

**FLORIDA FUNDING I LLC**

**FINANCIAL STATEMENTS**

December 31, 2014 and 2013

FLORIDA FUNDING I LLC  
FINANCIAL STATEMENTS  
December 31, 2014 and 2013

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## INDEPENDENT AUDITOR'S REPORT

Member and Managing Agent  
Florida Funding I LLC

**Report on the Financial Statements**

We have audited the accompanying financial statements of Florida Funding I LLC (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income and member's equity and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows 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 to the financial statements, the Managing Agent provided notice of termination to the Member dated December 1, 2014, effective the earlier of dissolution of the Company or December 31, 2014. Additionally, the Managing Agent on behalf of the Noteholders provided notice that there were no obligations outstanding relating to the secured liquidity notes under the agreements. Our opinion is not modified with respect to this matter.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to 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 Company's internal control over financial reporting and compliance.

*Crowe Horwath LLP*

Crowe Horwath LLP

New York, New York  
April 30, 2015

FLORIDA FUNDING I LLC  
BALANCE SHEETS  
December 31, 2014 and 2013  
(In thousands)

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	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 17
Securities, including accrued interest receivable	-	12,406
Deferred financing costs	-	-
	<hr/>	<hr/>
Total assets	<u>\$ -</u>	<u>\$ 12,423</u>
 <b>LIABILITIES AND MEMBER'S EQUITY</b>		
Accrued expenses	\$ -	\$ 35
Secured liquidity notes ("SLNs"), including accrued interest expense	-	12,388
Total liabilities	-	12,423
	<hr/>	<hr/>
Member's equity	-	-
	<hr/>	<hr/>
Total liabilities and member's equity	<u>\$ -</u>	<u>\$ 12,423</u>

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See accompanying notes to financial statements.

FLORIDA FUNDING I LLC  
 STATEMENTS OF INCOME AND MEMBER'S EQUITY  
 Years ended December 31, 2014 and 2013  
 (In thousands)

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	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
Increase in fair value of securities, including interest income and realized loss of principal	\$ 965	\$ 5,515
Decrease in fair value of pass-through SLNs, including interest expense and realized gain on forgiveness of debt	<u>(916)</u>	<u>(5,401)</u>
Total revenue	49	114
<b>Expenses</b>		
Fees and operating expenses	<u>49</u>	<u>114</u>
Total expenses	<u>49</u>	<u>114</u>
<b>Net income</b>	-	-
Member's equity at beginning of year	<u>-</u>	<u>-</u>
<b>Member's equity at end of year</b>	<u>\$ -</u>	<u>\$ -</u>

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See accompanying notes to financial statements.

FLORIDA FUNDING I LLC  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2014 and 2013  
 (In thousands)

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash used by operating activities		
Net gain on securities held under fair value option	(14,469)	(34,298)
Net loss on SLNs under fair value option	132,988	4,792
Realized gain on forgiveness of debt	(132,255)	-
Realized loss on securities principal	13,551	29,076
Net changes in operating assets and liabilities		
Deferred financing costs	-	10
Accrued interest receivable	2	6
Accrued interest expense	(2)	-
Accrued expenses	(35)	(6)
Net cash used by operating activities	(220)	(420)
<b>Cash flows from investing activities</b>		
Proceeds from maturities, prepayments and calls of securities	579	6,451
Proceeds from sales of securities	12,742	29,455
Net cash provided by investing activities	13,321	35,906
<b>Cash flows from financing activities</b>		
Net change in overdraft payable	-	(181)
Payments of SLNs	(13,118)	(35,288)
Net cash used by financing activities	(13,118)	(35,469)
Net (decrease) increase in cash and cash equivalents	(17)	17
Cash and cash equivalents at beginning of year	17	-
<b>Cash and cash equivalents at end of year</b>	\$ -	\$ 17

See accompanying notes to financial statements.

FLORIDA FUNDING I LLC  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013  
(In thousands)

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**NOTE 1 - ORGANIZATION**

Florida Funding I LLC (the "Company"), a Delaware limited liability company, was formed on October 29, 2009. The initial member of the Company is Florida Funding Holding Corp. (the "Member"). The State Board of Administration (the "SBA") acts as the Managing Agent on behalf of various Noteholders who assigned their interest in certain secured liquidity notes ("SLNs") to the Company on November 9, 2009, in return for a Secured Note. The sole and exclusive purpose of the Company is to liquidate certain underlying securities and distribute the proceeds of such liquidation as soon as reasonably and commercially practicable and not to engage in a trade or business.

The Company and the SBA acting on behalf of Noteholders have engaged Lord Securities Corporation (the "Manager") to provide administration services. The Manager receives an administration fee for these services, which is periodically agreed upon with the Company and the SBA, and such fees are included in the fees and operating expenses in the statements of income and member's equity.

