

**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, 2020, and June 30, 2019



Sherrill F. Norman, CPA  
Auditor General

## **Board of Trustees and Executive Director of the State Board of Administration**

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

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

The team leader was Toni Waterman, CPA, and the audit was supervised by Ryan Marlar, CPA.

Please address inquiries regarding this report to Joshua T. Barrett, CPA, Audit Manager, by e-mail at [joshuabarrett@aud.state.fl.us](mailto:joshuabarrett@aud.state.fl.us) or by telephone at (850) 412-2804.

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**State of Florida Auditor General**

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**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;
- Complied with the various provisions of laws, rules, regulations, contracts, Florida PRIME's investment policy, and other guidelines 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, 2020, and June 30, 2019. 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

We conducted our audit in accordance with 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, 2020, and June 30, 2019, 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 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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of Florida PRIME as of June 30, 2020, and June 30, 2019, 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.A., 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, 2020, and June 30, 2019, 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 dated November 12, 2020, 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that 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 SBA's 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 12, 2020

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2020, AND JUNE 30, 2019

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, 2020, and 2019. 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,		
	2020	2019	2018
Total assets	\$ 15,360,736	\$ 13,571,035	\$10,615,705
Total liabilities	201,945	135,636	103,605
Net position	<u>\$ 15,158,791</u>	<u>\$ 13,435,399</u>	<u>\$10,512,100</u>

<sup>1</sup> Since August 2009, the SBA has used the name "Florida PRIME" to refer to the Local Government Surplus Funds Trust Fund.



## Condensed Statements of Changes in Net Position

(in thousands)

	For the Fiscal Year Ended June 30,		
	2020	2019	2018
Changes in net position:			
Interest income	\$ 241,675	\$ 304,282	\$ 170,699
Investment expenses	(4,643)	(3,937)	(3,425)
Net income from investing activity	237,032	300,345	167,274
Settlements	330	5,989	39
Distributions paid and payable	(237,362)	(306,334)	(167,314)
Participant contributions	28,513,722	24,920,512	21,573,812
Reinvested distributions	237,356	306,325	167,317
Participant withdrawals	(27,027,686)	(22,303,538)	(20,558,378)
Changes in net position	1,723,392	2,923,299	1,182,750
Net position, July 1	13,435,399	10,512,100	9,329,350
Net position, June 30	\$ 15,158,791	\$ 13,435,399	\$ 10,512,100

### FINANCIAL ANALYSIS

#### **Assets**

Total assets at the end of fiscal years 2020, 2019, and 2018 were \$15.4 billion, \$13.6 billion, and \$10.6 billion, respectively. The increase in total assets and net position in fiscal year 2020 was due primarily to participant contributions exceeding withdrawals by \$1.5 billion, while net income from investing activity added another \$237.0 million. The increase in total assets and net position during fiscal year 2019 was mainly the result of participant contributions exceeding withdrawals by \$2.6 billion, while net income from investing activity added another \$300.3 million.

#### **Liabilities**

Total liabilities at the end of fiscal years 2020, 2019, and 2018 were \$201.9 million, \$135.6 million, and \$103.6 million, respectively. Liabilities increased by \$66.3 million in fiscal year 2020 following an increase of \$32.0 million in fiscal year 2019. The increase in fiscal year 2020 was due to a \$66.3 million increase in pending investment purchases. The increase in fiscal year 2019 was primarily due to a \$35.3 million increase in pending investment purchases, partially offset by a \$3.4 million decrease 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.

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

Florida PRIME's net position increased by \$1.7 billion (13 percent) to \$15.1 billion at June 30, 2020, from \$13.4 billion at June 30, 2019, following a \$2.9 billion (28 percent) increase in the previous fiscal year from \$10.5 billion.

Net income from investing activity of \$237.0 million for the fiscal year ended June 30, 2020, was \$63.3 million lower than the \$300.3 million earned for fiscal year 2019, primarily due to lower investment yields throughout the fiscal year. Net income from investing activity for fiscal year 2019 was

\$133.0 million higher than the \$167.3 million earned for fiscal year 2018, chiefly due to higher investment yields, but also due to higher average daily participant balances.

