MEETING OF THE STATE BOARD OF ADMINISTRATION

GOVERNOR CRIST AS CHAIRMAN
CHIEF FINANCIAL OFFICER SINK AS TREASURER
ATTORNEY GENERAL MCCOLLUM AS SECRETARY

JUNE 8, 2010

To View Agenda Items, Click on the Following Link:
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I. REQUEST APPROVAL OF MINUTES OF THE APRIL 13, 2010 MEETING.

(See Attachment 1)

ACTION REQUIRED

II. EXECUTIVE DIRECTOR/CIO UPDATE

III. INVESTMENT PERFORMANCE REPORTS
- **a. Florida Retirement System Pension Plan (DB)**
- **b. Florida Retirement System Investment Plan (DC)**
- **c. Florida PRIME (Local Government Surplus Funds Trust Fund) and Fund B**
- **d. Florida Hurricane Catastrophe Fund (FHCF)**

(See Attachments 3-A, 3-B, 3-C, & 3-D)

IV. STANDING REPORTS
- **a. Audit Committee – Bill Sweeney**
- **b. Participant Local Government Advisory Council – Patsy Heffner**
- **c. Investment Advisory Council – John Hill**
- **d. General Counsel – Maureen Hazen**
- **e. Inspector General – Bruce Meeks**
- **f. Corporate Governance – Mike McCauley**
- **g. Risk Management & Compliance – Eric Nelson**
- **h. Florida Hurricane Catastrophe Fund (FHCF) – Ash Williams & Anne Bert**

(See Attachments 4-A, 4-B, 4-D, 4-E, 4-F, 4-G, & 4-H)

V. MAJOR PROJECTS
- **a. Florida Growth Fund – Mario Giannini, Hamilton Lane**
- **b. Florida Retirement System Pension Plan (DB) Asset Liability and Asset Allocation Review – Rowland Davis, Mike Sebastian, Kristen Doyle, EnnisKnupp + Associates**
- **c. Florida Retirement System Pension Plan (DB) Business Plan Review – Ash Williams, SBA**

(See Attachments 5-A, 5-B, & 5-C)

VI. REQUEST APPROVAL OF CHANGES TO THE INVESTMENT POLICY STATEMENT FOR THE FLORIDA RETIREMENT SYSTEM PENSION PLAN (i.e., FLORIDA RETIREMENT SYSTEM DEFINED BENEFIT (DB) PLAN), AS REQUIRED UNDER s. 215.475(2), F.S.

Every three to five years, the State Board of Administration (SBA) staff and SBA investment consultants perform an in-depth analysis of the DB Plan's assets and liabilities or formal asset liability study. The purpose of the asset liability study is to reassess the DB Plan's investment policy in light of the latest actuarial study and capital market expectations. The Investment Policy Statement, required pursuant to s. 215.475, F.S., is the principal vehicle through which the Trustees establish an investment objective(s), asset allocation and address associated policy issues for the DB Plan. Prior to any recommended changes in the Investment Policy Statement being presented to the Trustees, the Executive Director of the Board must present such changes to the Investment Advisory Council for review. Results of the council's review must be presented to the Trustees before final approval of changes to the Investment Policy Statement. The last major investment policy/asset allocation revision for the DB Plan was approved by the Trustees on May 15, 2007.

(See Attachments for *DRAFT* versions of the FRS DB Plan Investment Policy Statement prior to Investment Advisory Council review. The draft versions of the Investment Policy Statement will be presented to the Investment Advisory Council for review on June 7, 2010. *FINAL* versions of the FRS DB Plan Investment Policy Statement for Trustees' review and approval will be provided at a later date.)

(See Attachments 6-A and 6-B)

ACTION REQUIRED

VII. REQUEST APPROVAL FOR CERTIFICATION TO THE JOINT LEGISLATIVE AUDITING COMMITTEE THAT THE ITEM NOTED IN THE RECENT AUDITOR GENERAL'S ANNUAL FINANCIAL AUDIT (REPORT NO. 2010-127) OF THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS "FLORIDA PRIME") HAS BEEN ADDRESSED BY A CORRECTIVE ACTION PLAN.

(See Attachments 7-A and 7-B)

ACTION REQUIRED

VIII. REQUEST APPROVAL OF A DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE FOR ANNUAL CERTIFICATION OF LEGAL COMPLIANCE AND BEST INVESTMENT PRACTICES FOR THE LOCAL GOVERNMENT INVESTMENT POOL (NOW KNOW AS "FLORIDA PRIME"), AS REQUIRED UNDER s. 218.405 (3), F.S.

Lewis, Longman & Walker, P.A. independently performed the statutory compliance review and will present their findings to the Investment Advisory Council and Participant Local Government Advisory Council at their joint session on June 7, 2010.

Ennis, Knupp + Associates independently performed a comprehensive review of the various aspects of the Local Government Investment Pool to determine whether the management and operations are in line with best practices and will present their findings to the Investment Advisory Council and Participant Local Government Advisory Council at their joint session on June 7, 2010.

(See Attachments 8-A, 8-B, & 8-C)

ACTION REQUIRED

IX. REQUEST PERMISSION TO FILE FOR NOTICE THE FOLLOWING AMENDED RULES. RULES 19-7.001 THROUGH 19-7.017 F.A.C. ARE DEVELOPED FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS "FLORIDA PRIME"), PURSUANT TO s. 218.409, F.S.

Rule 19-7.010 (Pooled Investment Accounts)
Amended to provide correct reference to the Local Government Surplus Funds Trust Fund.
Rule 19-7.011 (Rate of Return Calculation)
Amended to provide that the rate of return calculation for the Local Government Surplus Funds Trust Fund will be calculated in accordance with the yield methodology set forth by the Securities and Exchange (SEC) Rule 2a-7 (17 CFR §270.2a-7) under the Investment Company Act of 1940 for money market funds; and to indicate how a copy of the SEC Rule can be obtained.
Rule 19-7.012 (Pool Participation)
Rule deleted as being unnecessary, as all rule provisions are now covered by statute.
Rule 19-7.013 (Reporting Procedures)
Amended to delete investment services charges, which no longer are imposed.
Rule 19-7.015 (Allocation of Earnings)
Amended to delete the investment service charge which no longer is imposed; amended to indicate that if the end of the month account balance of any participant falls below $1,000, the account may be closed by the SBA and the residual balance will be returned to the participant.
Rule 19-7.016 (Close of Business)
Amended to provide that any requests for funds to be returned or notification of funds to be wired for investment after 1:00 pm EST (formerly 11:00 a.m.), may be included in the following day's business.
Rule 19-7.017 (Pooled Investment Account Reserve Fund)
Rule deleted as being unnecessary, as all rule provisions are now covered by statute.

A rule development workshop was offered on April 26, 2010, but was not held as it was not requested. If the Trustees give permission to file the amended rules for notice, a rule hearing will be held on July 12, 2010, if requested.

(See Attachments 9-A and 9-B)

ACTION REQUIRED

X. REQUEST APPROVAL OF CHANGES TO INVESTMENT POLICY STATEMENTS FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS "FLORIDA PRIME") AS REQUIRED UNDER s. 218.409(2)(d), F.S. AND FOR THE FUND B SURPLUS FUNDS TRUST FUND AS REQUIRED UNDER s.218.421(2)(c), F.S.