The Company and the SBA acting on behalf of Noteholders have engaged Apollo ST Debt Advisors LLC ("Apollo") (formerly known as Stone Tower Debt Advisors, LLC), effective June 2011, to provide investment management and advisory services. Apollo receives fees for these services, which are periodically agreed upon with the Company and the SBA. The fees for such services are paid by the Company and included in fees and operating expenses in the statements of income and member's equity.

The SBA provided notice of termination to the Member dated December 1, 2014, effective the earlier of dissolution of the Company or December 31, 2014. Additionally, the SBA on behalf of the Noteholders provided notice that there were no obligations outstanding relating to the SLNs under the agreements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations: The fiscal year ends of the Company are December 31, 2014 and 2013. The Company maintains its accounting records on the accrual basis of accounting, and its financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. As a result of unanticipated events and circumstances, actual results could differ from those estimates.

Fair Value Estimates: The Company applies Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, which provides guidance for using fair value to measure assets and liabilities. ASC 820 establishes a three-level hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are used by market participants in pricing the asset or liability based on market data obtained from sources independent of the Company.

Unobservable inputs reflect management's assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. In instances where the determination of the fair value measurement is based on input from more than one level of the fair value hierarchy, the entire fair value measurement is classified based on the lowest level input that is significant to the fair value measurement in its entirety.

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FLORIDA FUNDING I LLC  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013  
(In thousands)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The hierarchy is measured in the following three levels based on the reliability of inputs:

*Level 1:* Valuations are based on quoted prices in active markets for identical assets as of the reporting date.

*Level 2:* Valuations are based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable at the reporting date.

*Level 3:* Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets or liabilities.

The Company used the following methods and significant assumptions to estimate fair value:

*Securities:* The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). For Level 3 based inputs, the Company does not internally develop the significant unobservable inputs used to measure fair value. Rather, third-party pricing information is used without adjustment and the significant unobservable inputs are not reasonably available to the Company.

*SLNs:* As a practical expedient, the fair value for SLNs is determined based on the assets of the Company less accrued expenses and member's equity (Level 3), given the pass-thru nature of the SLNs and the lack of a readily determinable fair value.

Cash and Cash Equivalents: The Company defines cash equivalents as short-term, highly liquid securities with original maturities of three months or less.

Restrictions on Cash: Cash on hand or deposit is required to be paid to the SLN Noteholders based upon the SLN agreements.

Securities: The Company's securities are carried on the balance sheets at fair value pursuant to the election of the fair value option. Unrealized gains and losses are included in the statements of income and member's equity. Given the pass-through nature of the Company and related SLNs issued, management believes fair value is the most appropriate accounting method.

Interest Income: Interest income on investments is recognized net of fair value adjustments on the balance sheets and included in the statements of income and member's equity.

Concentration of Credit Risk: The Company's securities are concentrated in illiquid residential housing securities with low investment ratings collateralized through both first and second lien properties; therefore, the Company's exposure to credit risk is significantly affected by changes in the collateral underlying the securities.

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FLORIDA FUNDING I LLC  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013  
(In thousands)

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Equity: The Member contributed one hundred dollars in exchange for all member interests. No additional contributions are required or committed. Upon the termination of the Company, this capital contribution will be returned. Based upon the SLN agreements, all earnings accrue to the SLN Noteholders.

Dividend Restriction: The SLN agreements restrict payments of dividends or return of capital to the Member.

SLNs: The Company's SLNs are pass-through in nature whereby all cash flows are subjected to a waterfall with payments first being remitted to the Manager and next being remitted to other service providers before payment to the SLN Noteholders. No income or loss accrues to the Member. The SLNs are accounted for at fair value including accrued interest on the balance sheet with unrealized gains and losses included in the statement of income and member's equity.

Interest Expense: Interest expense on the SLNs is recognized net of fair value adjustments on the balance sheet and included in the statement of income and member's equity.

New Accounting Pronouncement: There were no accounting standards adopted during the current year that had a material impact on the Company's balance sheets, statements of income and member's equity, or disclosures.

