



To: Shorstein & Shorstein, FMPTF Auditors
From: Jeannie Garner, Senior Director of Insurance and Financial Services, Florida League of Cities, Inc.
As Administrator, Florida Municipal Pension Trust Fund
Date: December 2, 2015
Subject: Investment Risk Disclosure re: GASB 40 for the FMPTF 401(a) Defined Contribution and 457(b) Deferred Compensation Program

The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* (GASB 40) must be implemented for all governments for fiscal years beginning after June 15, 2004. This memo is intended to provide information relating to GASB 40 and the FMPTF's 401(a) Defined Contribution and 457(b) Deferred Compensation pension plan reporting requirements for the fiscal year ending 2015.

The FMPTF is established as a trust whereby governmental entities with employee pension plans may elect to join the trust (becoming a Participating Employer), and with the trust providing the employee pension plans with administrative and investment services for the benefit of Participating Employers, Participating Employees and Beneficiaries. All employee pension plan assets with the FMPTF are included in the trust's Master Trust Fund. The FMPTF provides participant directed accounts for the 401(a) Defined Contribution and 457(b) Deferred Compensation plans. Custodial and recordkeeping services are provided by TD Ameritrade Trust Company and Verisight, Inc. respectively.

The following information is provided to report the types of risks that must be disclosed for the investments, pursuant to GASB 40. Please refer to GASB 40 for disclosure requirements in addition to those discussed in this memo.

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody's, S&P). In cases where an investment is unrated, a disclosure noting that the investment is unrated is required. The mutual funds in the program are unrated.

Custodial Credit Risk

GASB 40 modifies the existing GASB 3 custodial credit risk reporting requirements. Under GASB 3, governments had to categorize their investments into one of three custodial credit risk categories. This is no longer required. Under GASB 40, disclosure is only required if investments are uninsured, unregistered and held by either the counterparty or the counterparty's trust department or agent but not in the government's name. (This was 'Category 3' in GASB Statement 3.)

Investments through the FMPTF program are evidenced by mutual fund shares. The public entity's investments in mutual funds should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is the mutual fund share, not the underlying security. Additionally, investments in open-end mutual funds are not subject to custodial credit risk disclosures.



Concentration Risk

In addition to describing the credit risk of investments in the portfolio, governmental entities will need to disclose the concentration of credit risk with a single issuer. If 5 percent or more of the total assets of the portfolio are invested with one issuer, a footnote disclosure will be required. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds or pools are excluded from the concentration of credit risk disclosure requirements.

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

Interest Rate Risk Information in Years

	<u>Effective Duration</u>	<u>WAM</u>
<u>Fixed Income Funds</u>		
Mellon Stable Value M	2.58	2.58
Vanguard Prime Money Market Instl (VMRXX)	*	*
Vanguard Total Bond Market Index Adm (VBTLX)	5.70	7.90
Vanguard Intermediate Term Bond Index Adm (VBILX)	6.50	7.20
Vanguard Long-Term US Treasury Adm (VUSUX)	16.19	25.00
Vanguard Inflation-Protected Sec Adm (VAIPX)	8.15	8.60
<u>Lifestyle Funds</u>		
Vanguard Wellington Adm (VWENX)	5.94	8.90
Vanguard Target Retirement Income (VTINX)	5.39	7.00
Vanguard Target Retirement 2010 (VTENX)	5.44	7.08
Vanguard Target Retirement 2015 (VTXVX)	5.64	7.39
Vanguard Target Retirement 2020 (VTWNX)	6.13	8.15
Vanguard Target Retirement 2025 (VTTVX)	6.16	8.19
Vanguard Target Retirement 2030 (VTHRXX)	6.16	8.19
Vanguard Target Retirement 2035 (VTTHX)	6.16	8.19
Vanguard Target Retirement 2040 (VFORX)	6.16	8.19
Vanguard Target Retirement 2045 (VTIVX)	6.16	8.19
Vanguard Target Retirement 2050 (VFIFX)	6.16	8.19
Vanguard Target Retirement 2055 (VFFVX)	6.16	8.19

*Data not available.

Foreign Currency Risk

This category applies only if a government's deposits or investments are exposed to foreign currency risk. If subject to such exposure, the government should disclose the dollar balances subject to such risks, organized by currency denomination and investment type. Participating Employers' investments in the program are not subject to foreign currency risk.