The Investment Policy Guidelines for the Local Government Investment Pool must be annually reviewed by the Investment Advisory Council and the Participant Local Government Advisory Council, and reviewed and approved by the Trustees. The last review and approval of the Local Government Investment Pool Investment Policy Guidelines by the Trustees was on July 28, 2009.

(See Attachments for *DRAFT* versions of the Local Government Investment Pool Investment Policy Statement and Fund B Surplus Funds Trust Fund Investment Policy Statement, respectively, prior to Investment Advisory Council and Participant Local Government Advisory Council reviews. Draft versions of the investment policy statements will be presented to the Investment Advisory Council and the Participant Local Government Advisory Council for review on June 7, 2010. *FINAL* versions of the Local Government Investment Pool Investment Policy Statement and Fund B Surplus Funds Trust Investment Policy for Trustee review and approval will be provided at a later date.)

(See Attachments 10-A, 10-B, 10-C, and 10-D)

ACTION REQUIRED

XI. REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $167,200,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY BOND, 2007 SERIES (TO BE DETERMINED).

(See Attachment 11)

ACTION REQUIRED

XII. REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $19,100,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA STATE UNIVERSITY DORMITORY REVENUE BONDS, SERIES 2010A.

(See Attachment 12)

ACTION REQUIRED

XIII. REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $15,500,000 STATE OF FLORIDA BOARD OF GOVERNORS, FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY DORMITORY REVENUE BONDS, SERIES (TO BE DETERMINED).

(See Attachment 13)

ACTION REQUIRED

XIV. REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $14,500,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY DORMITORY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED).

(See Attachment 14)

ACTION REQUIRED

XV. REQUEST APPROVAL OF, AND AUTHORITY TO FILE, A NOTICE OF PROPOSED RULE FOR THE FIVE RULES LISTED BELOW. IF NO MEMBER OF THE PUBLIC REQUESTS A RULE HEARING, REQUEST APPROVAL TO FILE THESE RULES, ALONG WITH THE FORMS INCORPORATED THEREIN, FOR ADOPTION.

19-8.010	Reimbursement Contract
19-8.012	Procedures to Determine Ineligibility for Participation in the Florida Hurricane Catastrophe Fund and to Determine Exemption from Participation in the Florida Hurricane Catastrophe Fund due to Limited Exposure
19-8.013	Revenue Bonds Issued Pursuant to Section 215.555(6), F.S.
19-8.029	Insurer Reporting Requirements
19-8.030	Insurer Responsibilities

(See Attachments 15 through 15-I)

ACTION REQUIRED

XVI. REQUEST APPROVAL OF THE STATE BOARD OF ADMINISTRATION'S PROPOSED BUDGETS FOR FISCAL YEAR 2010-2011: (1) STATE BOARD OF ADMINISTRATION; (2) PUBLIC EMPLOYEE OPTIONAL RETIREMENT PROGRAM; (3) FLORIDA HURRICANE CATASTROPHE FUND; (4) DIVISION OF BOND FINANCE; AND (5) FLORIDA PREPAID COLLEGE BOARD.

(See Attachments 16-A, 16-B, 16-C, 16-D & 16-E)

ACTION REQUIRED

T H E C A B I N E T

S T A T E O F F L O R I D A

Representing:

FINANCIAL SERVICES COMMISSION, OFFICE OF
INSURANCE REGULATION

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

STATE BOARD OF ADMINISTRATION

FLORIDA HURRICANE CATASTROPHE FUND
FINANCE CORPORATION BOARD

The above agencies came to be heard before THE FLORIDA CABINET, Honorable Governor Crist presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, April 13, 2010, commencing at 9:15 a.m.

Reported by:
JO LANGSTON
Registered Professional Reporter
Notary Public

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2894 REMINGTON GREEN LANE
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APPEARANCES:

Representing the Florida Cabinet:

CHARLIE CRIST
Governor

CHARLES H. BRONSON
Commissioner of Agriculture

BILL McCOLLUM
Attorney General

ALEX SINK
Chief Financial Officer

* * *

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(Presented by BELINDA MILLER)

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(Presented by MICHAEL SOLE)

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(Presented by ASH WILLIAMS)

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FLORIDA HURRICANE CATASTROPHE FUND FINANCE CORPORATION BOARD
(Presented by ASH WILLIAMS)

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CERTIFICATE OF REPORTER 71

1 GOVERNOR CRIST: SBA, Ash Williams. Good
2 morning, Ash.
3 MR. WILLIAMS: Good morning, Governor,
4 Trustees. How are you today?
5 GOVERNOR CRIST: Good.
6 MR. WILLIAMS: Item 1, we request approval of
7 the transcript of the February 24 meeting.
8 ATTORNEY GENERAL McCOLLUM: So moved.
9 CFO SINK: Second.
10 GOVERNOR CRIST: Moved and seconded. Show the
11 minutes approved without objection.
12 MR. WILLIAMS: Item 2, request approval of
13 fiscal determination for the issuance of an amount
14 not exceeding $7.8 million Florida Housing Finance
15 Corporation Multifamily Mortgage Revenue Bonds.
16 GOVERNOR CRIST: Is there a motion on Item 2?
17 CFO SINK: Move it.
18 ATTORNEY GENERAL McCOLLUM: Second.
19 GOVERNOR CRIST: Moved and seconded. Show it
20 approved without objection.
21 MR. WILLIAMS: Item 3, request approval of the
22 2010 Florida Hurricane Catastrophe Fund
23 Reimbursement Premium Formula. By way of background
24 on this, the law requires that the rates for the
25 Catastrophe Fund each year be actuarially indicated

1 rates and that they be confirmed by an external
2 consultant. Both of those tests have been met. In
3 addition, the formula has been reviewed by the
4 Florida Hurricane Catastrophe Fund Advisory Council
5 in public meeting and approved unanimously.
6 Recommend approval of the formula.
7 ATTORNEY GENERAL McCOLLUM: I move Item 3.
8 CFO SINK: Second.
9 GOVERNOR CRIST: Moved and seconded. Show it
10 approved without objection.
11 MR. WILLIAMS: Thank you. Item 4, request
12 approval of and authority to file a Notice of
13 Proposed Rulemaking for the Florida Reimbursement --
14 Florida Catastrophe Fund Reimbursement Premium
15 Formula.
16 CFO SINK: Move it.
17 ATTORNEY GENERAL McCOLLUM: Second.
18 GOVERNOR CRIST: Moved and seconded. Show it
19 approved without objection.
20 MR. WILLIAMS: Item 5, we request approval of
21 the State Board of Administration's resolution
22 regarding the issuance of bonds by the Hurricane
23 Catastrophe Fund Finance Corporation. And we have a
24 brief presentation, if you'd like me to walk you
25 through it, addressing a couple of questions that

1 came up at the prior meeting.
2 GOVERNOR CRIST: Please.
3 MR. WILLIAMS: Okay. This is very brief,
4 honestly. And we'll cut quickly to the substance of
5 the questions that were raised at our last meeting.
6 First, a little bit of background on the legal
7 requirements and obligations of the Catastrophe
8 Fund. The Hurricane Catastrophe Fund has a legal
9 obligation to reimburse insurers for specified
10 payments that insurers make to their policyholders.
11 The law provides for the issuance of revenue
12 bonds for the Florida Hurricane Catastrophe Fund to
13 meet these obligations. Insurers are required to
14 file loss reports at yearend and quarterly
15 thereafter. The Catastrophe Fund is required to
16 reimburse insurers as soon as practical after
17 receiving proof of loss reports.
18 We go on to the next page. The examination
19 process that the Catastrophe Fund has is quite
20 active, thorough and comprehensive. We've in fact
21 reviewed over 17,000 proof of loss reports for '04
22 and '05 losses. Loss payment requests are reviewed
23 and analyzed before, during and after reimbursements
24 are made.
25 Before reimbursements are made, we do an

