

**STATE OF FLORIDA
STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS
FUNDS TRUST FUND
(FLORIDA PRIME)
(AN EXTERNAL INVESTMENT POOL)**

Financial Audit

For the Fiscal Years Ended
June 30, 2013, and 2012



STATE BOARD OF ADMINISTRATION

The State Board of Administration's Board of Trustees is composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The Trustees delegate administrative and investment authority to an appointed Executive Director. Mr. Ashbel Williams served as Executive Director during the audit period.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Barbara St. George, CPA, and the audit was supervised by Allen G. Weiner, CPA. Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 412-2781.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**STATE BOARD OF ADMINISTRATION
 LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME)
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements prepared by the State Board of Administration (SBA) present fairly, in all material respects, the net position of the Local Government Surplus Funds Trust Fund (Florida PRIME) and the changes in net position thereof in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not disclose any deficiencies in internal control over Florida PRIME's financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States; however, we noted an additional matter as summarized below.

ADDITIONAL MATTER

Finding No. 1: Our tests disclosed that the SBA had approved a change to a participant's wire transfer instructions in the wire transfer system without obtaining a properly completed Participant Account Maintenance Form (PAMF).

Audit Objectives and Scope

Our audit objectives were to determine whether the SBA had:

- Presented Florida PRIME's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, and contracts that are material to the financial statements; and
- Taken corrective actions for findings disclosed in our report No. 2013-092.

The scope of this audit included an examination of Florida PRIME's basic financial statements as of and for the fiscal years ended June 30, 2013, and 2012. We obtained an understanding of the SBA's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and Florida PRIME's investment policy.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent SBA records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME), as of and for the fiscal years ended June 30, 2013, and 2012, and the related notes to the financial statements, which collectively comprise the Florida PRIME's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 error or fraud. 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 opinions.

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of Florida PRIME as of June 30, 2013, and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Florida PRIME and do not purport to, and do not, present fairly the financial position of the State of Florida as of June 30, 2013, and 2012, or the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 6 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 audits 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the SBA's internal control over financial reporting relating to Florida PRIME and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. 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 provide an opinion on the 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 SBA's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
January 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012

The State Board of Administration (SBA) is responsible for the management of the Local Government Surplus Funds Trust Fund (Florida PRIME).¹ The SBA was established on June 21, 1929, pursuant to Chapter 14486, Laws of Florida (1929). The SBA was subsequently created as a constitutional body corporate on January 1, 1943, by Article IX, Section 16 of the State Constitution of 1885, as amended. The SBA was subsequently continued as a body corporate by Article IV, Section 4(e) of the State Constitution (1968), as amended. The SBA is governed by the Governor, as Chair, the Chief Financial Officer, and the Attorney General.

As management of the SBA, we offer readers of Florida PRIME's financial statements this overview and analysis of Florida PRIME's financial results and position for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which begin on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements provide financial information about Florida PRIME as an investment trust fund, a fiduciary fund type. Investment trust funds are accounted for using an economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue when earned, and expenses are recorded when a liability is incurred.

Florida PRIME presents the following basic financial statements: a Statement of Net Position and a Statement of Changes in Net Position. The Statement of Net Position presents all Florida PRIME's assets and liabilities with the difference reported as net position. The Statement of Changes in Net Position shows the increase or decrease in net position during the year as a result of investment activities and participant contributions and withdrawals.

¹ As of August 3, 2009, the SBA began using the name "Florida PRIME" when referring to the Local Government Surplus Funds Trust Fund.

FINANCIAL SUMMARY

Summaries of Florida PRIME's financial statements are presented below for each of the last three fiscal years.

Condensed Statements of Net Position (in thousands)

	As of June 30,		
	2013	2012	2011
Total assets	\$ 7,279,239	\$ 6,754,150	\$ 6,824,328
Total liabilities	1,146	1,706	406
Net position	\$ 7,278,093	\$ 6,752,444	\$ 6,823,922

Condensed Statements of Changes in Net Position (in thousands)

	For the Fiscal Year Ended June 30,		
	2013	2012	2011
Changes in net position:			
Net income from investing activity	\$ 18,599	\$ 19,665	\$ 17,771
Distributions paid and payable	(18,599)	(19,666)	(17,771)
Participant contributions	14,893,884	15,243,370	15,223,064
Participant withdrawals	(14,513,855)	(15,371,147)	(13,968,553)
Investment transfer from Fund B	145,620	56,300	88,475
Changes in net position	525,649	(71,478)	1,342,986
Net position, July 1	6,752,444	6,823,922	5,480,936
Net position, June 30	\$ 7,278,093	\$ 6,752,444	\$ 6,823,922

FINANCIAL ANALYSIS

Assets

Total assets at the end of fiscal years 2013, 2012, and 2011 were \$7.28 billion, \$6.75 billion and \$6.82 billion, respectively. The increase in total assets and net position in fiscal year 2013 was due primarily to participant contributions and investment transfers from Fund B exceeding withdrawals by \$507.1 million. The decrease in total assets and net position during fiscal year 2012 was mainly the result of participant withdrawals exceeding contributions and investment transfers from Fund B by \$91.1 million.

Liabilities

Total liabilities at the end of fiscal years 2013, 2012, and 2011 were \$1.1 million, \$1.7 million, and \$406 thousand, respectively. Liabilities decreased by \$560 thousand in fiscal year 2013 following an increase of \$1.3 million in fiscal year 2012. The decrease in fiscal year 2013 was due to a \$1.1 million decline in unregistered deposits (deposits sent without prior notification to the SBA), partially offset by a \$498 thousand increase in other accrued payables, including a cash overdraft payable of \$396 thousand caused by a participant not sending in a registered deposit. The main reason for the increase in fiscal year 2012 was an increase in "Due to local governments" due to an increase in unregistered deposits. Deposits sent in without being registered by participants are recorded as liabilities until the

depositor is identified and credit is awarded to the participant. Registered deposits that are not remitted by the participant result in a cash overdraft when the funds are invested in anticipation of timely receipt.