After the Federal Reserve's last increase in their target range for the Federal funds interest rate in December 2018, the target range (2.25 to 2.50 percent) peaked at its highest range in the last decade. This proved to be short-lived, as on August 1, 2019, the Federal Reserve decreased their target range by 0.25 percent and followed up with two more decreases of 0.25 percent in mid-September and the end of October 2019. This left the target range at 1.50 to 1.75 percent for a few months, until the outbreak of the COVID-19 virus pandemic in the United States. The Federal Reserve took action again, decreasing rates 0.50 percent on March 3, 2020, and by another 1.00 percent in mid-March 2020, in an attempt to stabilize the economy after nationwide shutdowns were instituted. The target range for the Federal funds interest rate remained at 0.00 to 0.25 percent for the rest of the fiscal year.

Total investment expenses of \$4.6 million increased approximately \$706 thousand during fiscal year 2020, mainly because of an increase in investment management fees and SBA service charges of \$426 thousand and \$249 thousand, respectively. The increase in both expenses in fiscal year 2020 was primarily due to higher average daily participant balances during the fiscal year. Investment expenses increased approximately \$512 thousand during fiscal year 2019 over 2018 mainly because of an increase in investment management fees and SBA service charges of \$292 thousand and \$184 thousand, respectively. The increase in both expenses in fiscal year 2019 was primarily due to higher average daily participant balances during the fiscal year. Total investment expenses in fiscal years 2020 and 2019 were 3.2 and 3.3 basis points, respectively, or 0.032 and 0.033 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 corporation, or any other political subdivision or direct support organization of the State.

For the fiscal year ended June 30, 2020:

- Participant contributions increased 14.4 percent compared to the prior fiscal year, while participant withdrawals increased 21.2 percent. Total contributions exceeded total distributions for the period, resulting in net contributions of \$1.5 billion.
- Net income from investing activity decreased \$63.3 million from the prior fiscal year, resulting in an average participant yield for the fiscal year of 1.70 percent, which was lower than the average participant yield of 2.57 percent for the prior fiscal year. The decrease in net income from investing activity was due primarily to a decline in interest rates during the fiscal year, following the Federal Reserve's decision to lower their target interest rate range by 0.25 percent three times in the last 5 months of 2019, then by another 1.50 percent in

March 2020, as the COVID-19 virus pandemic took hold in the United States and caused the economy to shut down.

- Florida PRIME received proceeds of over \$330 thousand in June 2020 from a multistate settlement with UBS Group AG for fraudulent conduct involving the manipulation of LIBOR. LIBOR is a benchmark interest rate that affects financial instruments worldwide and has a widespread effect on global markets and consumers. The settlement proceeds were distributed to Florida PRIME participants as earnings for the month of June 2020.
- The number of active participants increased slightly from 738 to 743.

For the fiscal year ended June 30, 2019:

- Participant contributions increased 15.5 percent compared with the prior fiscal year, while participant withdrawals increased 8.5 percent. Total contributions exceeded total distributions for the period, resulting in net contributions of \$2.6 billion.
- Net income from investing activity increased \$133.0 million over the prior fiscal year resulting in an average participant yield for the fiscal year of 2.57 percent, which was higher than the average participant yield of 1.63 percent for the prior fiscal year. The increase in net income from investing activity was due primarily to an increase in interest rates during the fiscal year, following the Federal Reserve's decision to raise their target interest rate range by 0.25 percent in June 2018, and in each of the next two quarters.
- Florida PRIME received proceeds of almost \$6.0 million in September 2018 from a multistate settlement with Deutsche Bank for fraudulent conduct involving the manipulation of LIBOR. The settlement proceeds were distributed to Florida PRIME participants as earnings for the month of September 2018.
- The number of active participants increased slightly from 737 to 738.