1 examination of the exposure the various insurers
2 have by zip code, so we know exactly where their
3 exposures are. There are education and training
4 programs to inform insurers on how to appropriately
5 submit loss experience to us.
6 During events and claims coming in, we examine
7 proof of loss reports. These are required to have
8 the signatures of two executives of the insurance
9 companies. So to the extent there's any
10 falsification there, you have people who are
11 directly accountable for any problem.
12 We also review that information for integrity
13 and validity. So, for example, if you know in
14 advance that an insurance company's exposures are in
15 inland zip codes and you start seeing claims
16 submissions for hurricane loss on the coast, you
17 know by comparing your original analysis of their
18 exposures to where their claims are coming in from
19 that there's something wrong there and it needs to
20 be held up and examined.
21 Likewise, we compare the loss submissions we
22 receive from different insurance companies so that
23 we look across companies. And if we see some
24 extraordinary loss experience in one company in
25 comparison to others, that again is a tip-off that

1 it should be held up and looked into more
2 thoroughly.
3 Lastly, we look at the reimbursements after
4 they've been made. There's a very thorough and
5 ongoing review of losses, including on-site audits
6 conducted by the Hurricane Catastrophe Fund. And to
7 the extent we identify that any insurer has been
8 reimbursed excessively, we have the ability under
9 current law to reclaim those excess reimbursements
10 together with interest penalties, and we claim the
11 maximum penalty allowed by law to the extent we do
12 reclamations of that nature.
13 The Cat Fund routinely withholds reimbursements
14 if there are any irregularities, unusual reporting
15 situations or noncompliance issues. Currently we
16 have approximately $13.2 million in reimbursements
17 being withheld from 30 different insurers.
18 Over $43 million has been recouped by the Cat
19 Fund for excess loss reimbursements stemming from
20 the '04 and '05 storm events. Interest penalties
21 have been charged at the maximum level allowable by
22 law. And to the extent there's any indication of
23 illegal or fraudulent activities, these are reported
24 to the proper authorities.
25 Moving on to page three and digging directly

1 into fraud and the potential for illegal activities,
2 that was a major concern in our last meeting. We
3 didn't want to have good Floridians paying bad
4 claims, very legitimate question.
5 We looked at the question of what is the
6 incidence of fraud and illegal activity. And after
7 working with a number of different entities,
8 including the Office of Insurance Regulation,
9 Division of Insurance Fraud, et cetera, we were
10 pleased to find -- and we'll demonstrate this in
11 detail in the next couple of pages -- that the
12 incidence of fraud and illegal activity seems to be
13 extremely low. Insurers are required by current law
14 to implement anti-fraud programs, and they are in
15 fact aggressively reporting suspected fraud to the
16 Division of Insurance Fraud.
17 If we move over to page four and look into what
18 the experience has been with insurance fraud -- and
19 this is looking across all forms of insurance, not
20 homeowners alone, not property and casualty alone.
21 This is across all forms of insurance. What we find
22 is that total referrals and tips relating to fraud
23 were a little north of 66,000. Insurers provided
24 46,000-plus of these. This led to the opening of
25 over 9,000 cases, roughly 4,700 arrests, close to

1 5,000 prosecutions and over 3,000 convictions.
2 Rewards were paid out to various people providing
3 tips on fraud in excess of $140,000.
4 Now, again, this is across all insurance. And
5 if you look at residential property and casualty
6 losses for '04 and '05, you're talking about over
7 two million claims, and our analysis suggests that
8 the incidence of potential fraud in that claim base
9 is something in the low single digit range, three to
10 five percent.
11 We go over to page five. We zero in
12 specifically, we're narrowing this -- this triangle
13 compared to the prior one is dramatically smaller
14 numbers for two reasons. First, we're looking at a
15 data sample of only one year. The prior information
16 was five years cumulatively. Second, we're looking
17 here only at homeowner related fraud cases. So the
18 numbers are much, much smaller. The number of
19 complaints, 446, that's less than four percent of
20 the total; cases opened, 75; prosecutions, 24;
21 arrests, 20; convictions, 23. Very significant
22 narrowing of the numbers, given the smaller
23 proportion of fraud relating to homeowner insurance.
24 If we move over to page six, we just want to
25 recognize and thank the other entities that we

1 worked with compiling this information and those who
2 have specific roles, and you can see them; Office of
3 Insurance Reg, Division of Insurance Fraud, Division
4 of Consumer Services, Office of the Consumer
5 Advocate, the Division of Rehab and Liquidation, and
6 the Florida Guaranty Insurance Fund.
7 Moving on to page seven, there are factors
8 impacting our loss experience, which has been
9 growing, particularly from the '05 storm events,
10 storm season. And these include appraisal
11 provisions and insurer contracts, replacement cost
12 holdbacks, potential time limits on filing claims,
13 the growth in public adjusters, public adjuster fee
14 and compensation practices, and damage for partial
15 losses resulting in payments for total losses.
16 As we discussed at our last meeting, these are
17 areas whose remedies largely rest in the
18 Legislature. As you can see in the second bullet on
19 this page, there are a range of different bills
20 currently in consideration in the legislative
21 process that constructively address these issues and
22 we believe will make progress in an appropriate
23 direction on all of these areas. For example, the
24 public adjuster legislation I understand is up today
25 in the Senate Judiciary Committee.

1 If we move on to page eight and we look at the
2 obligations and resources of the Cat Fund -- and
3 this is as of month-end January of this year -- the
4 outstanding losses in aggregate, and these include
5 the incurred and reported losses as well as incurred
6 but not reported, that means not reported to us by
7 the insurance companies, those aggregate to $827
8 million.
9 The current cash resources on hand at the Cat
10 Fund that are available to pay these particular
11 claims are 213 million, leaving a need for
12 additional resources that we estimate to come in
13 over time, from this 827 number, of 614 million.
14 Our recommendation is that we issue debt that
15 would include the proceeds to the Cat Fund itself, a
16 reserve for debt service and capitalized interest,
17 together with cost of issuance and underwriter's
18 discount, that would aggregate an issue of up to
19 $710 million.
20 If we move on to page nine, what we would
21 recommend doing, if the trustees, if you the
22 trustees concur, is to proceed with debt issuance of
23 up to $710 million. We will get to work on this
24 immediately and would anticipate coming to market in
25 the -- as a practical matter, probably during May.

