

2017



ANNUAL REPORT

Massachusetts Development Finance Agency

Short Term Asset Reserve Fund

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Independent Auditor's Report

To the Investors of the Massachusetts Development Finance Agency Short Term Asset Reserve Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Development Finance Agency Short Term Asset Reserve Fund (the "Fund"), which comprise the statement of net position as of December 31, 2017, the related statement of changes in net position for the year 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 conformity 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Development Finance Agency Short Term Asset Reserve Fund at December 31, 2017, and the changes in its net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 4 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Supplementary Information- Schedule of Investments of the Fund as of December 31, 2017, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

Philadelphia, Pennsylvania

April 18, 2018

Management's Discussion and Analysis

We are pleased to present the Annual Report for the Massachusetts Development Finance Agency Short Term Asset Reserve Fund (the "Fund") for the year ended December 31, 2017. Management's Discussion and Analysis is designed to focus the reader on significant financial items and provide an overview of the Fund's activities for the year ended December 31, 2017. The Fund's financial statements have been prepared in conformity with the reporting framework prescribed by the Governmental Accounting Standards Board ("GASB") for local government investment pools.

Economic Update

Over the course of the year, there was a significant pickup in economic growth. The U.S. Gross Domestic Product ("GDP") rate surged from 1.2 percent, in the first quarter of 2017, to 3.2 percent by the third quarter, with personal consumption and business investments being the main components of the increase. The backdrop for this growth was an improving labor market, and lower than expected inflation. With 173,000 jobs added on average each month and a low unemployment rate of approximately 4.1 percent, the country achieved near full employment with little slack. These strong economic fundamentals prompted the Federal Reserve (the Fed) to raise rates three times in 2017.

The Trump Administration's pro-growth policy promises boosted investor optimism to start the year, due to expectations of a favorable business environment. Across the board, the financial markets saw a strong year for returns. Equities soared, led by the emerging markets and developed countries, excluding the United States, and domestic fixed income bonds performed well; moved by a muted outlook for inflation and strong demand for credit-related bonds. Short-term U.S. Treasury note yields were substantially higher compared to 2016, reaching their highest levels since 2008, while long-term yields experienced little or no increases because of muted inflation expectations. This continued to flatten the yield curve.

The Trump administration's first major legislative win came with December's overhaul of the federal tax code. The overhaul is expected to boost economic growth, at least over the short term, due to savings businesses will have as a result of corporate tax cuts. The Fed moderately increased its expectations for economic growth after the tax bill passed, raising its outlook for GDP growth from 2.1 percent to 2.5 percent in 2017. What remains to be seen is whether or not over the longer term, additional economic growth will be enough to offset the increase to the budget deficit triggered by this legislation.

The U.S. central bank continued to tighten monetary policy. After the Fed's most recent rate hike in December the federal funds rate target was 1.25 percent to 1.5 percent. Additionally, in October, the Fed began the process to reduce the size of its \$4.5 trillion balance sheet through gradual reductions of Treasury holdings.

Although the face of the Fed will shift as Chair Yellen has been replaced by Fed Governor Jerome Powell; Powell is expected to continue Yellen's gradual approach to monetary tightening. In addition, three of the seats on the Fed's Board of Governors will be open for Trump to name replacements. By the end of 2018, five of the seven members could be Trump appointees with Powell elevated to chair by the President as the sixth.

The global markets are experiencing synchronized economic growth for the first time since 2007. Europe's economy expanded despite uncertainty regarding Brexit and EU fragmentation, China continued transitioning from a capital intensive exporter to a more consumer-based economy, and emerging countries continued to see favorable attention from investors throughout the year. A global trend across developed countries brought strengthening labor markets and declining unemployment rates. Various factors subjected these economies to high-levels of risk throughout the year, specifically threats from North Korea, Russia-NATO conflicts, NAFTA trade tensions, and turmoil in the Middle East. Despite these uncertainties, there has been a consistent theme of market tranquility across the globe, as investors put aside geopolitical risks.

Looking forward to 2018, it looks like the global economies will continue to integrate and are expected to continue growing. Although central banks are suggesting they will be less accommodative in response to this strength. Synchronized growth and relief from political turmoil in the developed world would set the stage for another year of solid equity returns, central bank tightening in the U.S. and Europe, and modestly higher interest rates across the globe.

