

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

(An External Investment Pool)

For the Fiscal Years Ended  
June 30, 2015, and 2014



Sherrill F. Norman, CPA  
Auditor General

## **Board of Trustees and Executive Director**

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 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](mailto:kathrynwalker@aud.state.fl.us) or by telephone at (850) 412-2781.

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**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

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

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### 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.

### 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; and
- Complied with the various provisions of laws, rules, regulations, contracts, and Florida PRIME's investment policy that are material to the financial statements.

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, 2015, and 2014. 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, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and Florida PRIME's investment policy.

### AUDIT METHODOLOGY

The audit methodology 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.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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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 (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME), as of and for the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial statements, which collectively comprise 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.

### ***Opinion***

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, 2015, and 2014, 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 I, 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, 2015, and 2014, 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 Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 4 through 7 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 our 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 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,

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large, sweeping initial "S".

Sherrill F. Norman, CPA  
Tallahassee, Florida  
November 17, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2015, AND JUNE 30, 2014

The State Board of Administration (SBA) is responsible for the management of the Local Government Surplus Funds Trust Fund (Florida PRIME).<sup>1</sup> 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, 2015, and 2014. 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 8.

## 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.

The SBA presents the following Florida PRIME basic financial statements: Statements of Net Position and Statements of Changes in Net Position. The Statements of Net Position present information about the nature and amounts of Florida PRIME's assets and liabilities, with the difference reported as net position. The Statements of Changes in Net Position report the increase or decrease in net position during the year as a result of investment activities and participant contributions and withdrawals.

## FINANCIAL SUMMARY

The following Condensed Statements of Net Position and Condensed Statements of Changes in Net Position summarize Florida PRIME's financial statements for each of the last three fiscal years.

### Condensed Statements of Net Position

(in thousands)

	As of June 30,		
	2015	2014	2013
Total assets	\$ 7,013,345	\$ 7,252,017	\$ 7,279,239
Total liabilities	10,120	60,598	1,146
Net position	<u>\$ 7,003,225</u>	<u>\$ 7,191,419</u>	<u>\$ 7,278,093</u>

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

## Condensed Statements of Changes in Net Position

(in thousands)

	For the Fiscal Year Ended June 30,		
	2015	2014	2013
Changes in net position:			
Interest income	\$ 14,177	\$ 14,310	\$ 20,815
Investment expenses	(1,655)	(2,232)	(2,216)
Net income from investing activity	12,522	12,078	18,599
Distributions paid and payable	(12,522)	(12,078)	(18,599)
Participant contributions	15,880,965	15,058,443	14,875,298
Reinvested distributions	12,530	12,083	18,586
Participant withdrawals	(16,112,436)	(15,258,585)	(14,513,855)
Investment transfer from Fund B	30,747	101,385	145,620
Changes in net position	(188,194)	(86,674)	525,649
Net position, July 1	7,191,419	7,278,093	6,752,444
Net position, June 30	\$ 7,003,225	\$ 7,191,419	\$ 7,278,093

<b>FINANCIAL ANALYSIS</b>
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### **Assets**

Total assets at the end of fiscal years 2015, 2014, and 2013 were \$7.0 billion, \$7.25 billion and \$7.28 billion, respectively. The decrease in total assets and net position in fiscal year 2015 was due primarily to participant withdrawals exceeding contributions and investment transfers from Fund B by \$200.7 million. The decrease in total assets and net position during fiscal year 2014 was mainly the result of participant withdrawals exceeding contributions and investment transfers from Fund B by \$98.8 million.

### **Liabilities**

Total liabilities at the end of fiscal years 2015, 2014, and 2013 were \$10.1 million, \$60.6 million, and \$1.1 million, respectively. Liabilities decreased by \$50.5 million in fiscal year 2015 following an increase of \$59.5 million in fiscal year 2014. The decrease in fiscal year 2015 was primarily due to a \$59.5 million decrease in pending investment purchases that was partially offset by a \$9.3 million increase in unregistered deposits (deposits sent without prior notification to the SBA). Deposits sent in without being registered by participants are recorded as liabilities until the depositor is identified and credit is awarded to the participant. The increase in fiscal year 2014 was due to a \$59.5 million increase in pending investment purchases.