Net Position

Florida PRIME's net position increased by \$525.6 million (8%) to \$7.28 billion at June 30, 2013, from \$6.75 billion at June 30, 2012, following a \$71.5 million (1%) decrease in the previous fiscal year from \$6.82 billion.

Net income from investing activity of \$18.6 million for the current fiscal year ended June 30, 2013, was \$1.1 million lower than the \$19.7 million earned for fiscal year 2012. This was primarily due to the lower participant investment yields during the period and increased investment expenses. Net income from investing activity for fiscal year 2012 was \$1.9 million higher than the \$17.8 million earned for fiscal year 2011 because of increased average participant balances. The Federal Reserve continued a monetary policy stance (that began in the latter part of the 2009 fiscal year) to keep overnight interest rates to nearly zero in an effort to help stabilize global financial markets. As a result of this policy, other Federal government economic stimulus measures, and slow economic growth, short-term interest rates remained at historic lows during recent fiscal years.

Investment transfers from Fund B for fiscal year 2013 were \$145.6 million, an increase of \$89.3 million over fiscal year 2012. The \$56.3 million received for fiscal year 2012 was \$32.2 million less than the amounts received for fiscal year 2011. Favorable market conditions allowed the Fund B manager to liquidate a portion of the Fund B investments from late 2012 to mid-2013. Excluding this liquidation, investment transfers from Fund B have declined mainly because principal reductions in Fund B assets caused by refinancing activity have slowed year over year as mortgage rates have declined.

Investment expenses, including management fees and administrative services charges, increased approximately \$479 thousand, or 28%, during fiscal year 2013. This increase was due in large part to the increased value of the assets under management on which the fees are based and the adjustment from 0.6 basis points to 1.0 basis point for the SBA's administrative service charge to more accurately match the resources required to administer Florida PRIME.

FINANCIAL HIGHLIGHTS

Florida PRIME is governed by Chapters 215 and 218, Florida Statutes, and SBA Rules, Chapter 19-7, Florida Administrative Code. The purpose of Chapter 218, Part IV, Florida Statutes, is to promote, through State assistance, the maximization of net interest earnings on invested surplus funds of units of local government, based on the principles of investor protection, mandated transparency, and proper governance, with the goal of reducing the need for imposing additional taxes. The primary investment objectives, in priority order, are safety, liquidity, and competitive returns with minimization of risks.

Units of local government eligible to participate in Florida PRIME include, but are not limited to, any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, state university, state college, community college, authority, board, public corporations, or any other political subdivision or direct support organization of the State.

For the fiscal year ended June 30, 2013:

- Participant contributions declined 2.3 percent compared with the prior fiscal year, while participant withdrawals decreased 5.6 percent, resulting in net participant contributions of \$380 million.
- Net income from investing activity decreased \$1.1 million over the prior fiscal year; mainly because the average participant yield for the fiscal year was 0.25 percent, which was lower than the average participant yield of 0.28 percent of the prior fiscal year. The decrease in net income from investing activity was due to the lower participant yields experienced mainly throughout the second half of the fiscal year, as average participant balances increased slightly. Average daily participant balances increased 9 percent over the prior fiscal year, and remained about 9 percent higher at June 30, 2013, over the prior fiscal year-end.
- The number of active participants grew to 850 from 843.

For the fiscal year ended June 30, 2012:

- Participant contributions were consistent with the prior fiscal year, while participant withdrawals increased 10 percent, resulting in net participant withdrawals of \$127.8 million.
- Net income from investing activity increased \$1.9 million over the prior fiscal year; however, the average participant yield for the fiscal year was steady at 0.28 percent, just under the average participant yield of 0.29 percent of the prior fiscal year. The increase in net income from investing activity was due to the higher average participant balances, as interest rates stayed at historic lows during the fiscal year. Average daily participant balances increased 9 percent over the prior fiscal year, even though total participant balances decreased by June 30, 2012.
- Investment transfers from Fund B decreased 36 percent from the prior fiscal year due to reduced asset balances in Fund B and decreased refinancing activity in Fund B mortgage collateral pools.
- The number of active participants increased to 843 from 823.

CONTACT INFORMATION

These financial statements reflect only the transactions and balances for Florida PRIME. For additional information on Florida PRIME, please contact the State Board of Administration, Chief Operating & Financial Officer, 1801 Hermitage Boulevard, Suite 100, Tallahassee, Florida 32308 or visit the SBA's website at <https://www.sbafla.com/prime/>.

BASIC FINANCIAL STATEMENTS

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME)
STATEMENTS OF NET POSITION
As of June 30, 2013, and June 30, 2012
(In Thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,099
Investments:		
Certificates of deposit	3,079,203	2,532,981
Commercial paper	1,566,576	1,810,308
Repurchase agreements	800,000	1,300,000
Money market funds	1,057,510	529,590
Domestic corporate bonds & notes	674,273	417,207
Municipal bonds & notes	99,450	89,135
Foreign corporate note (\$ denom)	-	55,001
U.S. Treasury notes	-	15,177
Total investments	<u>7,277,012</u>	<u>6,749,399</u>
Interest receivable	2,204	3,631
Prepaid fees	20	20
Undistributed expenses	<u>3</u>	<u>1</u>
Total Assets	<u>7,279,239</u>	<u>6,754,150</u>
LIABILITIES		
Accounts payable and accrued liabilities	827	342
Distributions payable	65	51
Due to local governments	<u>254</u>	<u>1,313</u>
Total Liabilities	<u>1,146</u>	<u>1,706</u>
NET POSITION		
Held in trust for pool participants	<u>\$ 7,278,093</u>	<u>\$ 6,752,444</u>