Portfolio Strategy

PFM's asset management business employed active management of the Fund through the 12-month period to take advantage of opportunities present in the market. We maintained the weighted average maturity toward the maximum permitted by the Fund's investment policy for most of the period in order to take advantage of higher yields offered by securities with somewhat longer maturities, especially those offered by high quality money market instruments. However, in the weeks leading up to the Fed rate hikes, we shortened maturities to position the portfolio for higher rates and seek protection from market value erosion. High grade short-term credit instruments contributed meaningfully to the Fund yields. As a result, the Fund yield rose significantly over the period, in tandem with overall rises in short-term rates.

We expect to maintain this maturity management strategy in coming months, balancing the opportunity for higher yields in longer-maturing investments with the goal of protecting the portfolio's net asset value when rates rise.

As we observed in 2017, outlooks and markets change and we are on alert for indicators showing the pace of rate hikes accelerating due to quickening economic activity or rising inflation — or diminishing due to rising risk. We are ready to adjust our portfolio strategy in either case. As always, our primary objectives are to protect the value of the portfolio and to provide liquidity for investors. We will continue to work hard to achieve these goals and focus on increasing investment yield after more than eight years of near-zero interest rates.

Financial Statement Overview

Management's Discussion and Analysis provides an overview of the financial statements of the Fund. The financial statements for the Fund include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements. In addition, a Schedule of Investments for the Fund is included as Supplementary Information following the Notes to Financial Statements.

Condensed Financial Information and Analysis

The Statement of Net Position presents the financial position of the Fund at December 31, 2017 and includes all assets and liabilities of the Fund. The difference between total assets and total liabilities, which is equal to the investors' interest in the Fund's net position, is shown below for the current and prior fiscal year-end dates, as applicable:

	December 31, 2017	December 31, 2016
Total Assets	\$ 355,875,519	\$ 326,750,546
Total Liabilities	(94,334)	(105,153)
Net Position	\$ 355,781,185	\$ 326,645,393

Total assets of the Fund fluctuate as investable assets rise and fall when capital shares are issued and redeemed. The increase in total assets of the Fund is primarily comprised of a \$33,008,573 increase in investments which was offset by a \$4,000,000 decrease in the receivable for securities matured that existed at December 31, 2016 which related to a U.S. Treasury note which matured December 31, 2016, a non-business day. Total liabilities of the Fund slightly decreased since those are mainly payables to service providers of the Fund primarily based on the Fund's average net assets in the last month of each fiscal year, which also slightly decreased year-over-year.

The Statement of Changes in Net Position presents the activity within the net position for the year ended December 31, 2017. Yearly variances in the gross income generated by the Fund are impacted by the overall rate environment described in the preceding paragraphs. Average net assets also impact the net investment income, as well as certain of the expense line items that are based on a percent of the Fund's net assets and other fixed costs that are allocated based on average net assets. The changes in the Fund's net position for the year primarily relate to a net capital share issuance for the year, as well as net investment income and realized gains on sale of investments as, as outlined below for the current and prior fiscal periods:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Investment Income	\$ 4,264,021	\$ 2,361,018
Total Expenses	(780,418)	(708,673)
Net Investment Income	3,483,603	1,652,345
Net Realized Gains on Sale of Investments	5,787	32,619
Net Capital Shares Issued/(Redeemed)	25,646,402	(4,031,379)
Change in Net Position	\$ 29,135,792	\$ (2,346,415)

The investment income of the Fund is driven by a combination of the amount of investable assets and the general short-term interest rate environment that impacts the yields on investments the Fund can purchase. Realized gains on sale of investments occur whenever investments are sold for more than their carrying value. A rise in short-term interest rates caused yields on the investments the Fund could purchase to rise on a year-over-year basis. The Fund's average net assets increased approximately 12% year-over-year, which is reflected in the increase in the net capital shares issued/(redeemed) above. This also resulted in a higher investable assets on average, as well as a slight increase in the net expenses since a significant portion of the Fund's expenses are calculated as a percentage of average net assets.