### **Net Position and Changes in Net Position**

Florida PRIME's net position decreased by \$188.2 million (3 percent) to \$7.0 billion at June 30, 2015, from \$7.19 billion at June 30, 2014, following a \$86.7 million (1 percent) decrease in the previous fiscal year from \$7.28 billion.

Net income from investing activity of \$12.5 million for the fiscal year ended June 30, 2015, was \$444 thousand higher than the \$12.1 million earned for fiscal year 2014, primarily due to lower investment

expenses. Net income from investing activity for fiscal year 2014 was \$6.5 million lower than the \$18.6 million earned for fiscal year 2013, primarily due to lower investment yields. 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 2015 were \$30.7 million, a decrease of \$70.6 million from fiscal year 2014. The \$101.4 million received for fiscal year 2014 was \$44.2 million less than the transfers received from Fund B for fiscal year 2013. Favorable market conditions allowed the Fund B manager to liquidate a portion of the Fund B investments from late 2012 to mid-2013, and again from late 2013 to mid-2014. All remaining Fund B investments were liquidated by the end of September 2014. The final transfer to eligible Florida PRIME participants was made in July 2015. See Note III to the financial statements for more information.

Total investment expenses of \$1.7 million decreased approximately \$577 thousand, or more than 25 percent, during fiscal year 2015. The decrease was primarily a result of a reduction in investment management fees and administrative service charges, which were partially offset by an increase in bank fees. Investment expenses increased approximately \$16 thousand, or less than 1 percent, during fiscal year 2014 over 2013. This increase was a result of increased bank fees, which were partially offset by decreases in investment management fees and administrative service charges. Total investment expenses in fiscal years 2015 and 2014 were 2.4 and 3 basis points, respectively, or 0.024 and 0.03 percent of average assets under management.

## 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, 2015:

- Participant contributions increased 5.5 percent compared with the prior fiscal year, while participant withdrawals increased 5.6 percent, resulting in net withdrawals of \$231.5 million.
- Net income from investing activity increased \$444 thousand over the prior fiscal year, resulting in an average participant yield for the fiscal year of 0.18 percent, which was higher than the average participant yield of 0.17 percent for the prior fiscal year. The increase in net income from investing activity was due primarily to a decrease in investment management fees during the fiscal year. This decrease occurred because during the last half of the fiscal year, Florida PRIME held increased positions in two money market funds managed by Florida PRIME's investment

manager, positions which are excluded from the average daily net assets used as the basis for determining the investment management fee.

- The number of active participants decreased from 862 to 790.

For the fiscal year ended June 30, 2014:

- Participant contributions increased 1.0 percent compared with the prior fiscal year, while participant withdrawals increased 5.1 percent, resulting in net withdrawals of \$200.1 million.
- Net income from investing activity decreased \$6.5 million over the prior fiscal year, resulting in an average participant yield for the fiscal year of 0.17 percent, which was lower than the average participant yield of 0.25 percent for the prior fiscal year. The decrease in net income from investing activity was due to the continuing lower investment yields experienced throughout the fiscal year, and a slight decline in average participant balances.
- The number of active participants grew from 850 to 862.

<b>CONTACT INFORMATION</b>
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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 SBA's website at <https://www.sbafla.com/prime/>.

# **BASIC FINANCIAL STATEMENTS**

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## **State Board of Administration Local Government Surplus Funds Trust Fund (Florida PRIME) Statements of Net Position**