<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, 2020, and June 30, 2019**

**(In Thousands)**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,025,000	\$ 1,150,006
Investments:		
Certificates of deposit	3,044,834	3,649,948
Commercial paper	6,360,142	5,246,480
Money market funds	816,037	789,649
Repurchase agreements	1,650,000	2,675,000
U.S. Treasury bills	1,425,757	-
Domestic corporate bonds and notes	21,645	29,380
Municipal bonds and notes	13,980	14,150
Total investments	<u>13,332,395</u>	<u>12,404,607</u>
Interest receivable	3,317	16,390
Prepaid fees	24	24
Undistributed expenses	-	8
<b>Total Assets</b>	<u>15,360,736</u>	<u>13,571,035</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	911	855
Investment purchases payable	200,971	134,715
Distributions payable	63	66
<b>Total Liabilities</b>	<u>201,945</u>	<u>135,636</u>
<b>NET POSITION</b>		
Held in trust for pool participants	<u>\$ 15,158,791</u>	<u>\$ 13,435,399</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, 2020, and June 30, 2019**

**(In Thousands)**

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<b>ADDITIONS</b>		
Income from investing activity:		
Interest income	\$ 241,675	\$ 304,282
Investment expenses:		
Investment management fees	(2,796)	(2,370)
Administrative service charges	(1,449)	(1,200)
Bank fees	(293)	(260)
Compliance review fees	(58)	(61)
Standard and Poor's rating maintenance fees	(47)	(46)
Investment expenses	(4,643)	(3,937)
Net income from investing activity	237,032	300,345
Settlements	330	5,989
<b>Total Additions</b>	<b>237,362</b>	<b>306,334</b>
 <b>DEDUCTIONS</b>		
Distributions paid and payable	237,362	306,334
<b>Total Deductions</b>	<b>237,362</b>	<b>306,334</b>
 <b>SHARE TRANSACTIONS</b>		
Participant contributions	28,513,722	24,920,512
Reinvested distributions	237,356	306,325
Participant withdrawals	(27,027,686)	(22,303,538)
<b>Net Increase (Decrease) Resulting from     Share Transactions</b>	<b>1,723,392</b>	<b>2,923,299</b>
Increase (decrease) in net position	1,723,392	2,923,299
Net position, beginning of year	13,435,399	10,512,100
Net position, end of year	<b>\$ 15,158,791</b>	<b>\$ 13,435,399</b>

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 SBA 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 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**

Securities and Exchange Commission (SEC) Rule 2a-7 sets out certain requirements pertaining to money market funds required to register with the SEC under the Investment Company Act of 1940. Florida PRIME is not required to register (and has not registered) with the SEC; however, the fund is an external investment pool that has historically adopted operating procedures consistent with those required by SEC Rule 2a-7, which was significantly amended in 2014. In December 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, as codified in Section In5, *Investment Pools (External)*, which addresses for certain external investment pools like Florida PRIME and their participants, the accounting and financial reporting implications that result from the SEC Rule 2a-7 amendments.

GASB Codification Section In5 allows an external investment pool for financial reporting purposes to elect to measure all its investments at amortized cost if the pool meets certain criteria such as portfolio maturity, quality, diversification, and liquidity requirements, and transacts with its participants at a stable net asset value per share. Florida PRIME will seek to operate in a manner consistent with the

criteria and requirements of GASB Codification Section In5. Consequently, the SBA has elected to measure for financial reporting purposes all of Florida PRIME's investments at amortized cost.

### **C. Basis of Presentation**

These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The 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 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 were 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 reported at amortized cost, consistent with GASB Codification Section In5. Fair values, for note disclosures, are calculated using quoted market prices. If quoted market prices are not readily available, alternative pricing methodologies may include the use of discounted cash flow models, broker bids, matrix-pricing, or cost/book value.