The return of the Fund for the year ended December 31, 2017 was 1.01%, up from 0.54% for the year ended December 31, 2016. Select financial highlights for the Fund for the current fiscal period, as compared to the prior fiscal period, are as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Ratio of Expenses to Average Net Assets	0.22%	0.22%
Ratio of Net Investment Income to Average Net Assets	0.99%	0.52%

The ratio of expenses to average net assets did not change significantly year-over-year for the Fund since the bulk of these expenses are calculated as a percentage of net assets. The ratio of net investment income to average net assets rose by 0.47% due to the increase in investment income noted above.

Statement of Net Position

December 31, 2017

Assets	
Investments	\$ 355,288,795
Cash and Cash Equivalents	58,126
Interest Receivable	522,640
Prepaid Expenses	5,958
Total Assets	355,875,519
Liabilities	
Management Fees Payable	31,051
Administration Fees Payable	22,128
Audit Fees Payable	26,725
Other Accrued Expenses	14,430
Total Liabilities	94,334
Net Position	
(applicable to 355,781,185 outstanding shares of beneficial interest; unlimited authorization; no par value; equivalent to \$1.00 per share)	\$ 355,781,185

Statement of Changes in Net Position

For the Year Ended December 31, 2017

Income	
Investment Income	\$ 4,264,021
Expenses	
Investment Management Fees	431,779
Administration Fees	317,061
Audit Fees	26,725
Other Expenses	4,853
Total Expenses	780,418
Net Investment Income	3,483,603
Other Income	
Net Realized Gain on Sale of Investments	5,787
Net Increase from Investment Operations Before Capital Transactions	3,489,390
Capital Shares Issued	526,622,836
Capital Shares Redeemed	(500,976,434)
Change in Net Position	29,135,792
Net Position – Beginning of Year	326,645,393
Net Position – End of Year	\$ 355,781,185

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

Notes to Financial Statements

A. Organization and Reporting Entity

The Massachusetts Development Finance Agency Short Term Asset Reserve Fund (formerly known as the Massachusetts Health and Educational Facilities Authority Short Term Asset Reserve Fund) (the “STAR Fund” or the “Fund”) was established on July 16, 1991 under the laws of the Commonwealth of Massachusetts, Chapter 614, of the Acts of 1968, to make available comprehensive investment management of proceeds of bonds and other obligations issued by the Massachusetts Health and Educational Facilities Authority (the “Authority”) on behalf of its institutional borrowers. Pursuant to Chapter 240 of the Acts of 2010, Commonwealth of Massachusetts, the Authority was merged into the Massachusetts Development Finance Agency (the “Agency”) effective October 1, 2010. All rights, powers, duties and properties of the Authority related to the STAR Fund transferred to the Agency as of this date and the Fund’s name was changed commensurate with this change. The Agency provides oversight for the STAR Fund.

The STAR Fund’s investment earnings are not taxable to the Fund, but may be subject to arbitrage rebate payments by Investors. An objective of the STAR Fund is to maintain a net asset value of \$1 per share, but there can be no assurance that the net asset value will not vary from \$1. Shares are issued and redeemed at the net asset value per share next determined after receipt of a request. The STAR Fund has not provided or obtained any legally binding guarantees to support the value of shares. All participation in the STAR Fund is voluntary. The STAR Fund is not required to register as an investment company with the Securities & Exchange Commission (“SEC”).

The Fund’s financial statements presented herein have been prepared in conformity with the reporting framework prescribed by the Governmental Accounting Standards Board (“GASB”) for local government investment pools.

B. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in preparation of its financial statements.

Measurement Focus and Basis of Accounting

The Fund reports transactions and balances using the economic resources management focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

The Fund reflects cash on deposit in bank accounts which is available within one business day as cash and cash equivalents. Certificates of deposit are disclosed separately as investments in the financial statements.

Valuation of Investments

In accordance with the authoritative guidance on fair value measurements and disclosures under GASB Statement No. 72, the Fund discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.

Level 3 – Unobservable inputs for the assets, including the Fund’s own assumption for determining fair value.

The Fund’s investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. In accordance with GASB Statement No. 79, the Fund’s securities are valued at amortized cost, which approximates fair value. GASB Statement No. 79 requires a comparison of the Fund’s investments on an amortized cost basis to fair values determined on a market value basis at least monthly. The market prices used to determine fair values in this comparison are derived from closing bid prices as of the last business day of the month as supplied by third-party pricing services. Where prices are not available from these generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Since the value is not obtained from a quoted price in an active market, all securities held by the Fund at December 31, 2017 are categorized as Level 2.