**As of June 30, 2015, and June 30, 2014  
(In Thousands)**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 329,905	\$ 350,614
Investments:		
Certificates of deposit	1,945,617	2,868,091
Commercial paper	2,084,547	1,170,421
Repurchase agreements	425,000	1,150,000
Money market funds	1,382,969	843,737
Domestic corporate bonds and notes	701,128	701,591
Municipal bonds and notes	46,400	15,000
Foreign corporate bonds and notes (\$ denom)	94,428	90,912
Foreign government notes (\$ denom)	-	14,016
U.S. Treasury bills	-	34,496
Total investments	<u>6,680,089</u>	<u>6,888,264</u>
Investment sales receivable	-	10,100
Interest receivable	3,326	3,017
Prepaid fees	20	20
Undistributed expenses	<u>5</u>	<u>2</u>
<b>Total Assets</b>	<u>7,013,345</u>	<u>7,252,017</u>
<b>LIABILITIES</b>		
Investment purchases payable	-	59,503
Accounts payable and accrued liabilities	161	422
Distributions payable	54	59
Due to local governments	<u>9,905</u>	<u>614</u>
<b>Total Liabilities</b>	<u>10,120</u>	<u>60,598</u>
<b>NET POSITION</b>		
Held in trust for pool participants	<u>\$ 7,003,225</u>	<u>\$ 7,191,419</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, 2015, and June 30, 2014  
(In Thousands)

	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>ADDITIONS</b>		
Income from investing activity:		
Interest income	\$ 14,177	\$ 14,310
Investment expenses:		
Investment management fees	(690)	(1,263)
Administrative service charges	(702)	(733)
Bank fees	(162)	(136)
Compliance review fees	(61)	(60)
Standard and Poor's rating maintenance fees	(40)	(40)
Investment expenses	(1,655)	(2,232)
Net income from investing activity	12,522	12,078
<b>Total Additions</b>	12,522	12,078
 <b>DEDUCTIONS</b>		
Distributions paid and payable	12,522	12,078
<b>Total Deductions</b>	12,522	12,078
 <b>SHARE TRANSACTIONS</b>		
Participant contributions	15,880,965	15,058,443
Reinvested distributions	12,530	12,083
Participant withdrawals	(16,112,436)	(15,258,585)
Investment transfer from Fund B	30,747	101,385
<b>Net Increase (Decrease) Resulting from Share Transactions</b>	(188,194)	(86,674)
Increase (decrease) in net position	(188,194)	(86,674)
Net position, beginning of year	7,191,419	7,278,093
Net position, end of year	\$ 7,003,225	\$ 7,191,419

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **I. 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, 2015, and June 30, 2014, 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. For the fiscal years ended June 30, 2015, and June 30, 2014, the ratio of fair value to amortized cost was 100.00 percent.

## **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, 2015, and June 30, 2014, were \$689,954 and \$1,262,672, respectively. The decline in investment management fees in fiscal year 2015 was due to an increase in Florida PRIME's investment in two money market funds managed by Federated, which decreased the average daily net assets subject to investment management fees.

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. Total administrative service charges incurred by Florida PRIME for the fiscal years ended June 30, 2015 and 2014, were \$702,187 and \$733,421, 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, 2015, and June 30, 2014, were \$162,063 and \$136,299, respectively. Bank fees increased in fiscal year 2015, the first complete fiscal year after the inception of a new custodial bank contract in November 2013. Standard and Poor's (S&P) rating maintenance fees were \$40,000 and \$39,496 for the fiscal years ended June 30, 2015, and 2014, respectively. Compliance review fees were \$60,690 and \$59,927 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.

## **L. 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 consisted 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 distributed cash holdings from May 2008 through September 2014 to eligible Florida PRIME participants as they became available from maturities,

sales, investment interest, and other income received from the assets in Fund B. These distributions are recorded on the Statement of Changes in Net Position as a Transfer from Fund B. With the September 2014 distribution, original principal balances were distributed in full to each participant. Effective October 2014, the SBA retained the residual cash inflows in Fund B pending legislative direction for the final distribution of the remaining assets. See Note III for more information.

## **II. DEPOSITS AND INVESTMENTS**

### **A. Deposits**

Cash is held in deposit accounts at various financial institutions. These deposits totaled \$329,905,013 at June 30, 2015, and \$350,613,406 at June 30, 2014. 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 (QPD).

The State CFO determines the collateral requirements and collateral pledging level for each QPD 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.