1 We'd like to get this done prior to hurricane season
2 starting. And this would, we think, put us in
3 position to have sufficient liquidity to pretty well
4 cure the 2005 claims. Can't be absolutely
5 positively certain with permanence on that, but I
6 think we're pretty darn close.
7 CFO SINK: Governor.
8 GOVERNOR CRIST: CFO.
9 CFO SINK: Do we have -- you know, the number
10 in this chart that's kind of an estimate is the 376
11 million incurred but not reported number. I would
12 just hate for us to have to come back and do this
13 again. Do you have enough flexibility? Is there
14 enough -- have you been pretty darn conservative
15 about this $376 million so that you feel confident
16 that the 710 million is going to be the right
17 number? Do we need to give you the leeway perhaps
18 to go up to 750 million?
19 Just kind of share with us how you feel about
20 how close you're -- how close you're cutting these
21 numbers, because in my opinion we ought to figure
22 out what the right number is and put this thing to
23 bed.
24 MR. WILLIAMS: Potentially give it some head
25 room and leave it at that? I hear you. The

1 $376 million I think is reflective of a 2005 storm
2 season that has behaved, in terms of the way claims
3 have come in after the fact, unlike any other,
4 including 2004.
5 The difference between the way claims
6 experience was between '04 and '05, contiguous
7 years, has been night and day. It makes no sense.
8 And as we discussed at the last meeting, it seems to
9 be largely a consequence of the very dramatic
10 deterioration in the economy and the fact that
11 you've had a terrific increase in public adjusters
12 and a terrific cumulative effect of very, very
13 consumer-friendly insurance laws in Florida.
14 In terms of putting a hard boundary around
15 this, if we wanted to put some head room on it, we
16 certainly could. We could -- and what I would
17 recommend doing if we do that is I would not go into
18 the market presently for more than what we've asked
19 for here, but if we needed to go back subsequently,
20 we could. Conversely, if you prefer for us to come
21 back, we could do that as well, but recognizing the
22 amount of motion involved every time we do this.
23 CFO SINK: Well, I hate to make the number
24 bigger. I just am a little concerned that if you
25 have -- if you cut it too close in terms of your

1 estimate, then it just prolongs the agony.
2 MR. WILLIAMS: Right.
3 CFO SINK: We have to do this.
4 MR. WILLIAMS: Yes. And we could potentially
5 have a situation where we come back at some future
6 date with some tail end of obligations that we need
7 to meet that we would need to do more issuance for.
8 And what I would suggest is, if you want to go the
9 route of expanding the authorized amount today, then
10 I think the way to do it would be to do so with the
11 assumption that we would -- and with the restriction
12 that we would go out for no more than what we've
13 requested currently. And if six months down the
14 road or seven months or a year down the road we have
15 a need to do something further, then the idea would
16 be we would obviously do the minimum, and we would
17 confirm it back to you in public meeting before
18 going forward as an information item.
19 ATTORNEY GENERAL McCOLLUM: If I could, just a
20 point of clarification. In terms of the 700 million
21 or whatever we're going out and bonding, I assume
22 we're choosing not to take this out of any build-up
23 premium reserves that we've gotten because we want
24 to be ready for this hurricane season. But we do
25 have some money we could take this out of if we had

1 to right now, right?
2 MR. WILLIAMS: The amount we have that we can
3 take it out of is only 213 million, General.
4 ATTORNEY GENERAL McCOLLUM: That's it?
5 MR. WILLIAMS: If we -- we do have
6 significantly more cash reserves, but for reasons of
7 our tax-exempt status and the nature of our
8 agreement with the Internal Revenue Service to have
9 that tax-exempt status and the nature of the
10 covenants and the debt currently outstanding to pay
11 other claims from the Cat Fund, we cannot, on
12 opinion of tax counsel, invade those other cash
13 funds for this purpose.
14 ATTORNEY GENERAL McCOLLUM: So it's a tax and
15 obligation, existing obligation --
16 MR. WILLIAMS: Correct.
17 ATTORNEY GENERAL McCOLLUM: -- reason for doing
18 this. Secondly, Hurricane Wilma triggered all of us
19 in here, with your discussion and now the
20 Legislature, into realizing the statute of
21 limitations is too long. We've got another year, I
22 believe, to go on those claims. And hopefully the
23 next time we have storms we'll have a shorter
24 statute of limitations. But I don't know how
25 anybody here could stand there in your shoes and

1 tell us exactly how many more claims are going to be
2 filed in the next year over this thing, the way
3 they're going.
4 MR. WILLIAMS: Agreed.
5 ATTORNEY GENERAL McCOLLUM: And for one, I'd do
6 it either way. If you want more authorization,
7 fine. But it's -- CFO, I think it would just be a
8 shot in the dark to guess at what it is. So I think
9 we should just give you this today and leave it
10 alone, and if you've got to come back, you've got to
11 come back. Hope you don't. I would move it, if
12 it's appropriate.
13 CFO SINK: Second.
14 GOVERNOR CRIST: I just have a question. If we
15 could go to that slide number five, Ash, please.
16 And it talks there about the incidence of
17 homeowner's fraud for one year, 2008.
18 MR. WILLIAMS: Yes.
19 GOVERNOR CRIST: And then I guess about four
20 lines down, five lines down, it talks about
21 convictions, 23 convictions, 4.32 percent. So I'm
22 assuming from that chart that that means that these
23 23 individuals were convicted of fraud as it relates
24 to their homeowner's insurance. And the question I
25 guess I have is how much fraud did that represent in

1 monetary terms. How much did they scam? If you
2 totaled up the 23, how much did they rip off?
3 MR. WILLIAMS: I don't have a hard answer to
4 that, Governor, but --
5 GOVERNOR CRIST: Do you have a soft answer?
6 I'm just kind of curious.
7 MR. WILLIAMS: I appreciate that. I would
8 offer a clarification, that the percentages you see
9 here, like the 4.32 convictions, that's a percentage
10 of the aggregate convictions across all insurance.
11 That doesn't mean 4.32 percent of the people who
12 were charged with homeowner insurance fraud were
13 convicted.
14 GOVERNOR CRIST: Yes, sir. So how much money?
15 MR. WILLIAMS: I don't have a hard answer on
16 that.
17 CFO SINK: Governor, I don't know, but I can
18 get it for you.
19 MR. WILLIAMS: Division of Insurance Fraud
20 would be the place to get it.
21 CFO SINK: The way to think about it would be
22 that somebody filed a claim that said that -- oh, I
23 don't know -- that their roof needed a repair and it
24 was determined that it was just a fraudulent claim,
25 and it could range from 30,000 to maybe $350,000 if

1 they proved their whole house was damaged. It's in
2 that range. So you can multiply it out that way.
3 But we'll get the numbers for you.
4 GOVERNOR CRIST: I appreciate that, because
5 that matters.
6 CFO SINK: Yes.
7 GOVERNOR CRIST: Okay. It's been moved and
8 seconded. Show it approved without objection. I
9 think you have another item. Is that right?
10 MR. WILLIAMS: Thank you. Yes. We need to
11 move forward to Item 6, request approval of the
12 State Board of Administration's resolution regarding
13 the levy of emergency assessments.
14 ATTORNEY GENERAL McCOLLUM: I move it.
15 CFO SINK: Second.
16 GOVERNOR CRIST: Show it approved without
17 objection. Thank you.
18 MR. WILLIAMS: Thank you. Now I believe we
19 need to also go to the Florida Hurricane Catastrophe
20 Fund Finance Corporation's agenda.
21 GOVERNOR CRIST: Right, correct.
22
23
24
25

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State Board of Administration of Florida

Florida Retirement System

Pension Plan Review
First Quarter 2010

Performance Highlights

- During the first quarter of 2010 and over the trailing one-, five-, and ten-year periods, the Total Fund outperformed the Performance Benchmark.
- The Total Fund return exceeded the median fund in the Trust Universe Comparison Service (TUCS) top ten defined benefit plan universe during the first quarter and over the trailing three- and five-year periods, while matching over the trailing one-year period. The Total Fund return underperformed the median TUCS top ten defined benefit plan universe over the trailing ten-year period. Over the trailing three- and five-year periods, the Total Fund fell within the top quartile of returns reported by the TUCS top ten defined benefit plan universe.