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

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME)
STATEMENTS OF CHANGES IN NET POSITION
Years ended June 30, 2013, and June 30, 2012
(In Thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
ADDITIONS		
Income from investing activity:		
Interest income	\$ 20,815	\$ 21,402
Investment management fees	(1,289)	(1,154)
Administrative service charges	(752)	(411)
Bank fees	(69)	(68)
Compliance review fees	(67)	(63)
Standard and Poor's rating maintenance fees	(39)	(39)
Consulting fees (Education Center)	-	(2)
Net income from investing activity	<u>18,599</u>	<u>19,665</u>
Total Additions	<u>18,599</u>	<u>19,665</u>
DEDUCTIONS		
Distributions paid and payable	<u>18,599</u>	<u>19,666</u>
Total Deductions	<u>18,599</u>	<u>19,666</u>
SHARE TRANSACTIONS		
Participant contributions	14,893,884	15,243,370
Participant withdrawals	(14,513,855)	(15,371,147)
Investment transfer from Fund B	<u>145,620</u>	<u>56,300</u>
Net Increase (Decrease) Resulting from Share Transactions	<u>525,649</u>	<u>(71,477)</u>
Changes in net position	<u>525,649</u>	<u>(71,478)</u>
Net position, beginning of year	<u>6,752,444</u>	<u>6,823,922</u>
Net position, end of year	<u>\$ 7,278,093</u>	<u>\$ 6,752,444</u>

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

NOTES TO FINANCIAL STATEMENTS

**STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME)
Years ended June 30, 2013, and June 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of the significant accounting policies of the Local Government Surplus Funds Trust Fund (Florida PRIME) is presented to assist the reader in interpreting the financial statements. These policies should be viewed as an integral part of the accompanying financial statements.

a. Reporting Entity

The State Board of Administration (SBA) is responsible for the management of Florida PRIME. The SBA was established on June 21, 1929, pursuant to Chapter 14486, Laws of Florida (1929). The SBA was subsequently created as a constitutional body corporate on January 1, 1943, by Article IX, Section 16 of the State Constitution of 1885, as amended. The SBA was subsequently continued as a body corporate by Article IV, Section 4(e) of the State Constitution (1968), as amended. The SBA is composed of the Governor, as Chair, the Chief Financial Officer and the Attorney General.

The Local Government Surplus Funds Trust Fund was created by act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes). The law allowed the SBA to manage investments on an individual basis or to establish a pooled account. The funds were managed on an individual basis until January 1, 1982. On August 3, 2009, the SBA began using “Florida PRIME” when referring to the Local Government Surplus Funds Trust Fund.

Sections 218.40 through 218.415, Florida Statutes, and State Board of Administration Rules 19-7.002 through 19-7.016, Florida Administrative Code, promulgated pursuant to Section 218.405(4), Florida Statutes, govern the operation of Florida PRIME.

The assets and liabilities of Florida PRIME are included in the Comprehensive Annual Financial Report (CAFR) of the State of Florida. The accompanying financial statements present only Florida PRIME and are not intended to present fairly the financial position of the State of Florida and the results of its operations in conformity with generally accepted accounting principles.

b. Regulatory Oversight

Florida PRIME is not a registrant with the Securities and Exchange Commission (SEC); however, the SBA has adopted operating procedures consistent with those required of an SEC Rule 2a-7-like fund. An SEC Rule 2a-7-like external investment pool is one that is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds.

c. Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

Florida PRIME is reported as an investment trust fund, a fiduciary fund type.

d. Measurement Focus and Basis of Accounting

Basis of accounting refers to when the recognition of revenues and expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP. Under this method, earnings on investments, including interest income, are recognized as revenue when earned, and expenses are recognized when a liability is incurred.

e. Cash and Cash Equivalents

Florida PRIME reports as “Cash and cash equivalents” all cash on hand and on deposit in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit.

f. Investments

Florida PRIME’s investments are recorded at amortized cost, consistent with GASB Statement No. 31. Fair values, for note disclosures, are calculated using quoted market prices. If quoted market prices are not available, the discounted cash flow model and broker quotes are used to price securities.

g. Method Used to Determine Participants’ Shares Sold and Redeemed

In a manner similar to that used for SEC Rule 2a-7 money market funds, participants’ shares are sold and redeemed in Florida PRIME using the amortized cost method, which is consistent with the method used to report Florida PRIME’s investments. The amortized cost method calculates an investment’s value by adjusting its acquisition cost for the accretion of discount or amortization of premium over the period from purchase to maturity.

h. Legally Binding Guarantees

The SBA has not provided or obtained any legally binding guarantees during the fiscal years ended June 30, 2013, or June 30, 2012, for Florida PRIME.

i. Involuntary Participation

There is no requirement under Florida Statutes for any local government or state agency to participate in Florida PRIME.

j. Frequency of Determining Fair Value of Shares

The fair value of the investments of Florida PRIME is determined on a daily basis. SEC Rule 2a-7 requires that a periodic comparison be made between amortized cost and fair value. If the two values differ by more than .50 percent, the SBA is permitted to suspend redemptions and postpone payment of redemption proceeds in an orderly liquidation of Florida PRIME if, subject to other requirements, the SBA determines that the deviation between the Florida PRIME's amortized cost per share and its current fair value per share may result in material dilution or other unfair results to participants. As of June 30, 2013, and June 30, 2012, the ratios of fair value to amortized cost were 100.01 percent and 100.00 percent, respectively.

k. Fees and Administrative Service Charges

Federated Investment Counseling (Federated) is the investment manager for Florida PRIME. Federated charges an annual investment management fee based on the average daily net assets (i.e., average daily amortized cost) of Florida PRIME (excluding Federated money market fund balances), as follows:

First \$1 billion in Account Assets	3.5 basis points
Next \$1.5 billion in Account Assets	3.0 basis points
Next \$2.5 billion in Account Assets	2.5 basis points
Balance of Account Assets over \$5 billion	2.0 basis points

This fee is taken out of monthly earnings prior to the allocation of net earnings to participant balances. Total investment management fees incurred by Florida PRIME in the fiscal years ended June 30, 2013, and June 30, 2012, were \$1,289,223 and \$1,154,443, respectively.

