

Virginia Investment Pool Trust Fund

Comprehensive Annual Financial Report

For the Year Ended June 30, 2015

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Prepared by:

VML/VACO Finance

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Virginia Investment Pool Trust Fund

LETTER OF TRANSMITTAL

February 22, 2016

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

It is our pleasure to submit the *Comprehensive Annual Financial Report* (CAFR) of the Virginia Investment Pool Trust Fund (Trust) for the year ended June 30, 2015. The CAFR 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 CAFR 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 CAFR 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 Report of Independent Auditors, 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. The VIP is an Internal Revenue Code Section 115 governmental trust and was created to provide political subdivisions of the Commonwealth of Virginia with an investment vehicle to pool their surplus 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 management of trust assets and a rate of return exceeding that of money market type instruments. The Trust is designed for surplus funds that can be invested for one year or longer. Participants hold individual trust accounts wherein they can monitor the performance of their investments.

The initial deposits to the Trust were made on January 29, 2014, by four participants, including the two founding members. As of June 30, 2014, the Trust had twelve participant accounts. During the fiscal year ending June 30, 2015, twelve new participant accounts were added to the Trust, bringing the total to twenty-four.

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 management of Trust assets. A custodian bank has also been contracted to assist with the management of assets and the reporting of contributions, distributions, and participant balances within the Trust.

FY 2015 Highlights

Fiscal Year 2015 is just the second year of operations for the Virginia Investment Pool Trust. The net position of the Trust increased during the year, growing from \$143.9 million on June 30, 2014, to \$193.9 million on June 30, 2015.

Summary of Financial Condition

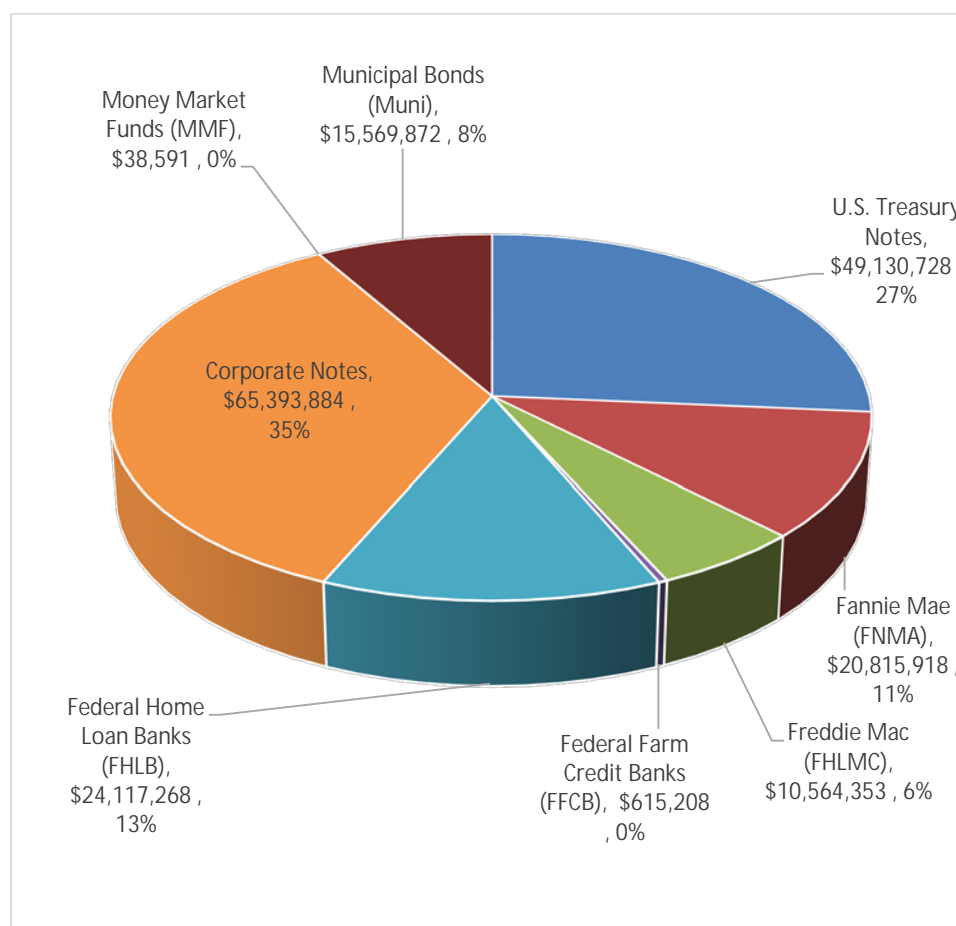
The objective of the Trust is to provide political subdivisions that have surplus funds and an investment horizon that is one year or longer with an investment vehicle to pool and invest their funds.