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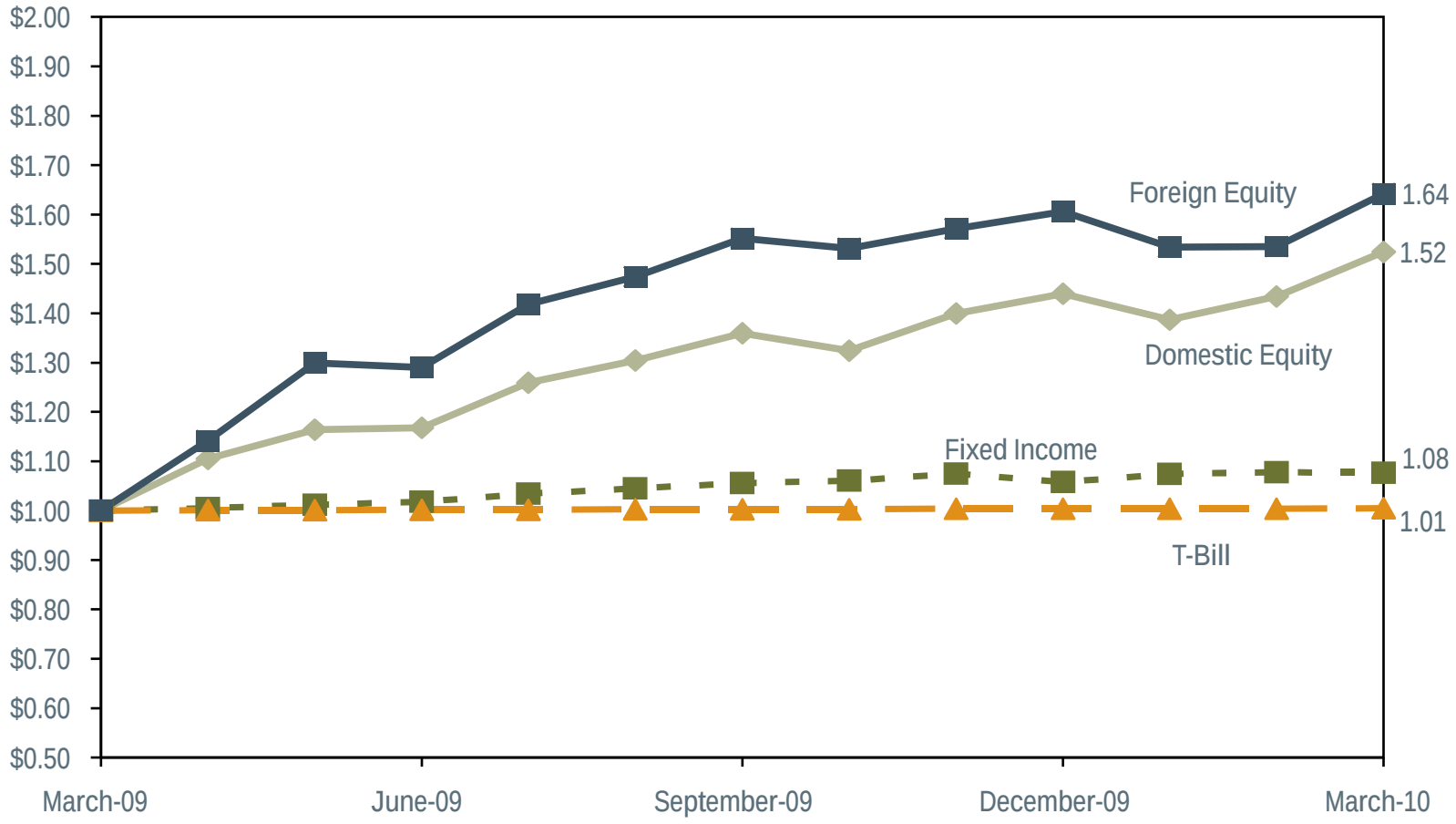
Market Environment Growth of a Dollar
1 Year Ending 3/31/10



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Asset Allocation Commentary

- The Fund assets total $116.7 billion as of March 31, 2010, which represents a $3.2 billion increase since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges at quarter end.
  - The Fund was overweight to the Domestic Equity, Foreign Equity, and High Yield asset classes at quarter end. The Strategic Investments asset class matched its Target. All other asset classes were underweight relative to their Target.

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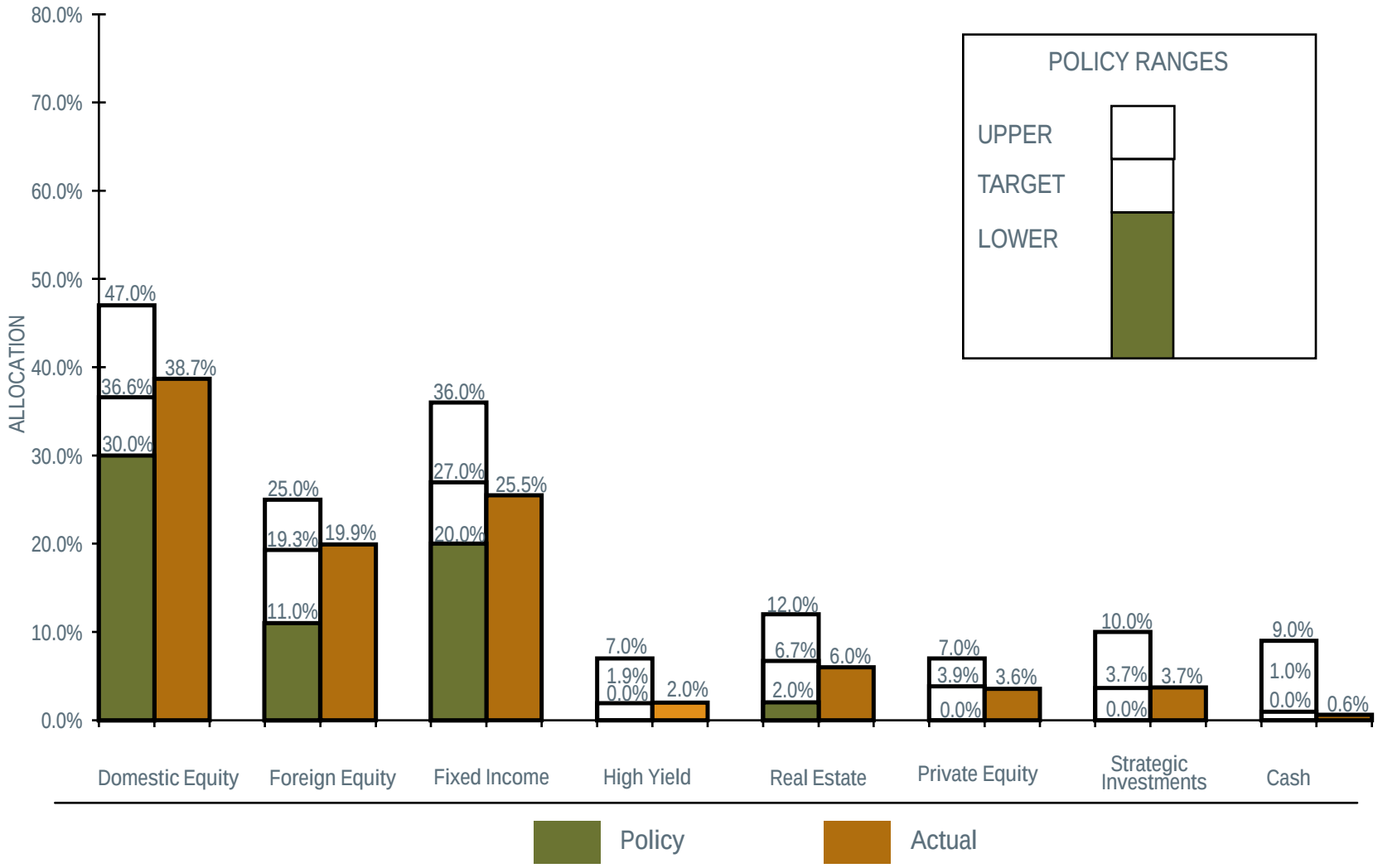
Asset Allocation as of 3/31/10
Total Fund Assets = $116.7 Billion