### **G. Method Used to Determine Participants' Shares Sold and Redeemed**

Participants' shares are sold and redeemed in Florida PRIME at a stable net asset value per share and earnings are allocated at month-end 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, 2020, and June 30, 2019, 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 by the custodian bank. Florida PRIME's Investment Policy Statement provides that the custodian will, on a daily basis, mark to market the portfolio holdings of Florida PRIME and communicate both the amortized cost price and the market price to the SBA and the investment manager. The Investment Policy Statement also provides that the investment manager perform daily compliance monitoring of the amortized cost price and market price. The SBA performs periodic oversight, at least monthly, of the investment manager's compliance monitoring. When the deviation between the fair value and amortized cost of Florida PRIME exceeds 0.50 percent, the Investment Policy Statement provides that the Executive Director of the SBA is to promptly consider what action, if any, should be initiated. When the Executive Director believes that 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. For the fiscal years ended June 30, 2020, and June 30, 2019, the ratio of fair value to amortized cost was 100.07 percent and 100.02 percent, respectively.

## **K. Limitations on Participant Contributions and Withdrawals**

Florida PRIME currently has in place no limitations or restrictions on participant withdrawals, does not currently charge liquidity fees, and has not put in place a redemption gate. Each participant has the ability to withdraw 100 percent of its account balance any day Florida PRIME is open for business.

However, with respect to redemption gates, Section 218.409(8)(a), Florida Statutes, provides that the Executive Director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of Florida PRIME, for 48 hours limit contributions to or withdrawals from Florida PRIME to ensure that the SBA can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, and the Investment Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the Executive Director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the Executive Director may extend the moratorium until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.

With respect to liquidity fees, Section 218.409(4), Florida Statutes, provides authority for the SBA to impose penalties for early withdrawal, subject to disclosure in the enrollment materials for Florida PRIME of the amount and purpose of such fees. At present, no such disclosure has been made or deemed necessary, as Florida PRIME does not charge liquidity fees.



## L. 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

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. Currently, the SBA service charge is 1.0 basis point (.0001) on total Florida PRIME assets.

Florida PRIME also incurs various bank fees (including transaction charges), custody fees, performance analytics, credit rating maintenance, and compliance review fees. The compliance review 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 State law.

All fees and charges are taken out of the monthly earnings prior to the distribution of net earnings to participant balances each month.

## II. DEPOSITS AND INVESTMENTS

### A. Deposits

Florida PRIME holds cash in deposit accounts at various financial institutions. These deposits totaled \$2.03 billion at June 30, 2020, and \$1.15 billion at June 30, 2019. 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, 2020, Florida PRIME held several overnight time deposits totaling \$2.03 billion 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 Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation, insures the principal amount of the instrument. All time deposits were held in banks that met the \$100,000,000 requirement for capital, surplus, and undivided profits.

GASB Codification Section In5 requires that deposits should either (1) be held by a depository institution with a credit rating within the highest category of short-term credit ratings (or its long-term equivalent category) or determined (based upon the qualifying external investment pool's analysis) to be of comparable quality, or (2) be insured or collateralized such that it is not exposed to custodial credit risk. The depositories holding the time deposits at June 30, 2020, met the first criteria. All other June 30, 2020, deposits in Florida PRIME were covered by Federal insurance or the State's collateral pool pursuant to Chapter 280, Florida Statutes.

At June 30, 2019, depositories holding the \$1.15 billion in time deposits met the first criteria specified above. All other deposits held 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 the Investment Manager, Federated.
- 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 the diversification, maturity, liquidity, and credit quality conditions required by GASB Codification Section In5. In buying and selling portfolio securities for Florida PRIME, the Investment Manager will comply with the conditions imposed by GASB Codification Section In5; 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, the Investment Policy Statement provides that the Executive Director is to promptly consider what action, if any, should be initiated. When the Executive Director believes that 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 value, fair value, range of interest rates, and range of maturity dates for each major investment classification as of June 30, 2020, and June 30, 2019 (expressed in thousands):