**NOTE 3 - SECURITIES**

The Company held no securities at December 31, 2014. The table below summarizes the components of the value of securities accounted for under the fair value option method at December 31, 2013:

	<u>Remaining Par</u>	<u>Fair Value Adjustments</u>	<u>Accrued Interest Receivable</u>	<u>Fair Value</u>
<u>December 31, 2013</u>				
Asset-backed securities – home equity	\$ 6,550	\$ (5,989)	\$ 1	\$ 562
Collateralized mortgage obligations	15,722	(6,990)	1	8,733
Home equity loans	<u>4,601</u>	<u>(1,490)</u>	<u>-</u>	<u>3,111</u>
Total securities	<u>\$ 26,873</u>	<u>\$ (14,469)</u>	<u>\$ 2</u>	<u>\$ 12,406</u>

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(Continued)

FLORIDA FUNDING I LLC  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013  
(In thousands)

**NOTE 3 - SECURITIES** (Continued)

The fair value levels of securities accounted for under the fair value option at December 31, 2013, are summarized below:

	Fair Value Measurements Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>December 31, 2013</u>				
Asset-backed securities - home equity	\$ -	\$ -	\$ 562	\$ 562
Collateralized mortgage obligations	-	2,419	6,314	8,733
Home equity loans	-	-	3,111	3,111
Total securities	<u>\$ -</u>	<u>\$ 2,419</u>	<u>\$ 9,987</u>	<u>\$ 12,406</u>

The table below presents a summary of the activity related to securities accounted for under the fair value option and a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Balance of recurring Level 3 assets at January 1	\$ 9,987	\$ 43,096
Change in accrued interest	(2)	(6)
Net gain on securities held under fair value option	10,751	34,298
Realized loss on securities principal	(9,788)	(29,076)
Paydowns of securities principal	(392)	(6,451)
Proceeds from security sales	(10,556)	(29,455)
Transfers in and/or out of Level 3	-	(2,419)
Balance of recurring Level 3 assets at December 31	<u>\$ -</u>	<u>\$ 9,987</u>

As of December 31, 2013, certain Company's securities with a fair value \$2,419 were transferred out of Level 3 into Level 2, because observable market data became available for the securities. The Company determines when transfers between levels of the fair value hierarchy are deemed to have occurred at the end of each reporting period.

All securities are pledged as collateral for SLNs.

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FLORIDA FUNDING I LLC  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013  
(In thousands)

**NOTE 4 - SECURED LIQUIDITY NOTES**

The Company held no SLNs at December 31, 2014. At December 31, 2013, the Company's SLNs bear an interest rate at a pass-through rate of interest and have a maturity date of June 8, 2017. The difference between fair value and aggregate unpaid principal balance of the SLNs at December 31, 2013, are:

	<u>Aggregate Unpaid Principal Balance</u>	<u>Fair Value Adjustments</u>	<u>Accrued Interest Payable</u>	<u>Fair Value</u>
<u>December 31, 2013</u>				
FF-1/1	\$ 27,380	\$ (25,047)	\$ 1	\$ 2,334
FF-1/2	52,363	(47,902)	1	4,462
FF-1/3	15,861	(14,510)	-	1,351
FF-1/4	26,154	(23,925)	-	2,229
FF-1/5	<u>23,616</u>	<u>(21,604)</u>	<u>-</u>	<u>2,012</u>
 Total SLNs	 <u>\$ 145,374</u>	 <u>\$ (132,988)</u>	 <u>\$ 2</u>	 <u>\$ 12,388</u>

The table below presents a summary of the activity related to SLNs accounted for under the fair value option and a reconciliation of all liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Balance of recurring Level 3 assets at January 1	\$ 12,388	\$ 42,884
Change in accrued interest	(2)	-
Net loss on SLNs under fair value option	132,988	4,792
Repayments of SLNs	(13,119)	(35,288)
Realized gain on forgiveness of debt	<u>(132,255)</u>	<u>-</u>
 Balance of recurring Level 3 assets at December 31	 <u>\$ -</u>	 <u>\$ 12,388</u>

The net loss on SLNs under the fair value option is attributable to the change in SLNs outstanding at December 31, 2014 and 2013.

**NOTE 5 - INCOME TAXES**

No provision for federal and state income taxes has been made in the accompanying financial statements because the Company is treated as a partnership for federal and state income tax purposes. Instead, earnings and losses are included in the returns of the Member. Accordingly, these financial statements do not reflect a provision for income taxes.

In accordance with authoritative guidance on how to account for uncertainty in income taxes, the Company has determined that no material unrecognized tax benefits or liabilities exist as of December 31, 2014 and 2013. If applicable, the Company will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2014 and 2013, the Company had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties.

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FLORIDA FUNDING I LLC  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013  
(In thousands)

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**NOTE 6 - SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for recognition and disclosure through April 30, 2015, which is the date the financial statements were available to be issued.

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

Member and Managing Agent  
Florida Funding I LLC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida Funding I LLC (the "Company"), which comprise the balance sheet as of December 31, 2014, and the related statements of income and member's equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2015.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crowe Horwath LLP*

Crowe Horwath LLP

New York, New York  
April 30, 2015