Investment Transactions

Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Costs used in determining realized gains and losses on the sale of investment securities are those of specific securities sold. Interest income is recorded using the accrual method. Discounts and premiums are accreted and amortized, respectively, to interest income over the lives of the respective securities.

Repurchase Agreements

Repurchase agreements entered into with broker-dealers are secured by U.S. government or agency obligations. The Fund's custodian takes possession of the collateral pledged for investments in repurchase agreements. The Fund also enters into tri-party repurchase agreements. Collateral pledged for tri-party repurchase agreements is held for the Fund by an independent third-party custodian bank until the maturity of the repurchase agreement. Repurchase agreements are collateralized at 102% of the obligation's principal and interest value. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. If the seller defaults and the value of the collateral declines, realization of the value of the obligation by the Fund may be delayed. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to delays from legal proceedings.

Share Valuation and Participant Transactions

The net asset value ("NAV") per share of the STAR Fund is calculated as of the close of business each business day by dividing the net position of that Portfolio by the number of its outstanding shares. It is the STAR Fund's objective to maintain a NAV of \$1.00 per share, however, there is no assurance that this objective will be achieved. The exact price for share transactions will be determined based on the NAV next calculated after receipt of a properly executed order. The number of shares purchased or redeemed will be determined by the NAV.

Dividends and Distributions

On a daily basis, the Fund declares dividends and distributions from its net investment income, and net realized gains or losses from securities transactions, if any. Such dividends and distributions are payable to investors of record at the time of the previous computation of the Fund's net asset value and are distributed to each investor's account by purchase of additional shares of the Fund on the last day of each month. For the year ended December 31, 2017, the Fund distributed dividends totaling \$3,489,390.

Redemption Restrictions

Shares of the Fund are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as an investor has a sufficient number of units to meet their redemption request. The Agency reserves the right to suspend the right of withdrawal or to postpone the date of payment of redemption proceeds of units if the New York Stock Exchange is closed other than for customary weekend and holiday closing, if trading on that Exchange is restricted or if, in the opinion of the Agency, an emergency or other situation exists such that disposal of the Fund's securities or determination of its net asset value is not reasonably practical.

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Income Tax Status

The Fund is not subject to Federal or state income tax upon the income realized by it. Accordingly, no provision for income taxes is required in the financial statements.

Representations and Indemnifications

In the normal course of business, the Fund may enter into contracts that contain a variety of representations which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience the Fund expects the risk of loss to be remote.

Subsequent Events Evaluation

The Fund has evaluated subsequent events through April 18, 2018, the date through which procedures were performed to prepare the financial statements for issuance. No events have taken place that meet the definition of a subsequent event requiring adjustment or disclosure in these financial statements.

C. Investment Risks

Under GASB Statement No. 40, state and local governments and other municipal entities are required to disclose credit risk, concentration of credit risk, and interest rate risk for investment portfolios. The following risk disclosures of the Fund as of December 31, 2017 have been provided for the information of the Fund's investors.

Credit Risk

The Fund's investment policies, as outlined in its Information Statement, limit the Fund's investments to those which investors in the Fund can invest under the laws of the Commonwealth of Massachusetts. As of December 31, 2017, the Fund was comprised of investments which were, in aggregate, rated by Standard and Poor's ("S&P") as follows:

S&P Rating	%
AA+(¹)	6.00%
A-1+	47.90%
A-1	31.35%
Exempt(²)	13.34%
Not Rated(³)	1.41%

(1) Represents investments in obligations of the U.S. government or its agencies or instrumentalities, which are rated Aaa and AAA by Moody's Investor Service and Fitch Ratings, Inc., respectively, which are the highest category of credit ratings by each of those statistical rating organizations.

(2) Represents investments in U.S. Treasury securities, which are not considered to be subject to overall credit risk per GASB.

(3) Represents investments in certificates of deposit insured by the FDIC.

The above ratings of the Fund include the ratings of collateral underlying repurchase agreements in effect at December 31, 2017.