At June 30, 2015, and June 30, 2014, Florida PRIME held overnight time deposits of \$320 million and \$350 million, respectively that were exposed to custodial credit risk because they were uninsured and uncollateralized. Under the investment policy for Florida PRIME, the investment manager is allowed to invest in unsecured interest bearing deposits with banks if they have capital, surplus, and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund or the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation. These time deposits were held in banks that met the \$100,000,000 requirement for capital, surplus, and undivided profits. All other deposits in Florida PRIME were covered by Federal insurance or the State's collateral pool pursuant to Chapter 280, Florida Statutes.

### **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:

- United States (U.S.) Treasury obligations.
- U.S. Government Agency obligations.
- 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.

- Insurance contracts, including guaranteed investment contracts, funding agreements, and annuities.
- Corporate debt securities, such as notes, bonds, debentures, commercial paper, interests in bank loans to companies, and demand instruments.
- 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.
- Asset-backed securities, which may be in the form of commercial paper, notes, or pass-through certificates.
- Municipal securities issued by states, counties, cities, and other political subdivisions and authorities.
- Foreign securities (i.e., U.S. dollar-denominated securities of issuers based outside the U.S.).
- Mortgage-backed securities representing interests in pools of mortgages. Mortgages may have fixed or adjustable interest rates.
- 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 Investment Company Act of 1940 (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.
- Shares of registered investment companies that are money market mutual funds, including those that are affiliated with Federated (Investment Manager).
- 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 1940 Act (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 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, Section 218.409(8), Florida Statutes, 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, the Executive Director will cause Florida PRIME to take such action as deemed appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

### C. 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, 2015, and June 30, 2014 (expressed in thousands):

<b>As of June 30, 2015</b>					
<b>Investment Type</b>	<b>Par</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Range of Interest Rates<sup>(1)</sup></b>	<b>Range of Maturity Dates</b>
Certificates of deposit	\$ 1,945,700	\$ 1,945,617	\$1,945,688	.11%-.65%	7/2/15-7/1/16 <sup>(2)</sup>
Commercial paper	2,085,000	2,084,547	2,084,616	.20%-.40%	7/1/15-5/10/16
Money market funds	1,382,969	1,382,969	1,382,969	.01%-.07%	N/A <sup>(3)</sup>
Domestic corporate bonds & notes	699,287	701,128	700,769	.29%-6.90%	7/1/15-7/21/16 <sup>(2)</sup>
Municipal bonds & notes	46,400	46,400	46,400	.03%	6/15/38 <sup>(4)</sup>
Foreign corporate bonds & notes (\$ denom)	93,965	94,428	94,418	.80%-2.63%	8/7/15-7/15/16
Repurchase agreements	425,000	425,000	425,000	0.11%	7/1/15
<b>Totals</b>	<b>\$ 6,678,321</b>	<b>\$ 6,680,089</b>	<b>\$6,679,860</b>		

Notes: (1) The coupon rate in effect at June 30, 2015, is reported. If a security is discounted, the purchase yield is reported. The 7-day yield as of June 30, 2015, is reported for the money market funds. The yields fluctuate daily.

(2) Florida PRIME has the option to extend the maturity date on one position in certificates of deposit on a monthly basis until the final maturity date of October 4, 2018. The maturity date on this position as of June 30, 2015, was July 1, 2016.

Florida PRIME has the option to extend the maturity date on several positions in domestic corporate bonds on a monthly basis until the final maturity dates of July 20, 2018, October 20, 2018, and March 7, 2019. The maturity dates on these positions as of June 30, 2015, are July 21, 2016, July 19, 2016, and July 6, 2016, respectively.

(3) Money market funds do not have a specified maturity date.

(4) Florida PRIME has one position in municipal bonds and notes that it may tender for 100 percent of the principal amount, plus accrued interest with a minimum of zero days prior notification to the trustee of the bonds or notes.