In accordance with SBA Rule 19-3.016(17), Florida Administrative Code, the SBA charges an administrative service charge to recover its costs related to operating Florida PRIME. The charge is taken out of the monthly earnings prior to the distribution of net earnings to participant balances each month. Currently the SBA service charge is 1.0 basis point (.0001) on total Florida PRIME assets. Prior to July 1, 2012, the SBA service charge was 0.6 basis points (.00006). Total administrative service charges incurred by Florida PRIME for the fiscal years ended June 30, 2013 and 2012, were \$751,779 and \$410,660, respectively.

Various bank fees (including transaction charges), custody fees, performance analytics, and consulting fees are incurred by Florida PRIME. These fees are taken out of the monthly earnings prior to the distribution of net earnings to participant balances each month. The total bank fees incurred by Florida PRIME for the fiscal years ended June 30, 2013, and 2012, were \$69,525 and \$68,035, respectively. Standard and Poor's (S&P) rating maintenance fees were \$38,946 and \$38,550 for fiscal years ended June 30, 2013, and 2012, respectively. Compliance review fees were \$67,241 and \$63,251 for those same years. The compliance review service fees resulted from the provisions of

Section 218.405(3), Florida Statutes, which require that the trustees annually certify to the Joint Legislative Auditing Committee that Florida PRIME is in compliance with Florida law. Consulting fees for the fiscal year ended June 30, 2012, were \$2,000 and were paid to set up the Education Center website for participants.

I. Fund B Surplus Funds Trust Fund

Pursuant to Section 218.417, Florida Statutes, the Fund B Surplus Funds Trust Fund (Fund B) was created in May 2008. Amounts credited to Fund B consist of the investments, interest earned, and reserve in Fund B of Florida PRIME. Fund B of Florida PRIME was originally formed as part of a restructuring of the Local Government Surplus Funds Trust Fund in December 2007 to hold certain securities with limited liquidity.

Fund B is administered by the SBA and the SBA distributes cash holdings to Florida PRIME as they become available from maturities, sales, investment interest, and other income received from assets in Fund B. These distributions are recorded on the Statement of Changes in Net Position as a Transfer from Fund B.

2. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

Florida PRIME implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of net position. Although Florida PRIME did not have any deferred outflows of resources or deferred inflows of resources to report, the change in format of the financial statements was incorporated into Florida PRIME's 2013 financial statements. Comparative prior year financial statements for 2012 have also been modified to reflect this format change. There was no effect on beginning net position as a result of this change for either fiscal year.

3. DEPOSITS AND INVESTMENTS

a. Deposits

Cash is held in demand deposits at various financial institutions. These deposits totaled \$0 at June 30, 2013, and \$1,099,486 at June 30, 2012. All deposits in Florida PRIME were covered by Federal insurance or the State's collateral pool pursuant to Chapter 280, Florida Statutes. Chapter 280, Florida Statutes, generally requires public funds to be deposited in a bank or savings association designated by the State of Florida Chief Financial Officer (State CFO) as a qualified public depository.

The State CFO determines the collateral requirements and collateral pledging level for each qualified public depository following guidelines outlined in Department of Financial Services Rules, Chapter 69C-2, Florida Administrative Code, and Section 280.04, Florida Statutes. Eligible collateral includes

Federal, federally-guaranteed, state and local government obligations; corporate bonds; and letters of credit issued by a Federal Home Loan Bank. Other collateral may be eligible, with the State CFO's permission.

b. *Investment Authority and Compliance*

The SBA has the authority to administer and invest the funds of Florida PRIME in accordance with Chapter 218, Part IV, Florida Statutes. The statute states the SBA shall invest the moneys of Florida PRIME in the same manner and subject to the same restrictions as are set forth in Section 215.47, Florida Statutes, which identifies all authorized securities.

Section 215.47, Florida Statutes, includes a broad range of instruments to enable the SBA to administer its varied investment responsibilities. The Investment Policy Statement for Florida PRIME lists the following authorized principal investments:

1. United States (U.S.) Treasury obligations.
2. U.S. Government Agency obligations.
3. Government securities, which are defined as any security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing.
4. Insurance contracts, including guaranteed investment contracts, funding agreements, and annuities.
5. Corporate debt securities, such as notes, bonds, debentures, commercial paper, interests in bank loans to companies, and demand instruments.
6. Bank instruments (including Yankee and Eurodollar), such as bank accounts, time deposits, certificates of deposit, and bankers' acceptances. Yankee instruments are denominated in U.S. dollars and issued by U.S. branches of foreign banks. Eurodollar instruments are denominated in U.S. dollars and issued by non-U.S. branches of U.S. or foreign banks.
7. Asset-backed securities, which may be in the form of commercial paper, notes, or pass-through certificates.
8. Municipal securities issued by states, counties, cities, and other political subdivisions and authorities.
9. Foreign securities (i.e., U.S. dollar-denominated securities of issuers based outside the United States).
10. Mortgage-backed securities representing interests in pools of mortgages. Mortgages may have fixed or adjustable interest rates.
11. Private placements of securities – The SBA has determined that Florida PRIME constitutes (i) an “accredited investor” as defined in Rule 501(a)(7) promulgated under the Securities Act of 1933, as amended (the Securities Act), as long as Florida PRIME has total assets in excess of \$5,000,000 and (ii) a “qualified purchaser” as defined in Section 2(a)(51)(A)(iv) of the 1940 Act, as long as Florida PRIME in the aggregate owns and invests on a discretionary basis not less than \$25,000,000 in investments, but does not constitute a “qualified institutional buyer” as defined in Rule 144A(a)(1)

promulgated under the Securities Act. Florida PRIME is restricted from purchasing or acquiring securities or investments that would require Florida PRIME to represent in connection with such purchase or acquisition that it is a “qualified institutional buyer” as defined in Rule 144A(a)(1) promulgated under the Securities Act.