Concentration of Credit Risk

As outlined in the Fund's Information Statement, the Fund's investment policy establishes certain restrictions on investments and limitations on portfolio composition. At December 31, 2017, the Fund's portfolio included the following issuers, aggregated by affiliated issuers where applicable, which individually represented greater than 5% of the Fund's total investment portfolio:

Issuer	%
BOFI Federal Bank(¹)	9.29%
Citizens Bank(¹)	6.19%
Credit Agricole Corporate & Investment Bank (NY)(²)	6.26%
Federal Home Loan Banks	6.96%
U.S. Treasury	13.35%

(1) Guaranteed by Federal Home Loan Bank letters of credit.

(2) This issuer is also counterparty to a repurchase agreement entered into by the Fund. The repurchase agreement is collateralized by U.S. Government Agency obligations.

Interest Rate Risk

The Fund's investment policy limits its exposure to market value fluctuations due to changes in interest rates by requiring that: (1) it maintain a dollar-weighted average maturity of not greater than ninety days; (2) requiring that any investment securities purchased by the STAR Fund have remaining maturities of 397 days or less at the time of purchase (except for variable rate notes issued by the United States government or its agencies or instrumentalities, which must have remaining maturities of 762 days or less); and (3) limiting the remaining maturity of any commercial paper purchased by the STAR Fund to 270 days or less. At December 31, 2017, the weighted average maturity of the Fund, including cash and cash equivalents and certificates of deposit, was 43 days.

The range of yields to maturity, actual maturity dates, principal values, fair values and weighted average maturities of these types of investments the Fund held at December 31, 2017 are as follows:

Type of Deposits and Investments	Yield-to Maturity Range	Maturity Range	Principal	Fair Value	Weighted Average Maturity
Asset-Backed Commercial Paper	1.29%-1.84%	1/2/18-6/4/18	\$ 22,000,000	\$ 21,953,981	57 Days
Cash and Cash Equivalents	n/a	n/a	58,126	58,126	1 Day
Certificates of Deposit – Negotiable	1.29%-1.73%	2/6/18-12/11/18	64,500,000	64,500,304	27 Days
Certificates of Deposit – Non-negotiable	1.10%-1.50%	1/5/18-3/27/18	65,000,000	65,000,000	6 Days
Commercial Paper	1.36%-1.97%	1/12/18-7/13/18	110,625,000	110,383,900	58 Days
Repurchase Agreements	1.30%-1.40%	1/2/18	21,300,000	21,300,000	2 Days
U.S. Government Agency Bonds	1.29%-1.30%	2/2/18-2/16/18	24,767,000	24,733,522	39 Days
U.S. Treasury Notes	1.30%-1.61%	2/28/18-10/1/18	47,500,000	47,417,088	99 Days
			\$ 355,750,126	\$ 355,346,921	

The yields shown in the preceding table represent the yield-to-maturity at original cost except for adjustable rate instruments, for which the rate shown is the coupon rate in effect at December 31, 2017. The weighted average maturities shown in the preceding table are calculated based on the stated maturity dates with the following exceptions: (1) floating or variable rate securities are assumed to have an effective maturity of the date upon which the securities interest rate next resets; (2) the effective maturity of callable securities is assumed to be its stated maturity unless the security had been called as of the reporting date, in which case the effective maturity would be assumed to be its called date; (3) for instruments subject to demand features, the effective maturity is assumed to be the period remaining until the principal amount of the security may be recovered through the demand feature; and ⁽⁴⁾ the effective maturity of cash and cash equivalents are assumed to be one day. Refer to the Schedule of Investments included in the unaudited Supplementary Information that follows for further information.

D. Fees and Charges

Investment Management Fees

PFM Asset Management LLC (“PFMAM”) provides investment management services to the STAR Fund, including investment advisory, distribution, shareholder accounting and certain administrative services. Fees for such services are calculated at an annual rate of 0.14% of the average daily net assets of the STAR Fund up to \$100 million, 0.12% on the next \$200 million, and 0.10% on such assets in excess of \$300 million. This fee is computed daily and payable monthly. Units of the Fund are distributed by PFM Fund Distributors, Inc., a wholly owned subsidiary of PFMAM. PFM Fund Distributors, Inc. is not compensated by the Fund for these services.