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Total Fund Performance Commentary

- The Total Fund return outperformed the Performance Benchmark during the first quarter and the trailing one-, five-, and ten-year periods.
  - Private Equity, Tactical Asset Allocation, and Foreign Equity detracted the most from performance over the trailing one-year period while the Fixed Income and Strategic Investments components added the most value.
  - Over the trailing five-year period, Real Estate continues to be the primary contributor to relative performance. Underperformance by the Private Equity and Fixed Income components detracted the most from positive performance.
- The Fund outperformed the Absolute Nominal Target Rate of Return during the first quarter and trailing one-, fifteen-, and twenty-year periods. However, the Fund underperformed the return of its Absolute Nominal Target Rate of Return over the trailing three-, five-, and ten-year periods.

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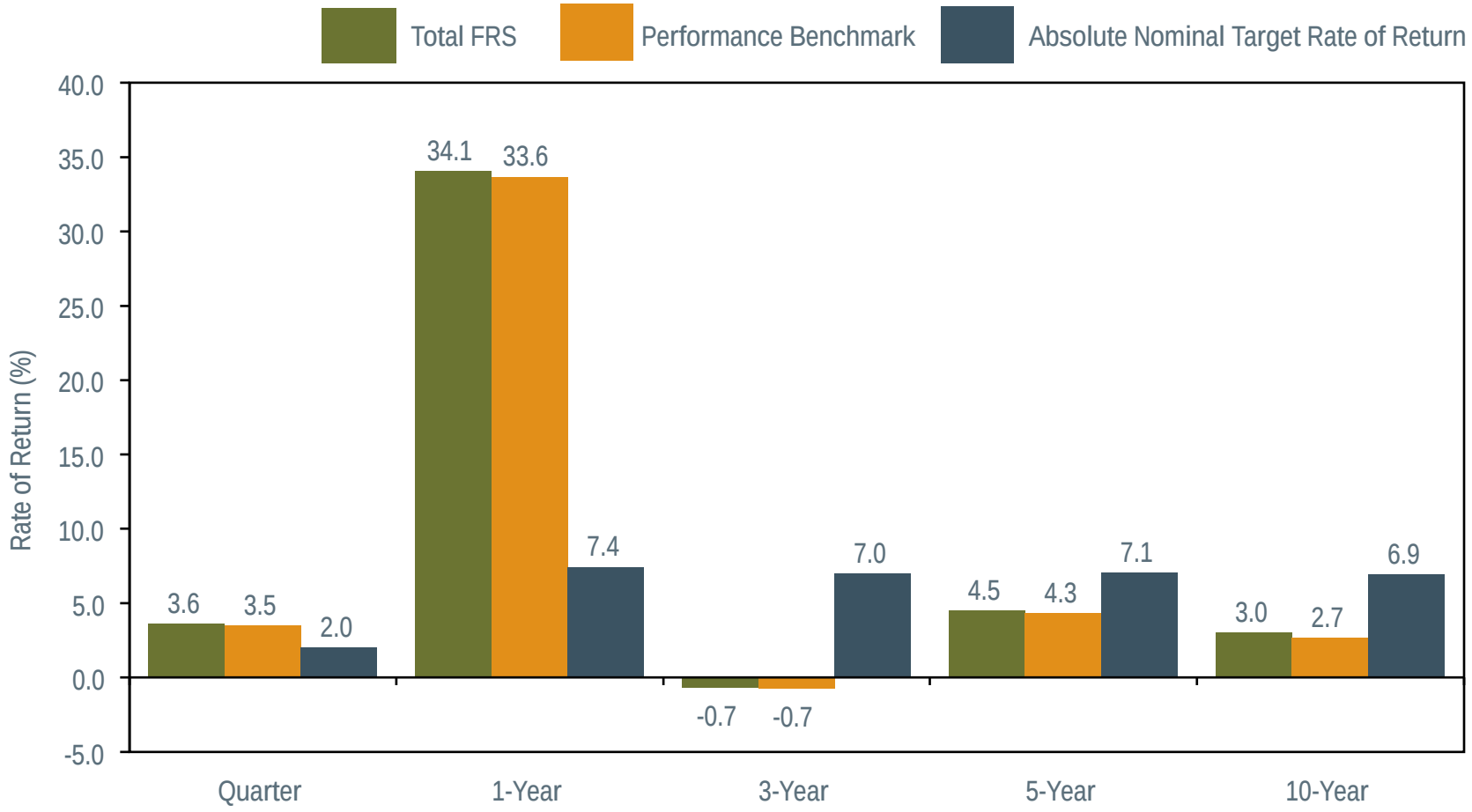
FRS Investment Results
Periods Ending 3/31/10