12. Shares of registered investment companies that are money market mutual funds, including those that are affiliated with Federated (Investment Manager).
13. Special transactions, including repurchase agreements and delayed delivery transactions. Repurchase agreements are transactions in which Florida PRIME buys a security from a dealer or bank and agrees to sell the security back at a mutually agreed-upon time and price. Delayed delivery transactions, including when-issued transactions, are arrangements in which Florida PRIME buys securities for a set price, with payment and delivery of the securities scheduled for a future time but no later than seven days in the future.

The primary investment objectives for Florida PRIME, in priority order, are safety, liquidity, and competitive returns with minimization of risks. This is accomplished by structuring the portfolio consistent with Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds). In buying and selling portfolio securities for Florida PRIME, the Investment Manager will comply with the diversification, maturity, and credit quality conditions imposed by SEC Rule 2a-7 under the 1940 Act; with the requirements imposed by any nationally recognized statistical rating organization (NRSRO) that rates Florida PRIME to ensure that it maintains a AAAm rating (or the equivalent); and with the investment limitations imposed by Section 215.47, Florida Statutes.

When the deviation between the fair value and amortized cost of Florida PRIME exceeds 0.25 percent, the Investment Policy Statement requires that the Investment Manager establish a formal action plan. The Investment Policy Statement also requires that the Investment Oversight Group review the formal action plan and prepare a recommendation for the Executive Director’s consideration.

When the deviation between the fair value and amortized cost of Florida PRIME exceeds 0.50 percent, Florida Statutes 218.409(8) authorizes the Executive Director to promptly consider what action, if any, should be initiated. Where the Executive Director believes the extent of any deviation from Florida PRIME’s amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, he will cause Florida PRIME to take such action as he deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

c. Violation of Investment Policy

Florida PRIME Investment Policy restricts the Florida PRIME from purchasing or acquiring any security or investment that would require Florida PRIME to represent in connection with such purchase or acquisition that it is a “qualified institutional buyer” (QIB) as defined in SEC Rule 144A(a)(1).

On September 12, 2012, the SBA received notification from the Investment Manager that the Svenska Handelsbanken AB investment (\$45 million at par) purchased on September 20, 2011, and due to mature on October 16, 2012, was not an eligible investment for Florida PRIME. The Svenska Handelsbanken AB position was then sold on September 14, 2012.

Subsequent investigation of fiscal year 2011-12 investment purchases identified three additional ineligible investment purchases of JP Morgan Chase Putters/Drivers Trust notes, which occurred in February and March 2012 for par values of \$146.75 million, \$20 million, and \$9.135 million. All three of these securities were sold by the Investment Manager in May 2012 resulting in no realized gain or loss.

To prevent similar Investment Policy violations, the Investment Manager revised its compliance system to flag for further research all transactions involving SEC Rule 144A securities in order to mitigate the risk of purchasing an ineligible SEC Rule 144A security for the Florida PRIME.

Additionally, the SBA’s internal compliance unit has established procedures to review the Investment Manager’s purchases to ensure compliance with this requirement.

d. Summary of Investment Holdings

The following tables provide a summary of the par value or share amount, carrying amount, fair value, range of interest rates, and range of maturity dates for each major investment classification as of June 30, 2013, and June 30, 2012 (expressed in thousands):

As of June 30, 2013

Investment Type	Par	Carrying Value	Fair Value	Range of Interest Rates ¹	Range of Maturity Dates
Certificates of deposit	\$ 3,079,200	\$ 3,079,203	\$ 3,079,873	.12%-.38%	7/1/13-7/3/14 ²
Commercial paper	1,567,135	1,566,576	1,566,652	.09%-.42%	7/2/13-12/4/13 ³
Money market funds	1,057,510	1,057,510	1,057,510	.01%-.05%	N/A ⁴
Domestic corporate bonds & notes	670,254	674,273	674,229	.14%-5.9%	7/12/13-7/1/29 ⁵
Municipal bonds & notes	99,450	99,450	99,450	.04%-.08%	1/1/28-12/1/42 ⁵
Repurchase agreements	800,000	800,000	800,000	.15%-.25%	7/1/13
Totals	<u>\$ 7,273,549</u>	<u>\$ 7,277,012</u>	<u>\$ 7,277,714</u>		

¹ The coupon rate in effect at June 30, 2013, is reported. If a security is discounted, the purchase yield is reported. The 7 day yield as of June 30, 2013, is reported for the money market funds. The yields fluctuate daily.

² Florida PRIME has the option to extend the maturity date on several positions in certificates of deposit on a monthly basis until the final maturity dates of May 26, 2015, October 4, 2018, and April 1, 2019. The maturity dates on these positions as of June 30, 2013, are December 24, 2013, July 1, 2014, and July 3, 2014.

³ Florida PRIME has the option to extend the maturity date on one position in commercial paper on a monthly basis until the final maturity date of November 4, 2014. The maturity date on this position as of June 30, 2013, is December 4, 2013.

⁴ Money market funds do not have a specified maturity date.

⁵ Florida PRIME may tender these bonds and notes for 100 percent of the principal amount, plus accrued interest (if tendered between interest payment dates) with a minimum of 7 days prior notification to the trustee of the bonds or notes.

As of June 30, 2012

Investment Type	Par	Carrying Value	Fair Value	Range of Interest Rates ¹	Range of Maturity Dates
Certificates of deposit	\$ 2,533,000	\$ 2,532,981	\$ 2,533,238	.18%-.55%	7/2/12-5/22/13
Commercial paper	1,811,400	1,810,308	1,810,293	.23%-.51%	7/2/12-1/3/13 ⁴
Money market funds	529,590	529,590	529,590	.01%-.17%	N/A ²
Domestic corporate bonds & notes	416,006	417,207	417,174	.18%-5.38%	7/27/12-7/1/29 ³
Municipal bonds & notes	89,135	89,135	89,135	.18%-.30%	6/1/32-11/15/42 ³
Foreign corporate note (\$ denom)	55,000	55,001	54,998	.57%-3.45%	7/2/12-10/16/12
U.S. Treasury notes	15,000	15,177	15,180	1.75%	4/15/13
Repurchase agreements	1,300,000	1,300,000	1,300,000	.18%-.20%	7/2/12
Totals	<u>\$ 6,749,131</u>	<u>\$ 6,749,399</u>	<u>\$ 6,749,608</u>		

¹ The coupon rate in effect at June 30, 2012, is reported. If a security is discounted, the purchase yield is reported. The 7 day yield as of June 30, 2012, is reported for the money market funds. The yields fluctuate daily.