The Agency, on behalf of the Fund, has entered into a Fee Reduction Agreement with PFMAM, pursuant to which PFMAM may, but shall not be obligated to, temporarily reduce a portion of its fees to assist the Fund in an attempt to maintain a positive yield. In the event that PFMAM elects to initiate a fee reduction, such fee reduction shall be applicable to the computation of the net asset value (“NAV”) of the Fund on the business day immediately following the date on which PFMAM gives notice to the Fund on the rate of the fee reduction to be applied in calculating the NAV. A fee reduction shall remain in effect until notice is provided to the Fund by PFMAM regarding its intent to terminate its fee reduction or revise, upward or downward, the rate of its fee reduction. Under the terms of the Fee Reduction Agreement with PFMAM, at any time after a fee reduction has been terminated, PFMAM may elect to have the amount of its accumulated reduced fees which are subject to recoupment restored in whole or in part under the conditions described in the Fee Reduction Agreement by way of a payment of fees in excess of the rate it was entitled to, prior to any fee reduction, all as set forth in the Fee Reduction Agreement. The amount of accumulated reduced fees to be restored in a given month may not exceed 115% of the fees payable under the terms of PFMAM’s related investment management agreement with the Fund. Further, any fees reduced subject to the Fee Reduction Agreement with PFMAM may only be restored to PFMAM for a period of three years after they have been withheld.

During the year ended December 31, 2017, there were no fees waived under the Fund’s Fee Reduction Agreement with PFMAM. The chart that follows depicts the fees waived by PFMAM during prior years which remain potentially recoverable by PFMAM as of December 31, 2017. There were no amounts reimbursed under the Fee Reduction Agreement during the year ended December 31, 2017.

	Fees Waived
Total waived fees	\$ 70,679
Amounts reimbursed	-
Amounts unrecoverable	(67,894)
Remaining recoverable ⁽¹⁾	<u>\$ 2,785</u>

(1) Waivers not reimbursed become unrecoverable in fiscal year-end December 31, 2018.

Administration Fees

The Agency, and formerly the Authority prior to October 1, 2010, as Administrator of the Fund may charge an administration fee up to a maximum of 0.10% of the average daily net assets of the Fund so long as the aggregate expenses of the STAR Fund are not greater than 0.25% of the average daily net assets of the Fund. The Administrator pays the custodial and cash management fees of the STAR Fund. For the year ended December 31, 2017, fees paid to the Administrator represent an effective annual rate of 0.09%. These fees are computed daily and payable monthly.

Supplementary
Information
(unaudited)

Schedule of Investments (unaudited)

December 31, 2017

Rate ⁽¹⁾	Maturity Date ⁽²⁾	Principal	Fair Value ⁽³⁾
Asset-Backed Commercial Paper (6.17%)			
Bedford Row Funding Corporation			
1.54% ⁽⁴⁾	3/1/18	\$ 5,000,000	\$ 4,999,800
1.71%	6/4/18	1,000,000	992,729
Gotham Funding Corporation			
1.52%	2/1/18	3,000,000	2,996,073
1.83%	3/28/18	2,000,000	1,991,304
Manhattan Asset Funding Company			
1.66% ⁽⁴⁾	1/2/18	5,000,000	5,000,000
1.84%	3/27/18	6,000,000	5,974,075
<i>Total Asset-Backed Commercial Paper</i>			<u>21,953,981</u>
Certificates of Deposit (36.40%)			
Allegiance Bank Texas (TX)			
1.25%	2/22/18	243,500	243,500
Bank of Akron (NY)			
1.25%	2/22/18	243,500	243,500
Bank of America (NC)			
1.25%	2/22/18	230,500	230,500
Bank SNB (OK)			
1.25%	2/22/18	243,500	243,500
BankUnited Miami Lakes (FL)			
1.25%	2/22/18	243,500	243,500
Bay Commercial Bank (CA)			
1.25%	2/22/18	243,500	243,500
BOFI Federal Bank ⁽⁵⁾			
1.21%	1/8/18	10,000,000	10,000,000
1.40%	1/18/18	5,000,000	5,000,000
1.26%	2/2/18	8,000,000	8,000,000
1.50%	3/27/18	10,000,000	10,000,000
Citizens Bank ⁽⁵⁾			
1.45%	1/10/18	8,000,000	8,000,000
1.45%	2/21/18	14,000,000	14,000,000
Commonwealth Bank of Australia (NY)			
1.57% ⁽⁴⁾	6/8/18	5,000,000	5,000,000
1.68% ⁽⁴⁾	12/11/18	4,000,000	4,000,000
Conway Bank (KS)			
1.25%	2/22/18	243,500	243,500
HSBC Bank			
1.53% ⁽⁴⁾	7/2/18	2,000,000	2,000,000
Lincoln Savings Bank (IA)			
1.25%	2/22/18	243,500	243,500
Merrick Bank (UT)			
1.25%	2/22/18	202,901	202,901