**As of June 30, 2014**

<b>Investment Type</b>	<b>Par</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Range of Interest Rates<sup>(1)</sup></b>	<b>Range of Maturity Dates</b>
Certificates of deposit	\$ 2,868,200	\$ 2,868,091	\$ 2,868,119	.10%-.48%	7/1/14-7/2/15 <sup>(2)</sup>
Commercial paper	1,170,770	1,170,421	1,170,485	.10%-.43%	7/2/14-6/17/15 <sup>(2)</sup>
Money market funds	843,737	843,737	843,737	.01%-.02%	N/A <sup>(3)</sup>
Domestic corporate bonds & notes	698,702	701,591	701,589	.14%-4.90%	7/28/14-7/1/29 <sup>(2), (4)</sup>
Municipal bonds & notes	15,000	15,000	15,000	.05%	5/1/42 <sup>(4)</sup>
Foreign corporate bonds & notes (\$ denom)	90,790	90,912	90,905	.40%-5.20%	7/10/14-5/1/15
Foreign government notes (\$ denom)	14,000	14,016	14,014	.38%	4/1/15
Repurchase agreements	1,150,000	1,150,000	1,150,000	.10%-.15%	7/1/14
U.S. Treasury bills	34,500	34,496	34,499	.11%	8/14/14
<b>Totals</b>	<b>\$ 6,885,699</b>	<b>\$ 6,888,264</b>	<b>\$ 6,888,348</b>		

Notes: (1) The coupon rate in effect at June 30, 2014, is reported. If a security is discounted, the purchase yield is reported. The 7-day yield as of June 30, 2014, 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, and October 4, 2018. The maturity dates on these positions as of June 30, 2014, are December 24, 2014, and July 2, 2015, respectively. Florida PRIME has the option to extend the maturity date on a 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, 2014, is October 3, 2014.

Florida PRIME has the option to extend the maturity date on several positions in domestic corporate bonds on a monthly basis until the final maturity dates of July 20, 2018, October 20, 2018, and March 7, 2019. The maturity dates on these positions as of June 30, 2014, are July 22, 2015, July 20, 2015, and July 7, 2015, respectively.

(3) Money market funds do not have a specified maturity date.

(4) Florida PRIME has several positions in these bonds and notes that it may tender 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.

#### **D. 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:

- 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.
- 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.

- 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, 2015, and June 30, 2014 (fair values expressed in thousands):

Ratings <sup>(1)</sup>		Fair Value of Florida PRIME Investments as of June 30, 2015						
S&P	Moody's	Total	Certificates of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements <sup>(2)</sup>	Corporate & Municipal Bonds & Notes	Foreign Corp. Bonds & Notes (\$ denom)
AAAm		\$ 1,382,969	\$ -	\$ -	\$ 1,382,969	\$ -	\$ -	\$ -
AA		902,662	199,982	-	-	-	691,343	11,337
A		123,907	-	-	-	-	40,826	83,081
A-1		2,084,616	-	2,084,616	-	-	-	-
Not rated <sup>(1)</sup>	Not rated <sup>(1)</sup>	2,185,706	1,745,706	-	-	425,000	15,000	-
	<b>Totals</b>	<b>\$ 6,679,860</b>	<b>\$ 1,945,688</b>	<b>\$ 2,084,616</b>	<b>\$ 1,382,969</b>	<b>\$ 425,000</b>	<b>\$ 747,169</b>	<b>\$ 94,418</b>

Notes: (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, if available. 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) Collateral underlying the repurchase agreements was not rated.

Ratings <sup>(1)</sup>		Fair Value of Florida PRIME Investments as of June 30, 2014						
S&P	Moody's	Total	Certificates of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements <sup>(2)</sup>	Corporate & Municipal Bonds & Notes	Foreign Corp. & Govt. Bonds & Notes (\$ denom)
AAA		\$ 843,737	\$ -	\$ -	\$843,737	\$ -	\$ -	\$ -
AA		679,056	185,013	-	-	-	389,524	104,519
A		27,493	-	-	-	-	27,093	400
Not rated <sup>(1)</sup>	Aa	240,009	225,009	-	-	-	15,000	-
A-1		1,170,485	-	1,170,485	-	-	-	-
Not rated <sup>(1)</sup>	Not rated <sup>(1)</sup>	3,549,095	2,458,097	-	-	806,026	284,972	-
		<u>\$ 6,509,875</u>	<u>\$ 2,868,119</u>	<u>\$ 1,170,485</u>	<u>\$ 843,737</u>	<u>\$ 806,026</u>	<u>\$ 716,589</u>	<u>\$ 104,919</u>
Not rated <sup>(3)</sup>	Not rated <sup>(3)</sup>	343,974	Repurchase agreements					
Not rated <sup>(3)</sup>	Not rated <sup>(3)</sup>	34,499	U.S. Treasury bills					
		<u>\$ 6,888,348</u>	<b>Total</b>					