The Trust measures its returns against the Bank of America Merrill Lynch One- to Three-year Corporate & Government Index. The Trust aims to exceed the return of the benchmark over three-year periods while preserving participant capital.

The allocation of the Trust as of June 30, 2015, was as follows:

<u>Security Distribution</u>	<u>Portfolio Allocation</u>
U.S. Treasury Notes	26.38%
Fannie Mae (FNMA)	11.18%
Freddie Mac (FHLMC)	5.67%
Federal Farm Credit Banks (FFCB)	0.33%
Federal Home Loan Banks (FHLB)	12.95%
Corporate Notes	35.11%
Money Market Funds (MMF)	0.02%
Municipal Bonds (Muni)	8.36%

Portfolio Allocation by Market Value of Investments as of June 30, 2015



Independent Audit

For the period ended June 30, 2015, 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

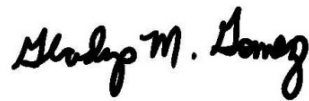
The completion of this report reflects the efforts of the Board of Trustees and staff of VML/VACo Finance working together to achieve the goals of the Trust. The report is intended to provide comprehensive and reliable information about the Trust and allow for the evaluation of responsible stewardship 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



Gladys M. Gomez, CPA, CGMA
Comptroller
VML/VACo Finance

Virginia Investment Pool Trust Fund
Governing Board and Administration
June 30, 2015

Board of Trustees

Barbra O. Carraway, *Chairman*
Treasurer
City of Chesapeake

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

David Clark
Assistant Director of Finance/Treasury
City of Alexandria

Melinda Moran Conner
County Administrator
Mathews County IDA

Carla de la Pava
Treasurer
Arlington County

Josephine S. Gilbert
Investment Manager
Fairfax County

Brian P. Henshaw
Town Manager
Town of Haymarket

Leigh Kovacs
Accounting & Investments Administrator
City of Virginia Beach

Ellen Minga
Treasurer
Town of Smithfield

Fred W. Parker
Treasurer
Washington County

Barry W. Thompson
Treasurer
Town of Vinton

Valerie Tweedie
Treasurer
Town of Christiansburg

James D. Campbell (ex officio)
Executive Director
Virginia Association of Counties

Kimberly A. Winn (ex officio)
Executive Director
Virginia Municipal League

Administrative Staff

Robert W. Lauterberg
Managing Director
VML/VACo Finance

Steven C. Mulroy
Deputy Director
VML/VACo Finance

Gladys M. Gomez, CPA, CGMA
Comptroller
VML/VACo Finance

Investment Manager

Public Trust Advisors
Denver, CO

Custodian

Regions Bank
Birmingham, AL



Independent Auditors' Report

Board of Trustees

Virginia Investment Pool Trust Fund

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, 2015, 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. 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, 2015, and the respective changes in financial position for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 13 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 February 22, 2016, 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
February 22, 2016

Virginia Investment Pool Trust Fund Management's Discussion and Analysis For the period ended June 30, 2015

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, 2015. 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 position 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, 2015, totaled \$193.9 million.
- Additional investments were made during the fiscal year by fifteen participants, including fourteen first-time contributors totaling \$48.9 million.
- Net investment income was \$1,344,498.
- At June 30, 2015, there is \$7,736,241 in participant accounts in money market funds that were pending investment in the portfolio.
- Outstanding accounts payable at year end were \$27,300. This amount represents reimbursable program expenses paid for by VLGFC as well as monthly or quarterly fees payable to the program administrator, custodian and investment manager.