The notes to the financial statements are an integral part of the schedule of investments.

Schedule of Investments (unaudited)

December 31, 2017

Rate ⁽¹⁾	Maturity Date ⁽²⁾	Principal	Fair Value ⁽³⁾
Metropolitan Bank (MS)			
1.25%	2/22/18	\$ 243,500	\$ 243,500
Morton Community Bank (IL)			
1.25%	2/22/18	243,500	243,500
Pentagon Federal Credit Union ⁽⁵⁾			
1.10%	1/5/18	5,000,000	5,000,000
Peoples Bank (OH)			
1.25%	2/22/18	243,500	243,500
Prudential Savings Bank (PA)			
1.25%	2/22/18	243,500	243,500
Royal Bank of Canada (NY)			
1.53% ⁽⁴⁾	4/5/18	2,000,000	2,000,000
Southern States Bank (AL)			
1.25%	2/22/18	78,000	78,000
St. Louis Bank (MO)			
1.25%	2/22/18	105,599	105,599
Svenska Handelsbanken (NY)			
1.61% ⁽⁴⁾	2/16/18	3,000,000	3,000,000
1.67% ⁽⁴⁾	2/26/18	2,000,000	2,000,000
1.50% ⁽⁴⁾	4/3/18	5,000,000	5,000,000
The Provident Bank (NJ)			
1.25%	2/22/18	243,500	243,500
The State Bank and Trust Company (OH)			
1.25%	2/22/18	243,500	243,500
Toronto Dominion Bank (NY)			
1.41%	2/23/18	5,000,000	5,000,000
1.41%	2/23/18	4,000,000	4,000,000
Traditional Bank (KY)			
1.25%	2/22/18	243,500	243,500
Transportation Alliance Bank (UT)			
1.25%	2/22/18	243,500	243,500
UBS AG Stamford (CT)			
1.58%	2/14/18	4,000,000	3,999,910
1.76% ⁽⁴⁾	5/21/18	3,000,000	3,001,126
Union State Bank (TX)			
1.25%	2/22/18	243,500	243,500
United Bank (WV)			
1.25%	2/22/18	243,500	243,500
US Bank			
1.45%	3/20/18	3,500,000	3,499,605
Valley National Bank (NJ)			
1.25%	2/22/18	243,500	243,500

The notes to the financial statements are an integral part of the schedule of investments.

Schedule of Investments (unaudited)