Notes: (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, if available. 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) Collateral underlying the repurchase agreements was not rated.

(3) U.S. Obligations and collateral for repurchase agreements which are explicitly guaranteed by the U.S. government do not require disclosure of credit quality.

With respect to the concentration of credit risk, at June 30, 2015, and June 30, 2014, Florida PRIME had exposure of 5 percent or more to each of the following issuers (carrying values and fair values expressed in thousands):

Issuer Name	As of June 30, 2015			
	Carrying Value	Percent of Portfolio Carrying Value	Fair Value	Percent of Portfolio Fair Value
Bank of America - Repurchase agreements <sup>(1)</sup>	\$ 425,000	6.36%	\$ 425,000	6.36%
JPMorgan Chase & Co. - Commercial paper	\$ 289,939	4.34%	\$ 289,943	4.34%
JPMorgan Chase & Co. - Certificates of deposit	50,000	0.75%	50,075	0.75%
JPMorgan Chase & Co. - Domestic bonds and notes	15,000	0.22%	15,000	0.22%
JPMorgan Chase & Co. Total <sup>(2)</sup>	<u>\$ 354,939</u>	<u>5.31%</u>	<u>\$ 355,018</u>	<u>5.31%</u>
Sumitomo Mitsui Financial Group - Certificates of deposit	\$ 242,000	3.62%	\$ 241,998	3.62%
Sumitomo Mitsui Financial Group - Commercial paper	102,990	1.54%	102,993	1.54%
Sumitomo Mitsui Financial Group Total <sup>(3)</sup>	<u>\$ 344,990</u>	<u>5.16%</u>	<u>\$ 344,991</u>	<u>5.16%</u>
Wells Fargo & Company - Domestic bonds and notes	\$ 246,837	3.70%	\$ 246,838	3.70%
Wells Fargo & Company - Certificates of deposit	95,700	1.43%	95,688	1.43%
Wells Fargo & Company Total <sup>(3)</sup>	<u>\$ 342,537</u>	<u>5.13%</u>	<u>\$ 342,526</u>	<u>5.13%</u>

Notes: (1) 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.

(2) 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 JPMorgan Chase & Co. was caused by participant account movements.

(3) These percentages were calculated based on the holdings of the investment portfolio in accordance with GASB Statement No. 40. If the percentages were adjusted to consider the effects of a \$320 million time deposit, the percentage would have dropped to 4.9 percent, 0.1 percent below the 5.0 percent threshold.

As of June 30, 2014

Issuer Name	Carrying Value	Percent of Portfolio Carrying Value	Fair Value	Percent of Portfolio Fair Value
Bank of America - Corporate notes <sup>(1)</sup>	\$ 200,000	2.90%	\$ 200,008	2.90%
Bank of America - Repurchase agreements <sup>(2)</sup>	750,000	10.89%	750,000	10.89%
Bank of America Total	<u>\$ 950,000</u>	<u>13.79%</u>	<u>\$ 950,008</u>	<u>13.79%</u>
Deutsche Bank - Certificates of deposit <sup>(1)</sup>	\$ 100,000	1.45%	\$ 99,987	1.45%
Deutsche Bank - Repurchase agreements <sup>(2)</sup>	400,000	5.81%	400,000	5.81%
Deutsche Bank Total	<u>\$ 500,000</u>	<u>7.26%</u>	<u>\$ 499,987</u>	<u>7.26%</u>
Sumitomo Mitsui Banking Corp. - Certificates of deposit <sup>(3)</sup>	<u>\$ 355,000</u>	<u>5.15%</u>	<u>\$ 354,996</u>	<u>5.15%</u>

- Notes: (1) For purposes of the SEC Rule 2a-7 exposure restriction calculations, the Bank of America corporate notes are considered a separate issuer position from the Bank of America collateralized repurchase agreements, and the Deutsche Bank certificates of deposit are 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) These percentages were calculated based on the holdings of the investment portfolio in accordance with GASB Statement No. 40. If the percentages were adjusted to consider the effects of a \$350 million time deposit, the percentage would have dropped to 4.9 percent, 0.1 percent below the 5.0 percent threshold.