² Money market funds do not have a specified maturity date.

³ Florida PRIME may tender these bonds and notes for 100 percent of the principal amount, plus accrued interest (if tendered between interest payment dates) with a minimum of 7 days prior notification to the trustee of the bonds or notes.

⁴ Florida PRIME has the option to extend the maturity date on one position in commercial paper on a monthly basis until the final maturity date of November 4, 2014. The maturity date on this position as of June 30, 2012, is December 4, 2012.

e. Investment Credit Risk and Concentration of Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer.

Pursuant to the Investment Policy Statement, investment credit risk and concentration of credit risk of debt securities will be managed as follows:

1. The Investment Manager will purchase short-term, high-quality fixed income securities. To be considered high-quality, a security must be rated in the highest short-term rating category by one or more NRSROs, or be deemed to be of comparable quality thereto by the Investment Manager, subject to Section 215.47(1)(j), Florida Statutes.
2. The Investment Manager will perform a credit analysis to develop a database of issuers and securities that meet the Investment Manager's standard for minimal credit risk. The Investment Manager will monitor the credit risks of all Florida PRIME's portfolio securities on an ongoing basis by reviewing the financial data, issuer news and developments, and ratings of designated NRSROs.
3. The Investment Manager generally will comply with the following diversification limitations that are additional to those set forth in SEC Rule 2a-7. First, at least 50 percent of Florida PRIME assets will be invested in securities rated "A-1+" or those deemed to be of comparable credit quality thereto by the Investment Manager (i.e., so long as such deeming is consistent with the requirements of the NRSRO's AAAM (or equivalent) rating criteria), subject to Section 215.47(1)(j), Florida Statutes. Second, exposure to any single non-governmental issuer will not exceed 5 percent (at the time a security is purchased) and exposure to any single money market mutual fund will not exceed 10 percent of Florida PRIME assets.

In the event that a security receives a credit rating downgrade and ceases to be in the highest rating category, or the Investment Manager determines that the security is no longer of comparable quality to the highest short-term rating category (in either case, a "downgrade"), the Investment Manager will reassess whether the security continues to present minimal credit risk and will cause Florida PRIME to take any actions determined by the Investment Manager to be in the best interest of Florida PRIME. The Investment Manager will not be required to make reassessments if Florida PRIME disposes of the security (or the security matures) within five business days of the downgrade.

In the event that a security no longer meets the criteria for purchase due to default, event of insolvency, a determination that the security no longer presents minimal credit risks, or other material event (affected security), the Investment Manager must dispose of the security as soon as practical consistent with achieving an orderly disposition of the affected security, by sale, exercise of a demand feature or otherwise. An affected security may be held only if the Executive Director has determined, based upon a recommendation from the Investment Manager and the Investment Oversight Group, that it would

not be in the best interest of Florida PRIME to dispose of the security taking into account market conditions that may affect an orderly disposition.

Florida PRIME's credit quality ratings were as follows at June 30, 2013, and June 30, 2012 (fair values expressed in thousands):

Ratings ¹		Fair Value of Florida PRIME Investments as of June 30, 2013				
S&P	Moody's	Total	Certificates of Deposit	Commercial Paper	Money Market Funds	Corporate & Municipal Bonds & Notes
AAAm		\$ 1,057,510	\$ -	\$ -	\$ 1,057,510	\$ -
AA		677,866	398,236	-	-	279,630
A		54,650	-	-	-	54,650
Not rated ¹	Aaa	11,400	-	-	-	11,400
Not rated ¹	Aa	500,225	375,227	-	-	124,998
A-1		1,566,652	-	1,566,652	-	-
Not rated ¹	Not rated ¹	2,609,411	2,306,410	-	-	303,001
		<u>\$ 6,477,714</u>	<u>\$ 3,079,873</u>	<u>\$ 1,566,652</u>	<u>\$ 1,057,510</u>	<u>\$ 773,679</u>
Not rated ²	Not rated ²	800,000	Repurchase agreements			
		<u>\$ 7,277,714</u>	Total			

¹ Ratings for investments are presented using S&P credit ratings. If S&P did not rate a security, then Moody's ratings are presented. All of the investments presented as "Not rated" had short-term issuer credit ratings that met Florida PRIME's investment and SEC Rule 2a-7 guidelines.

² Repurchase agreements are not negotiable instruments and do not carry individual security ratings.

Ratings ¹		Fair Value of Florida PRIME Investments as of June 30, 2012					
S&P	Moody's	Total	Certificates of Deposit	Commercial Paper	Money Market Funds	Corporate & Municipal Bonds & Notes	Foreign Corporate Note (\$ denom)
AAAm		\$ 529,590	\$ -	\$ -	\$ 529,590	\$ -	\$ -
AAA		53,900	-	-	-	53,900	-
AA		169,151	-	-	-	169,151	-
A		43,272	-	-	-	33,272	10,000
Not rated ¹	Aa	150,037	150,037	-	-	-	-
A-1		1,810,293	-	1,810,293	-	-	-
Not rated ¹	Not rated ¹	2,678,185	2,383,201	-	-	249,986	44,998
		<u>\$ 5,434,428</u>	<u>\$ 2,533,238</u>	<u>\$ 1,810,293</u>	<u>\$ 529,590</u>	<u>\$ 506,309</u>	<u>\$ 54,998</u>
Not rated ²	Not rated ²	1,300,000	Repurchase agreements				
Not rated ³	Not rated ³	15,180	U.S. Treasury notes				
		<u>\$ 6,749,608</u>	Total				

¹ Ratings for investments are presented using S&P credit ratings. If S&P did not rate a security, then Moody's ratings are presented. All of the investments presented as "Not rated" had short-term issuer credit ratings that met Florida PRIME's investment and SEC Rule 2a-7 guidelines.