As of June 30, 2020					
Investment Type	Par	Carrying Value	Fair Value	Range of Interest Rates <sup>(1)</sup>	Range of Maturity Dates
Time deposits <sup>(2)</sup>	\$ 2,025,000	\$ 2,025,000	\$ 2,025,000	0.12%-0.13%	7/1/20-7/7/20
Certificates of deposit	3,045,000	3,044,834	3,047,485	0.20%-1.97%	7/9/20-6/16/21
Commercial paper	6,370,299	6,360,142	6,367,771	0.12%-1.90%	7/1/20-4/12/21
Money market funds	815,979	816,037	816,526	0.09%-0.31%	N/A <sup>(3)</sup>
Repurchase agreements	1,650,000	1,650,000	1,650,000	0.08%-0.09%	7/1/20
U.S. Treasury bills	1,426,000	1,425,757	1,425,821	0.12%-0.29%	7/14/20-10/15/20
Domestic corporate bonds and notes	21,645	21,645	21,645	0.23%-0.65%	11/1/36-8/1/45 <sup>(4)</sup>
Municipal bonds and notes	13,980	13,980	13,980	0.48%-0.52%	6/1/22-9/1/35 <sup>(5)</sup>
<b>Totals</b>	<b>\$15,367,903</b>	<b>\$ 15,357,395</b>	<b>\$ 15,368,228</b>		

- (1) The coupon rate in effect at June 30, 2020, is reported. If a security is discounted, the purchase yield is reported. The 7-day yield as of June 30, 2020, is reported for the money market funds. The yields fluctuate daily.
- (2) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.
- (3) Money market funds do not have a specified maturity date.
- (4) Florida PRIME has four positions in domestic corporate bonds and notes that it may tender for 100 percent of the principal amount, plus accrued interest with a minimum of seven days prior notification to the trustee of the bonds or notes. The maturity dates on these positions range from November 1, 2036, to August 1, 2045.
- (5) Florida PRIME has two positions in municipal bonds and notes that it may tender for 100 percent of the principal amount, plus accrued interest with a minimum of seven days prior notification to the trustee of the bonds or notes. The maturity dates on these positions are June 1, 2022, and September 1, 2035.

As of June 30, 2019					
Investment Type	Par	Carrying Value	Fair Value	Range of Interest Rates <sup>(1)</sup>	Range of Maturity Dates
Time deposits <sup>(2)</sup>	\$ 1,150,000	\$ 1,150,000	\$ 1,150,000	2.40%-2.45%	7/1/19-7/3/19
Certificates of deposit	3,651,000	3,649,948	3,651,496	2.43%-3.00%	7/3/19-6/12/20
Commercial paper	5,261,908	5,246,480	5,247,444	2.38%-2.86%	7/1/19-5/29/20
Money market funds	789,590	789,649	789,824	2.25%-2.45%	N/A <sup>(3)</sup>
Repurchase agreements	2,675,000	2,675,000	2,675,000	2.51%-2.58%	7/1/19-7/3/19
Domestic corporate bonds and notes	29,380	29,380	29,380	2.40%-2.46%	9/1/28-2/2/43 <sup>(4)</sup>
Municipal bonds and notes	14,150	14,150	14,150	2.35%-2.70%	6/1/22-9/1/35 <sup>(5)</sup>
<b>Totals</b>	<b>\$13,571,028</b>	<b>\$ 13,554,607</b>	<b>\$ 13,557,294</b>		

- (1) The coupon rate in effect at June 30, 2019, is reported. If a security is discounted, the purchase yield is reported. The 7-day yield as of June 30, 2019, is reported for the money market funds. The yields fluctuate daily.
- (2) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.
- (3) Money market funds do not have a specified maturity date.
- (4) Florida PRIME has six positions in domestic corporate bonds and notes that it may tender for 100 percent of the principal amount, plus accrued interest with a minimum of seven days prior notification to the trustee of the bonds or notes. The maturity dates on these positions range from September 1, 2028, to February 2, 2043.
- (5) Florida PRIME has two positions in municipal bonds and notes that it may tender for 100 percent of the principal amount, plus accrued interest with a minimum of seven days prior notification to the trustee of the bonds or notes. The maturity date on these positions are June 1, 2022, and September 1, 2035.