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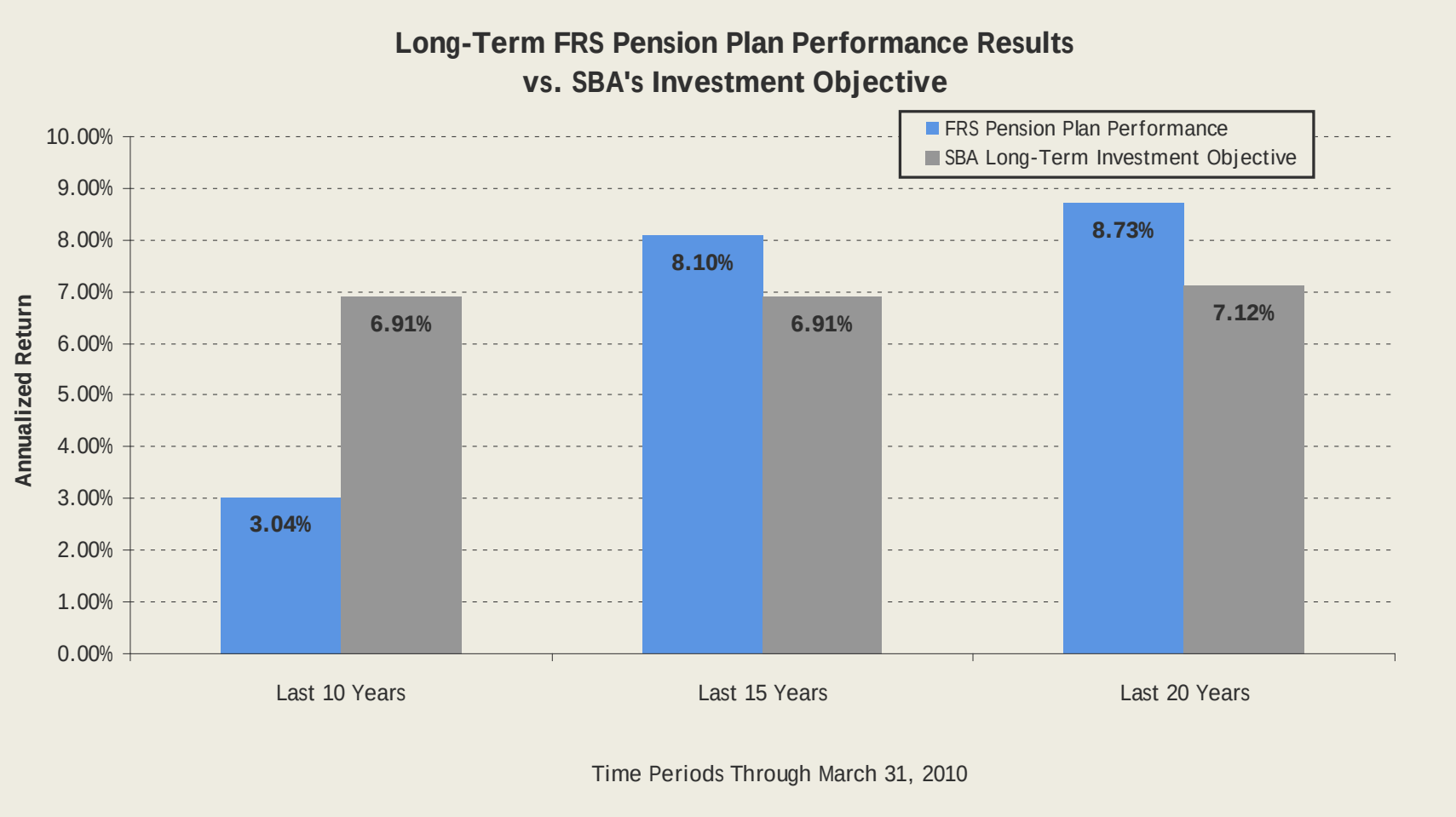
FRS Investment Results
Periods Ending 3/31/10



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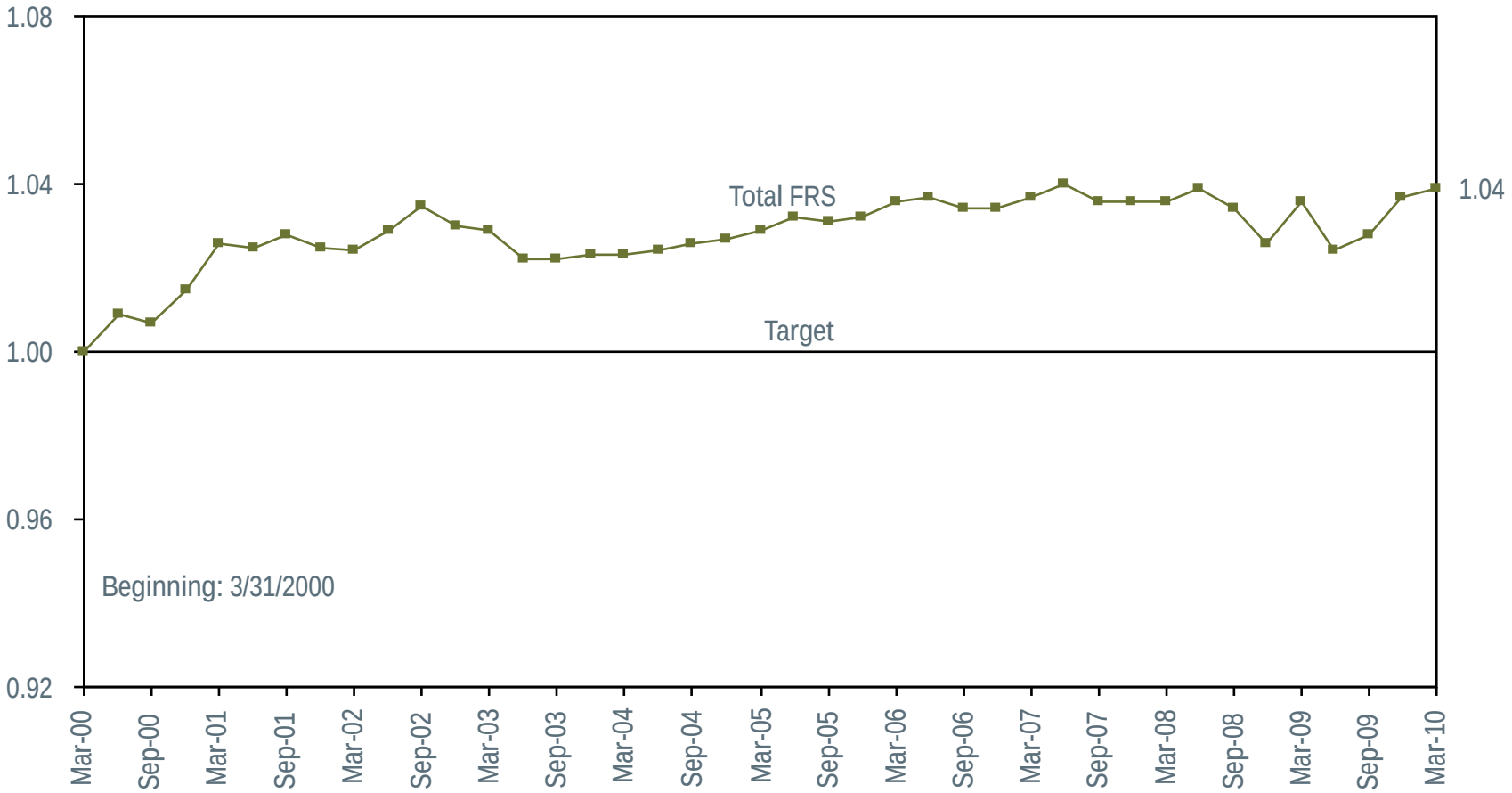
Total FRS Cumulative Relative Performance
10 Years Ending 3/31/10