² Repurchase agreements are not negotiable instruments and do not carry individual security ratings.

³ U.S. Treasury obligations do not carry individual security ratings, but carried overall ratings of AA+ by S&P, Aaa by Moody's, and AAA by Fitch as of June 30, 2012.

With respect to the concentration of credit risk, at June 30, 2013, and June 30, 2012, Florida PRIME had exposure of 5 percent or more to each of the following issuers (carrying values and fair values expressed in thousands):

As of June 30, 2013

Issuer Name	Carrying Value	Percent of Portfolio Carrying Value	Fair Value	Percent of Portfolio Fair Value
Deutsche Bank - Certificates of deposit ¹	\$ 110,000	1.51%	\$ 110,010	1.51%
Deutsche Bank - Repurchase agreements ²	750,000	10.31%	750,000	10.31%
Deutsche Bank Total	<u>\$ 860,000</u>	<u>11.82%</u>	<u>\$ 860,010</u>	<u>11.82%</u>
Bank of Montreal - Certificates of deposit ³	<u>\$ 405,000</u>	<u>5.57%</u>	<u>\$ 405,135</u>	<u>5.57%</u>
Royal Bank of Canada - Certificates of deposit ³	<u>\$ 398,000</u>	<u>5.47%</u>	<u>\$ 398,236</u>	<u>5.47%</u>
Sumitomo Mitsui Banking Corp. - Certificates of deposit ³	<u>\$ 385,000</u>	<u>5.29%</u>	<u>\$ 385,003</u>	<u>5.29%</u>

¹ For purposes of the SEC Rule 2a-7 exposure restriction calculations, the Deutsche Bank certificates of deposit is considered a separate issuer position from the Deutsche Bank collateralized repurchase agreements.

² For purposes of SEC Rule 2a-7 exposure restriction calculations, acquisitions of repurchase agreements may be deemed to be acquisitions of the underlying securities, provided the obligation of the seller is fully collateralized. These agreements are fully collateralized. Consequently, they are not subject to SEC Rule 2a-7 issuer exposure restrictions.

³ Under SEC Rule 2a-7, liquidations are not required for exposures over 5 percent if the overage is caused by participant account movements (i.e., withdrawals). The excess exposure to Bank of Montreal, Royal Bank of Canada, and Sumitomo Mitsui Banking Corp. were caused by participant account movements.

As of June 30, 2012

Issuer Name	Carrying Value	Percent of Portfolio Carrying Value	Fair Value	Percent of Portfolio Fair Value
Bank of America - Domestic corporate bonds & notes ¹	\$ 250,000	3.70%	\$ 249,986	3.70%
Bank of America - Repurchase agreements ²	900,000	13.33%	900,000	13.33%
Bank of America Total	<u>\$ 1,150,000</u>	<u>17.03%</u>	<u>\$ 1,149,986</u>	<u>17.03%</u>
Deutsche Bank - Certificates of deposit ¹	\$ 345,000	5.11%	\$ 345,037	5.11%
Deutsche Bank - Repurchase agreements ²	400,000	5.93%	400,000	5.93%
Deutsche Bank Total	<u>\$ 745,000</u>	<u>11.04%</u>	<u>\$ 745,037</u>	<u>11.04%</u>
Royal Bank of Canada - Certificates of deposit ³	<u>\$ 348,000</u>	<u>5.16%</u>	<u>\$ 348,163</u>	<u>5.16%</u>

¹ For purposes of the SEC Rule 2a-7 exposure restriction calculations, the Bank of America domestic corporate bonds & notes is considered a separate issuer position from the Bank of America collateralized repurchase agreements. Likewise, the Deutsche Bank certificates of deposit is considered a separate issuer position from the Deutsche Bank collateralized repurchase agreements.

² For purposes of SEC Rule 2a-7 exposure restriction calculations, acquisitions of repurchase agreements may be deemed to be acquisitions of the underlying securities, provided the obligation of the seller is fully collateralized. These agreements are fully collateralized. Consequently, they are not subject to SEC Rule 2a-7 issuer exposure restrictions.

³ Under SEC Rule 2a-7, liquidations are not required for exposures over 5 percent if the overage is caused by participant account movements (i.e., withdrawals). The excess exposure to Royal Bank of Canada was caused by participant account movements.

f. Investments, Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the SBA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The SBA's policy is that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third-party custodian banks. To the extent possible, negotiated trust and custody contracts shall require that all deposits, investments, and collateral be held in accounts in the SBA's name, separate and apart from the assets of the custodian banks.

The SBA engaged BNY Mellon (Custodian) to provide asset safekeeping, custody, fund accounting, and performance measurement services to Florida PRIME. At June 30, 2013, and June 30, 2012, all investments, except those in money market funds in which the SBA invests (i.e., in commingled funds with other investors), were held in the SBA's name by the SBA's custodial bank.

g. Investments, Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Pursuant to the Investment Policy Statement, the Investment Manager will target a dollar-weighted average maturity (DWAM) range for Florida PRIME based on its interest rate outlook. The Investment Manager will formulate its interest rate outlook by analyzing a variety of factors, such as current and expected U.S. economic growth; current and expected interest rates and inflation; and the Federal Reserve Board's monetary policy. The Investment Manager will generally shorten Florida PRIME's DWAM when it expects interest rates to rise and extend Florida PRIME's DWAM when it expects interest rates to fall. The Investment Manager will exercise reasonable care to maintain a DWAM of 60 days or less for Florida PRIME. For purposes of calculating DWAM, the maturity of an adjustable rate security generally will be the period remaining until its next interest rate reset date.