## D. Investments, Fair Value Hierarchy

Florida PRIME's investments are carried at amortized cost, but fair value is reported in certain note disclosures as required by GAAP. Florida PRIME's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 – Investments reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset (including quoted prices for similar assets), which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable inputs for an asset.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a pricing methodology that uses evaluation models, such as matrix pricing, to value securities based on a security's relationship to benchmark quoted prices. Debt securities classified in Level 3 of the fair value hierarchy are subject to being priced by an alternative pricing source utilizing discounted cash flow models and broker bids, or may have an estimated fair value equal to cost, due to the absence of an independent pricing source.

Certain investments, such as time deposits, money market funds (with a stable NAV of \$1 per share), and repurchase agreements, are carried at cost or amortized cost.

Florida PRIME has the following fair value measurements as of June 30, 2020, and June 30, 2019 (expressed in thousands):

	Total Fair Value June 30, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Investments by fair value level:</b>				
Debt securities:				
Certificates of deposit	\$ 3,047,485	\$ -	\$ 3,047,485	\$ -
Commercial paper	6,367,771	-	6,267,771	100,000
Money market funds	781,614	781,614	-	-
U.S. Treasury bills	1,425,821	-	1,425,821	-
Domestic corporate bonds and notes	21,645	-	21,645	-
Municipal bonds and notes	13,980	-	13,980	-
<b>Total investments measured at fair value</b>	<b>11,658,316</b>	<b>\$ 781,614</b>	<b>\$ 10,776,702</b>	<b>\$ 100,000</b>
<b>Other investments carried at cost or amortized cost:</b>				
Time deposits <sup>(1)</sup>	2,025,000			
Money market funds	34,912			
Repurchase agreements	1,650,000			
<b>Total investments</b>	<b>\$ 15,368,228</b>			

(1) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.

	Total Fair Value June 30, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Investments by fair value level:</b>				
Debt securities:				
Certificates of deposit	\$ 3,651,496	\$ -	\$ 3,151,910	\$ 499,586
Commercial paper	5,247,444	-	5,247,444	-
Money market funds	781,301	781,301	-	-
Domestic corporate bonds and notes	29,380	-	29,380	-
Municipal bonds and notes	14,150	-	14,150	-
<b>Total investments measured at fair value</b>	<b>9,723,771</b>	<b>\$ 781,301</b>	<b>\$ 8,442,884</b>	<b>\$ 499,586</b>
<b>Other investments carried at cost or amortized cost:</b>				
Time deposits <sup>(1)</sup>	1,150,000			
Money market funds	8,523			
Repurchase agreements	2,675,000			
<b>Total investments</b>	<b>\$ 13,557,294</b>			

(1) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.

## **E. Investment Credit Risk and Concentration of Credit Risk of Debt Securities**

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

Pursuant to the Investment Policy Statement in effect at June 30, 2020, investment credit risk and concentration of credit risk of debt securities were 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 monitors the credit risks of all Florida PRIME portfolio securities on an ongoing basis by reviewing periodic 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 GASB Codification Section In5. 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, 2020, and June 30, 2019 (fair values expressed in thousands):

Ratings <sup>(1)</sup>		Fair Value of Florida PRIME Investments as of June 30, 2020					
S&P	Moody's	Total	Certificates of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements	Corporate and Municipal Bonds and Notes
AAAm		\$ 816,526	\$ -	\$ -	\$ 816,526	\$ -	\$ -
A-1		6,367,771	-	6,367,771	-	-	-
AA		9,445	-	-	-	-	9,445
A		2,200	-	-	-	-	2,200
	Aa	10,000	-	-	-	-	10,000
Not rated <sup>(1)</sup>	Not rated <sup>(1)</sup>	3,317,562	3,047,485	-	-	256,097	13,980
		<u>10,523,504</u>	<u>\$ 3,047,485</u>	<u>\$ 6,367,771</u>	<u>\$ 816,526</u>	<u>\$ 256,097</u>	<u>\$ 35,625</u>
		1,393,903	Repurchase agreements <sup>(2)</sup>				
		1,425,821	U.S. Treasury bills <sup>(2)</sup>				
		2,025,000	Time deposits <sup>(3)</sup>				
		<u>\$ 15,368,228</u>	<b>Total</b>				