## E. 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, 2015, and June 30, 2014, 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.

## F. 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, 2015, and June 30, 2014, at fair value (expressed in thousands), with the DWAM for each security type:

<b>As of June 30, 2015</b>		
<b>Investment Type</b>	<b>Fair Value</b>	<b>Dollar Weighted Average Maturity (in Days)<sup>(1)</sup></b>
Certificates of deposit <sup>(2)</sup>	\$ 1,945,688	47
Commercial paper <sup>(2)</sup>	2,084,616	34
Money market funds <sup>(3)</sup>	1,382,969	1
Domestic corporate bonds & notes	700,769	68
Municipal bonds & notes	46,400	1
Foreign corporate bonds & notes (\$ denom)	94,418	137
Repurchase agreements	425,000	1
<b>Total</b>	<b><u>\$ 6,679,860</u></b>	
<b>Portfolio dollar-weighted average maturity (DWAM)<sup>(4)</sup></b>		<b>34</b>

Notes: (1) Interest rate reset dates are used in the calculation of the DWAM.

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

(3) The DWAM of the underlying securities in the three money market funds at June 30, 2015, ranged from 36 to 48 days. However, the money market funds provided daily liquidity.

(4) The total Portfolio DWAM does not take into account the \$320 million held in a time deposit at June 30, 2015. If the time deposit had been included, the total Portfolio DWAM would have been 32 days.

**As of June 30, 2014**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Dollar Weighted Average Maturity (in Days)<sup>(1)</sup></b>
Certificates of deposit <sup>(2)</sup>	\$ 2,868,119	56
Commercial paper <sup>(2)</sup>	1,170,485	45
Money market funds <sup>(3)</sup>	843,737	1
Domestic corporate bonds & notes	701,589	101
Municipal bonds & notes	15,000	7
Foreign corporate bonds & notes (\$ denom)	90,905	18
Foreign government notes (\$ denom)	14,014	2
Repurchase agreements	1,150,000	1
U.S. Treasury bills	34,499	45
<b>Total</b>	<b><u>\$ 6,888,348</u></b>	
<b>Portfolio dollar-weighted average maturity (DWAM)<sup>(4)</sup></b>		<b>42</b>

Notes: (1) Interest rate reset dates are used in the calculation of the DWAM.

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

(3) The DWAM of the underlying securities in the three money market funds at June 30, 2014, ranged from 41 to 52 days. However, the money market funds provided daily liquidity.

(4) The total Portfolio DWAM does not take into account the \$350 million held in a time deposit at June 30, 2014. If the time deposit had been included, the total Portfolio DWAM would have been 40 days.

### **G. 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, 2015, and June 30, 2014.

### **III. SUBSEQUENT EVENTS**

On July 13, 2015, the SBA distributed the remaining cash balance in Fund B to eligible participants of Florida PRIME. Pursuant to Section 218.421(2)(e), Florida Statutes, the SBA distributed the residual balance held within Fund B back to each participant in the Local Government Surplus Funds Trust Fund who had been entitled to, but had not received, a November 2007 interest payment on invested funds at any time during that month. The amount distributed was based on each participant's proportional share of the total November 2007 interest earned by each participant in the Local Government Surplus Funds Trust Fund which was not paid out, but transferred to Fund B in order to maximize the payout of principal.



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Auditor General

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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 (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Florida PRIME's basic financial statements, and have issued our report thereon dated November 17, 2015, 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 Florida PRIME'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 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*.

### **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 AN 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,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
November 17, 2015