
Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Virginia Investment Pool Trust Fund, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Virginia Investment Pool Trust Fund's basic financial statements, and have issued our report thereon dated May 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia Investment Pool Trust Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Investment Pool Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Virginia Investment Pool Trust Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify one deficiency in internal control that we consider to be a material weakness. It is described in the accompanying Schedule of Findings and Recommendations as Finding 2018-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia Investment Pool Trust Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Virginia Investment Pool Trust Fund's Response to the Finding

The Virginia Investment Pool Trust Fund's response to the finding identified in our audit is described in the attached Schedule of Findings and Recommendations. Virginia Investment Pool Trust Fund's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Richmond, Virginia
May 31, 2019**

Virginia Investment Pool Trust Fund
Schedule of Findings and Recommendations
Year Ended June 30, 2018

Finding: 2018-001 Internal Control over Financial Reporting

MATERIAL WEAKNESS

Criteria:	Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial information, including the financial statements, notes, and supplemental schedules in accordance with accounting principles generally accepted in the United States of America.
Condition:	<p>Virginia Investment Pool Trust Fund has internal controls in place to safeguard its assets and reconcile activity daily through its custodian and record-keeper, while the Program Administrator reconciled annually for financial reporting purposes. However, due to a change in custodian and record-keeper and significant increase in activity, an annual reconciliation was not sufficient to identify and properly report all transactions in the financial reports.</p> <p>Subsequent to identifying this issue, management has shown initiative to recruit, and hire, two individuals to serve as full-time accountant and Chief Financial Officer.</p>
Effect:	The 2018 financial statements were restated and reissued to correct errors that resulted in a net increase of \$53,085,233 to net position.
Cause:	During fiscal year 2017, there was a change in custodian and record-keeper and the introduction of an additional portfolio that led to restatement in FY2017 and adjustments to the beginning net position of FY2018. Further, reconciliations, while performed daily by the participant record-keeper, were not performed on a monthly basis by staff of the Program Administrator.
Recommendation:	We have no additional recommendations to make other than the corrective action measures that management has already implemented and described below.
Management's Response:	At the inception of the Virginia Investment Pool, management established procedures for financial reporting that relied on daily reconciliations between participant accounts and custodial statements to be conducted by the participant record-keeper (i.e., Public Trust Advisors). Management reviewed the trial balances prepared by Public Trust Advisors on a monthly basis and then conducted a comprehensive year-end analysis, which included a comparison of mark-to-market valuations of the aggregate participant records to the portfolio-wide statements of the custodian. These procedures were deemed satisfactory in previous audits, but are now in need of revision due to 1) significantly higher number of participants; 2) significantly larger base of assets; and 3) the addition of the Liquidity Pool portfolio, which has expanded the number of days on which transactions are executed by ten-fold. Management has initiated the implementation of an internal monthly reconciliation process that will strengthen its financial reporting in view of the exceptional growth of the VIP program since the initiation of the Liquidity Pool in October 2016. Further, two qualified individuals have been hired full-time to serve as accountant and CFO of the Fund.