- (1) Ratings by S&P or Moody's indicative of the greatest amount of credit risk are presented. If both ratings are the same, S&P ratings are reported. If only one of the two rating agencies provided a rating, that rating is reported. If neither rating agency provided a security specific credit rating, "Not rated" is reported. All of the investments presented as "Not rated" had short-term issuer credit ratings that met Florida PRIME's investment and GASB Codification Section In5 guidelines.
- (2) U.S. guaranteed obligations and collateral for repurchase agreements that the U.S. government explicitly guarantees do not require disclosure of credit quality.
- (3) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.

Ratings <sup>(1)</sup>		Fair Value of Florida PRIME Investments as of June 30, 2019					
S&P	Moody's	Total	Certificates of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements	Corporate and Municipal Bonds and Notes
AAAm		\$ 789,824	\$ -	\$ -	\$ 789,824	\$ -	\$ -
A-1		5,020,476	-	5,020,476	-	-	-
AA		9,445	-	-	-	-	9,445
A		10,860	-	-	-	-	10,860
	P-2 <sup>(1)</sup>	226,968	-	226,968	-	-	-
	Aa	9,075	-	-	-	-	9,075
Not rated <sup>(1)</sup>	Not rated <sup>(1)</sup>	4,884,266	3,651,496	-	-	1,218,620	14,150
		<u>10,950,914</u>	<u>\$ 3,651,496</u>	<u>\$ 5,247,444</u>	<u>\$ 789,824</u>	<u>\$ 1,218,620</u>	<u>\$ 43,530</u>
		1,456,380	Repurchase agreements <sup>(2)</sup>				
		1,150,000	Time deposits <sup>(3)</sup>				
		<u>\$ 13,557,294</u>	<b>Total</b>				

- (1) Ratings by S&P or Moody's indicative of the greatest amount of credit risk are presented. If both ratings are the same, S&P ratings are reported. If only one of the two rating agencies provided a rating, that rating is reported. If neither rating agency provided a security specific credit rating, "Not rated" is reported. All of the investments presented as "Not rated" had short-term issuer credit ratings that met Florida PRIME's investment and GASB Codification Section In5 guidelines.

Per the credit quality requirements of GASB Codification Section In5, if a security has more than two ratings and the rating categories conflict, the security should be considered to be in the highest category of ratings as determined by at least two ratings. The commercial paper position rated P-2 by Moody's also carried ratings in the highest category by both S&P and Fitch, of A-1 and F1, respectively.

- (2) Collateral for repurchase agreements that the U.S. government explicitly guarantees do not require disclosure of credit quality.
- (3) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.



With respect to the concentration of credit risk at June 30, 2020, Florida PRIME carried one position in a repurchase agreement totaling more than 5 percent per issuer. However, per GASB Codification Section In5, repurchase agreements are considered to be the acquisition of the underlying securities if the repurchase agreement is fully collateralized. The following repurchase agreement was fully collateralized by U.S. government guaranteed securities (amounts in thousands). Besides this repurchase agreement position, Florida PRIME did not have any other exposure of more than 5 percent to any single issuer.

**As of June 30, 2020**

<b>Issuer Name</b>	<b>Carrying Value</b>	<b>Percent of Portfolio Carrying Value</b>	<b>Fair Value</b>	<b>Percent of Portfolio Fair Value</b>
Bank of America, N.A.	\$1,100,000	7.16%	\$1,100,000	7.16%

At June 30, 2019, Florida PRIME carried the repurchase agreement positions included in the table below totaling more than 5 percent per issuer. These repurchase agreements were fully collateralized by a combination of U.S. government guaranteed and Federal agency securities (amounts in thousands). Besides these repurchase agreement positions, Florida PRIME did not have any other exposure of more than 5 percent to any single issuer.