December 31, 2017

Rate ⁽¹⁾	Maturity Date ⁽²⁾	Principal	Fair Value ⁽³⁾
Wells Fargo Bank			
1.67% ⁽⁴⁾	2/6/18	\$ 7,000,000	\$ 6,999,663
1.55% ⁽⁴⁾	7/5/18	2,000,000	2,000,000
1.60% ⁽⁴⁾	9/7/18	2,000,000	2,000,000
Westpac Banking Corporation (NY)			
1.49% ⁽⁴⁾	4/12/18	5,000,000	5,000,000
1.73% ⁽⁴⁾	6/29/18	6,000,000	6,000,000
<i>Total Certificates of Deposit</i>			129,500,304
Commercial Paper (31.02%)			
Bank of Montreal Chicago			
1.61%	3/12/18	9,000,000	8,971,939
Bank of Tokyo Mitsubishi UFJ LTD			
1.51%	3/13/18	5,000,000	4,985,307
1.58%	6/1/18	1,000,000	993,456
BNP Paribas (NY)			
1.52%	3/7/18	7,000,000	6,981,042
1.47%	4/2/18	3,000,000	2,988,929
Canadian Imperial Holding			
1.53% ⁽⁴⁾	3/7/18	5,000,000	5,000,000
1.61% ⁽⁴⁾	4/13/18	4,000,000	4,000,000
Credit Agricole Corporate & Investment Bank (NY)			
1.68%	3/16/18	3,000,000	2,989,702
1.60%	5/2/18	6,000,000	5,967,935
Credit Suisse (NY)			
1.60% ⁽⁴⁾	1/12/18	5,000,000	5,000,000
1.66% ⁽⁴⁾	5/18/18	4,000,000	4,000,000
HSBC Bank			
1.44% ⁽⁴⁾	7/6/18	5,000,000	5,000,000
ING (US) Funding			
1.49% ⁽⁴⁾	5/1/18	3,000,000	2,999,956
1.56%	5/1/18	2,500,000	2,487,166
1.51% ⁽⁴⁾	6/1/18	1,500,000	1,500,000
1.58% ⁽⁴⁾	6/12/18	2,000,000	1,999,408
1.65% ⁽⁴⁾	7/13/18	2,000,000	2,000,116
JP Morgan Securities			
1.59% ⁽⁴⁾	4/6/18	1,000,000	1,000,000
1.73% ⁽⁴⁾	5/25/18	4,000,000	4,000,000
1.97%	5/29/18	2,625,000	2,603,956
1.81% ⁽⁴⁾	6/22/18	4,000,000	4,000,000

The notes to the financial statements are an integral part of the schedule of investments.

Schedule of Investments (unaudited)

December 31, 2017

Rate ⁽¹⁾	Maturity Date ⁽²⁾	Principal	Fair Value ⁽³⁾
Metlife Short Term Funding			
1.41%	2/5/18	\$ 5,000,000	\$ 4,993,194
1.40%	2/12/18	4,000,000	3,993,513
Mizuho Bank (NY)			
1.61%	3/7/18	9,000,000	8,974,000
Pricoa Short Term Funding			
1.49%	4/5/18	8,000,000	7,969,085
Toyota Motor Credit Corp			
1.48%	3/15/18	5,000,000	4,985,196
Total Commercial Paper			110,383,900
U.S. Government Agency and Instrumentality Obligations (20.28%)			
Federal Home Loan Banks Notes			
1.29%	2/2/18	14,767,000	14,750,133
1.30%	2/16/18	10,000,000	9,983,389
U.S. Treasury Notes			
1.30%	2/28/18	20,000,000	19,982,245
1.32%	3/15/18	10,000,000	9,973,375
1.43%	3/29/18	10,000,000	9,965,538
1.49%	8/31/18	5,000,000	5,000,301
1.61%	10/1/18	2,500,000	2,495,629
Total U.S. Government Agency and Instrumentality Obligations			72,150,610
Repurchase Agreements (5.99%)			
Goldman Sachs & Company			
1.30%	1/2/18	8,000,000	8,000,000
(Dated 12/29/17, repurchase price \$8,001,156, collateralized by Freddie Mac certificates, 3.50%, maturing 7/1/46, fair value \$8,161,179)			
Credit Agricole Corporate & Investment Bank (NY)			
1.40%	1/2/18	13,300,000	13,300,000
(Dated 12/29/17, repurchase price \$13,302,069, collateralized by Ginnie Mae certificates, 3.00%-3.50%, maturing 3/20/46-7/20/46, fair value \$13,567,138 and Freddie Mac certificates, 3.50%, maturing 4/1/47, fair value \$1,000)			
Total Repurchase Agreements			21,300,000
Total Investments (99.86%) (Amortized Cost \$355,288,795)			355,288,795
Other Assets in Excess of Other Liabilities (0.14%)			492,390
Net Position (100.00%)			\$ 355,781,185

(1) Yield-to-maturity at original cost unless otherwise noted

(2) Actual maturity dates.

(3) See Note B to the financial statements

(4) Adjustable rate instrument. Rate shown is that which was in effect at December 31, 2017.

(5) Guaranteed by Federal Home Loan Bank Letter of Credit and subject to put with 1 day notice.

The notes to the financial statements are an integral part of the schedule of investments.

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Administrator

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Investment Adviser & Transfer Agent

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Custodian & Depository

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Independent Auditors

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