Condensed Financial Information

The following is a summary of the Trust's financial statements for fiscal year 2015 and fiscal year 2014.

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 7,773,065	\$ 8,015,813
Investments	186,245,822	135,986,336
TOTAL ASSETS	194,018,887	144,992,149
LIABILITIES		
Accounts payable	27,300	31,461
TOTAL LIABILITIES	27,300	31,461
NET POSITION RESTRICTED FOR VIP	\$ 193,991,587	\$ 143,970,688
	2015	2014
ADDITIONS		
Investments	\$ 48,952,534	\$ 143,750,000
Net investment income	1,344,498	295,647
TOTAL ADDITIONS	50,297,032	144,045,647
DEDUCTIONS		
Professional services, investment management, administration and program expenses	276,133	74,959
TOTAL DEDUCTIONS	276,133	74,959
NET CHANGE	50,020,899	143,970,688
NET POSITON:		
BEGINNING OF YEAR	143,970,688	-
END OF YEAR	\$ 193,991,587	\$ 143,970,688

Analysis of Financial Position and Results of Operations

The Trust's net position was \$193.9 million at June 30, 2015. As of June 30, 2015, the Trust held twenty-four participant accounts of which fourteen participants made initial investments in the Trust during fiscal year 2015.

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
919 E. Main St., Suite 1100
Richmond, VA 23219
(804) 648-0635

Virginia Investment Pool Trust Fund

Statement of Net Position

	<u>As of June 30, 2015</u>
ASSETS	
Cash and cash equivalents	\$ 7,773,065
Long term investments at fair value	<u>186,245,822</u>
	<u>194,018,887</u>
LIABILITIES	
Accounts payable	<u>27,300</u>
NET POSITION RESTRICTED FOR VIP	<u>\$ 193,991,587</u>

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, 2015
ADDITIONS	
Investments from participants	\$ 48,952,534
Investment income	
Net appreciation in fair value of investments	79,482
Interest income	1,265,016
	<u>1,344,498</u>
TOTAL ADDITIONS	<u>50,297,032</u>
DEDUCTIONS	
Professional services, investment management, administrative and program expenses	<u>276,133</u>
NET CHANGE	50,020,899
NET POSITION:	
BEGINNING OF YEAR	<u>143,970,688</u>
END OF YEAR	<u>\$ 193,991,587</u>

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

Virginia Investment Pool Trust Fund

Notes to Financial Statements

June 30, 2015

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. 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.

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 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 for discussion of 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 determine 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, investment 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 February 22, 2016, 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 Trust assets shall be invested in commercial paper, no more than 5% of the 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, 2015, the Trust had the following maturity and credit rating distributions:

Maturity	Portfolio Allocation	Fair Value
1-3 Months	2.06%	3,836,123
3-6 Months	2.16%	4,017,658
6-9 Months	2.24%	4,165,061
9-12 Months	6.54%	12,185,599
1-2 Years	38.56%	71,823,198
2-3 Years	34.28%	63,857,813
3-4 Years	8.73%	16,253,716
4-5 Years	5.43%	10,106,654
Total	100.00%	\$ 186,245,822

S&P Rating Distribution*	Portfolio Allocation	Fair Value
Short Term Rating Distribution		
A-1+	-	\$ -
A-1	-	-
Total Short Term Ratings	-	\$ -
Long Term Rating Distribution		
AAA	12.40%	\$ 23,089,704
AA	87.60%	163,156,118
A	-	-
Below A	-	-
Total Long Term Ratings	100.00%	\$ 186,245,822
Total Portfolio	100.00%	\$ 186,245,822

*Distribution based on S&P rating, or Moody's rating equivalent for securities not rated by S&P.

4. 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 2015 amounted to \$111,233.

5. Subsequent Events

From July 1, 2015 through January 30, 2016, the Trust received participant investments totaling \$138.1 million from 9 participants of which 5 participants joined the Trust during fiscal year 2016.

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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

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, 2015, 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 February 22, 2016.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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*.

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

February 22, 2016
Richmond, Virginia