**As of June 30, 2019**

<b>Issuer Name</b>	<b>Carrying Value</b>	<b>Percent of Portfolio Carrying Value</b>	<b>Fair Value</b>	<b>Percent of Portfolio Fair Value</b>
Bank of America, N.A.	\$1,410,000	10.40%	\$1,410,000	10.40%
HSBC Securities (USA) Inc.	\$ 750,000	5.53%	\$ 750,000	5.53%

## **F. Investments, Custodial Credit Risk**

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

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

The SBA engaged BNY Mellon (Custodian) to provide asset safekeeping, custody, fund accounting, and performance measurement services to Florida PRIME. At June 30, 2020, and June 30, 2019, all investments, except those in money market funds in which the SBA invests (i.e., in commingled funds with other investors), were held in the SBA's name by the SBA's custodial bank.

## G. Investments, Interest Rate Risk

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

Presented below are the investments held in Florida PRIME at June 30, 2020, and June 30, 2019, at fair value (expressed in thousands), with the DWAM for each security type:

<b>As of June 30, 2020</b>		
<b>Investment Type</b>	<b>Fair Value</b>	<b>Dollar Weighted Average Maturity (in Days)<sup>(1)</sup></b>
Time deposits <sup>(2)</sup>	\$ 2,025,000	4
Certificates of deposit <sup>(3)</sup>	3,047,485	74
Commercial paper <sup>(3)</sup>	6,367,771	82
Money market funds <sup>(4)</sup>	816,526	1
Repurchase agreements	1,650,000	1
U.S. Treasury bills	1,425,821	34
Domestic corporate bonds and notes	21,645	8
Municipal bonds and notes	13,980	8
Total	<u>\$ 15,368,228</u>	
<b>Portfolio dollar-weighted average maturity (DWAM)</b>		<b>53</b>

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

(2) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.

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

(4) The DWAM of the underlying securities in the two money market funds at June 30, 2020, ranged from 1 to 39 days. However, the money market funds provided daily liquidity.

As of June 30, 2019

<b>Investment Type</b>	<b>Fair Value</b>	<b>Dollar Weighted Average Maturity (in Days)<sup>(1)</sup></b>
Time deposits <sup>(2)</sup>	\$ 1,150,000	2
Certificates of deposit <sup>(3)</sup>	3,651,496	35
Commercial paper <sup>(3)</sup>	5,247,444	46
Money market funds <sup>(4)</sup>	789,824	1
Domestic corporate bonds and notes	29,380	8
Municipal bonds and notes	14,150	8
Repurchase agreements	2,675,000	1
Total	<u>\$ 13,557,294</u>	
<b>Portfolio dollar-weighted average maturity (DWAM)</b>		<b>28</b>

- (1) Interest rate reset dates are used in the calculation of the DWAM.
- (2) Time deposits are included in "Cash and cash equivalents" on the Statements of Net Position.
- (3) Certificates of deposit and commercial paper include domestic and U.S. dollar-denominated foreign issues.
- (4) The DWAM of the underlying securities in the two money market funds at June 30, 2019, ranged from 3 to 15 days. However, the money market funds provided daily liquidity.

GASB Codification Section In5 also requires the portfolio of a qualifying external investment pool to maintain a weighted average life (WAL) of 120 days or less. A weighted average life measure expresses the average length of time that each dollar of principal remains unpaid without taking into account the maturity shortening features used in calculating the DWAM. Pursuant to the Investment Policy Guidelines, the Investment Manager will exercise reasonable care to maintain a maximum WAL within the range of 90 to 120 days for Florida PRIME. The WAL for Florida PRIME at June 30, 2020, and June 30, 2019, were 76 and 80 days, respectively.

## **H. Investments, Foreign Currency Risk**

Investment policy guidelines prohibit the Investment Manager from purchasing investments denominated in foreign currency, therefore all Florida PRIME securities are U.S. dollar denominated. Florida PRIME was not exposed to foreign currency risk during the fiscal years ended June 30, 2020, and June 30, 2019.





Sherrill F. Norman, CPA  
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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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 the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME), as of and for the fiscal year ended June 30, 2020, 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 12, 2020, 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) as a basis for designing 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 financial statements. 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 and compliance and the results 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 12, 2020