Presented below are the investments held in Florida PRIME at June 30, 2013, and June 30, 2012, at fair value (expressed in thousands), with the DWAM for each security type:

As of June 30, 2013

Investment Type	Fair Value	Dollar Weighted Average Days to Maturity ¹
Certificates of deposit ²	\$ 3,079,873	47
Commercial paper ²	1,566,652	51
Money market funds ³	1,057,510	1
Domestic corporate bonds & notes	674,229	102
Municipal bonds & notes	99,450	8
Repurchase agreements	800,000	1
Total	<u>\$ 7,277,714</u>	
Portfolio dollar-weighted average maturity		40

¹ Interest rate reset dates are used in the calculation of the dollar-weighted average days to maturity.

² Certificates of deposit and commercial paper include domestic and U.S. dollar-denominated foreign issues.

³ The weighted average days to maturity of the underlying securities in the three money market funds at June 30, 2013, ranged from 43 to 52 days. However, the money market funds provided daily liquidity.

As of June 30, 2012

Investment Type	Fair Value	Dollar Weighted Average Days to Maturity ¹
Certificates of deposit ²	\$ 2,533,238	42
Commercial paper ²	1,810,293	59
Money market funds ³	529,590	2
Domestic corporate bonds & notes	417,174	78
Municipal bonds & notes	89,135	4
Foreign corporate note (\$ denom)	54,998	40
U.S. Treasury notes	15,180	289
Repurchase agreements	1,300,000	2
Total	<u>\$ 6,749,608</u>	
Portfolio dollar-weighted average maturity		38

¹ Interest rate reset dates are used in the calculation of the dollar-weighted average days to maturity.

² Certificates of deposit and commercial paper include domestic and U.S. dollar-denominated foreign issues.

³ The weighted average days to maturity of the underlying securities in the three money market funds at June 30, 2012, ranged from 42 to 52 days. However, the money market funds provided daily liquidity.

h. Investments, Foreign Currency Risk

Investment policy guidelines prohibit the Investment Manager from purchasing investments denominated in foreign currency, therefore all Florida PRIME securities are U.S. dollar denominated. Florida PRIME was not exposed to foreign currency risk during the fiscal years ended June 30, 2013, and June 30, 2012.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Report on the Financial Statements

We have audited, 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, the financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Florida PRIME's basic financial statements, and have issued our report thereon dated January 24, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SBA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 Florida PRIME's financial statements are free from material misstatement, we performed tests of the SBA's compliance with certain provisions of laws, rules, regulations, contracts, and policies, 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*.

We noted an additional matter which is described in finding No. 1 of the accompanying **SCHEDULE OF FINDINGS**.

Management's response to the finding described in the **SCHEDULE OF FINDINGS** is included as Exhibit A. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of the Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the SBA'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 SBA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
January 24, 2014

**STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (FLORIDA PRIME)
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

ADDITIONAL MATTER

Finding No. 1: Participant Account Maintenance Forms

The State Board of Administration (SBA), pursuant to Florida law is responsible for administering the Local Government Surplus Funds Trust Fund (Florida PRIME).² The Florida PRIME is composed of local government surplus funds deposited by participating local governments and is managed by an external investment manager.

Financial transactions for Florida PRIME participants are processed through an electronic wire transfer system. This system is updated by the SBA for each participant's account, based on a notarized authorization form, *Participant Account Maintenance Form* (PAMF). The SBA's policies and procedures require that any wire transfer changes made by the SBA to the wire transfer system be made only upon receipt of a PAMF. The PAMF is to include all the necessary instructions for completing a wire transfer of funds out of a participant's Florida PRIME account. Information detailed on the PAMF and maintained in the wire transfer system includes the participant's bank account information, names of personnel authorized to initiate transactions and make changes to the account information, number of required signors to initiate changes to the account, and original signatures of authorized personnel.

Our test of SBA wire transfer records related to Florida PRIME, including selected PAMFs, disclosed that on January 17, 2013, a wire transfer for \$29,034 was rejected by a financial institution because the bank account information in the wire transfer system was incorrect. On January 18, 2013, the SBA contacted the participant, obtained new bank account information, input the new information into the wire transfer system, and allowed the financial transaction to process. However, the new bank account information was not provided by the participant on a PAMF nor were the two required signatures provided.

On January 22, 2013, the SBA received a PAMF from the participant that included the new bank account information and one of the required signatures. On February 7, 2013, the SBA contacted the participant to request a PAMF with both required signatures. However, the SBA did not receive a PAMF with the new bank information and both required signatures until October 2013.

Absent receipt of a properly completed PAMF, the SBA has limited assurance that wire transfer changes are adequately supported and made in accordance with participant directives.

Recommendation: We recommend that the SBA ensure that a PAMF with all the required authorized signatures is obtained prior to changing participant wire transfer instructions.

² Chapter 218, Part IV, Florida Statutes.

**EXHIBIT A
MANAGEMENT'S RESPONSE**



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CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

January 22, 2014

Mr. David W. Martin, CPA
Auditor General
Office of the Auditor General of the State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

We have reviewed the preliminary finding and recommendation which may be included in a management letter on your audit of the financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME) for the fiscal years ended June 30, 2013 and 2012. As recommended, the SBA will ensure that a Participant Account Maintenance Form with all the required authorized signatures is obtained prior to changing participant wire transfer instructions. Further, the Florida PRIME application is being updated to generate an automatic email to a participant account's personnel who are authorized to transact and personnel authorized to notify the SBA of account changes. All personnel in those two categories that have provided email addresses will receive an email in the event that there is a change to their banking information (wire or ACH instructions).

As always, we appreciate the Auditor General staff's diligence and professionalism.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ashbel C. Williams".

Ashbel C. Williams
Executive Director & Chief Investment Officer

cc: Ms. Kathy Whitehead, Chief Operating/Financial Officer, SBA
Ms. Florida Rivera-Alsing, Chief Audit Executive, SBA
Mr. Eric Nelson, Chief Risk & Compliance Officer, SBA
Mr. Mike McCauley, Senior Officer – Investment Programs & Governance, SBA