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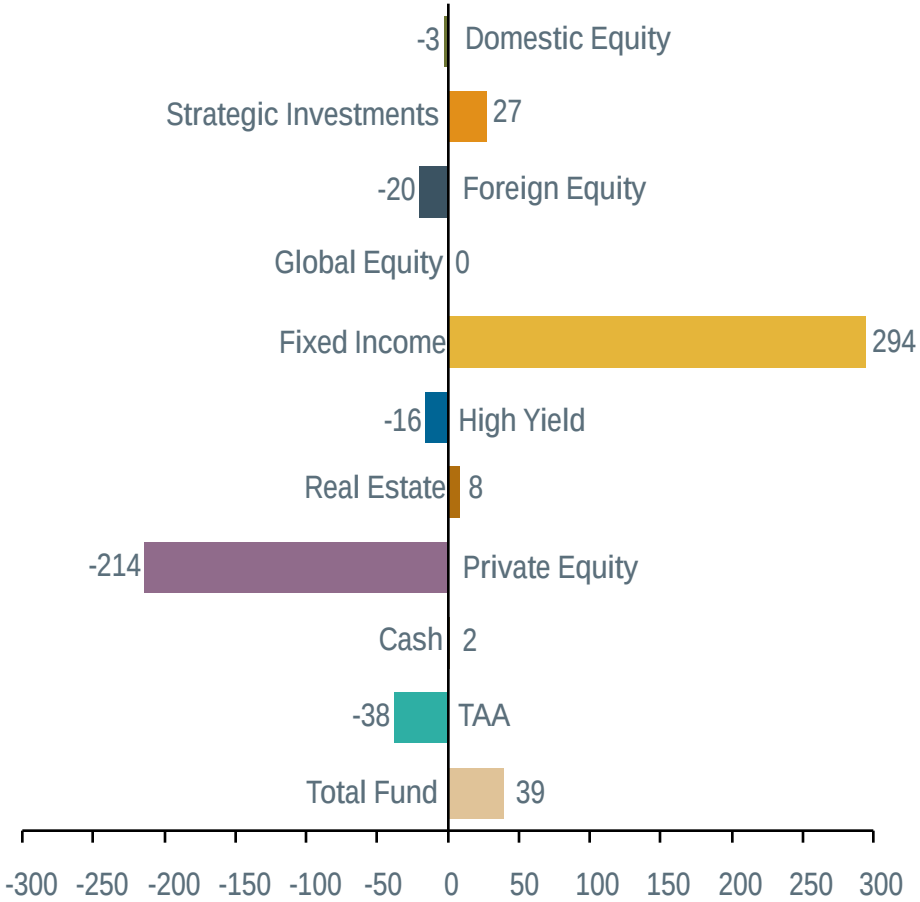
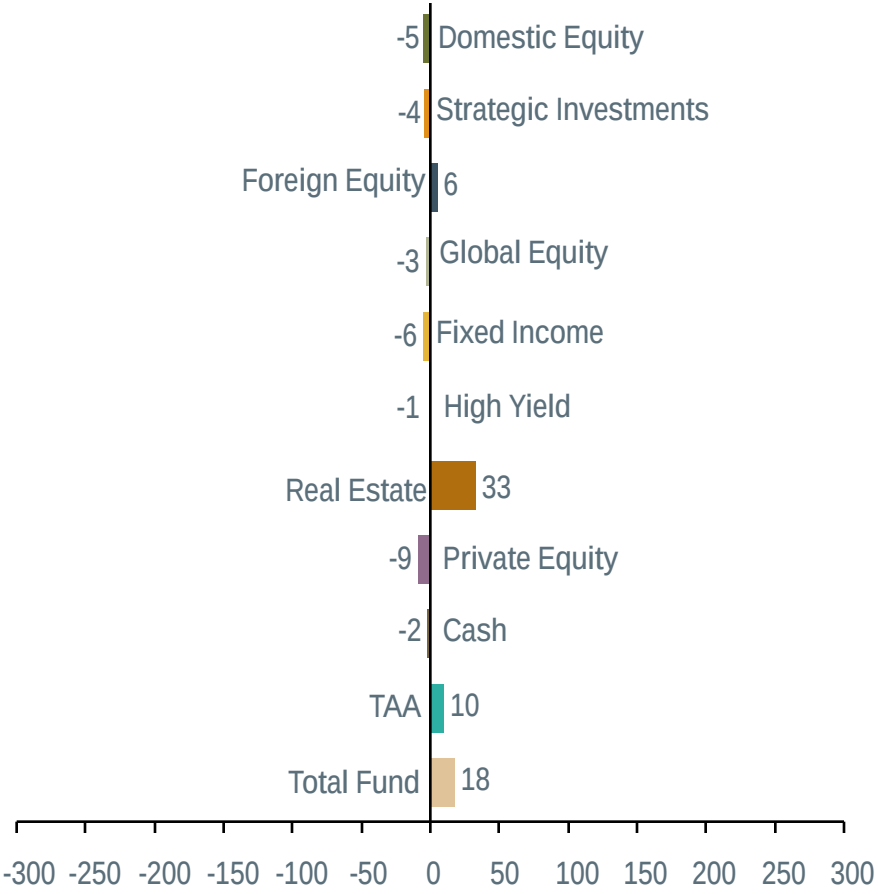
Total FRS Attribution Analysis



1-Year Ending 3/31/10



5-Year Ending 3/31/10

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Peer Comparison Commentary

- The Total Fund return exceeded the median fund in the Trust Universe Comparison Service (TUCS) top ten defined benefit plan universe during the first quarter and over the trailing three- and five-year periods while matching over the trailing one-year period. The Total Fund return underperformed the median TUCS top ten defined benefit plan universe over the trailing ten-year period. Over the trailing three- and five-year periods, the Total Fund fell within the top quartile of returns reported by the TUCS top ten defined benefit plan universe.
- FRS returns relative to the TUCS universe are largely driven by asset allocation differences.
  - While peer comparisons can be informative, asset allocation differences may cause the comparison to be misleading due to certain liability considerations and statutory restrictions.
- TUCS Top Ten Defined Benefit Plan Universe Data
  - $990 billion in total assets.
  - Median fund size is $96.6 billion.
  - Average fund size is $99.0 billion.

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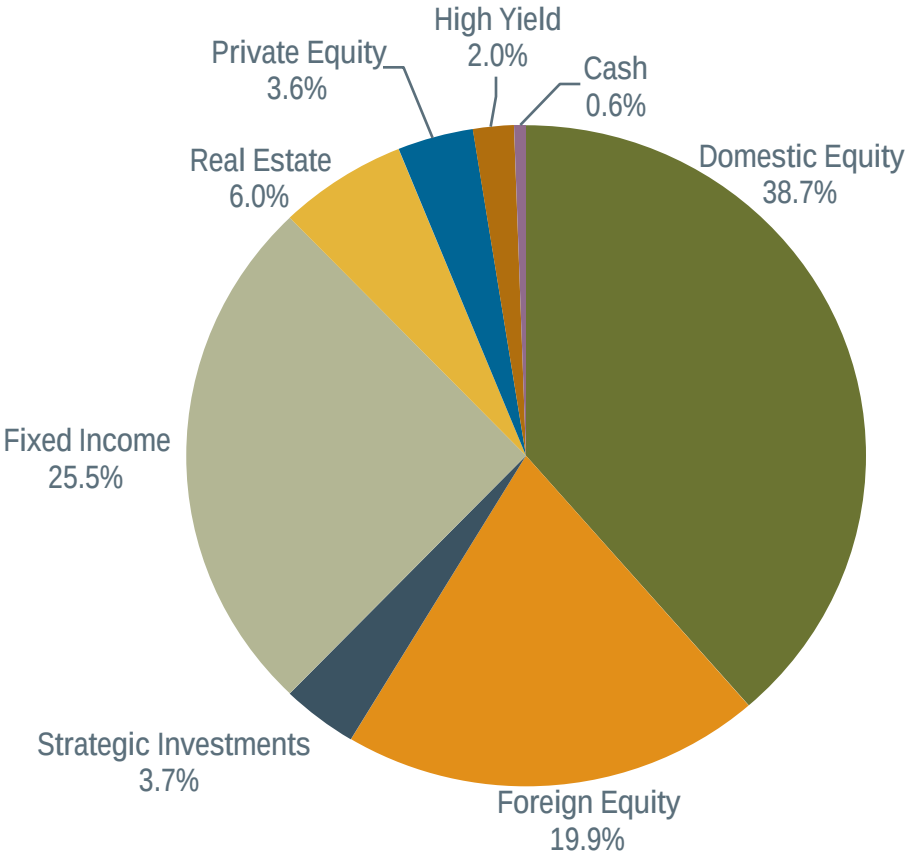
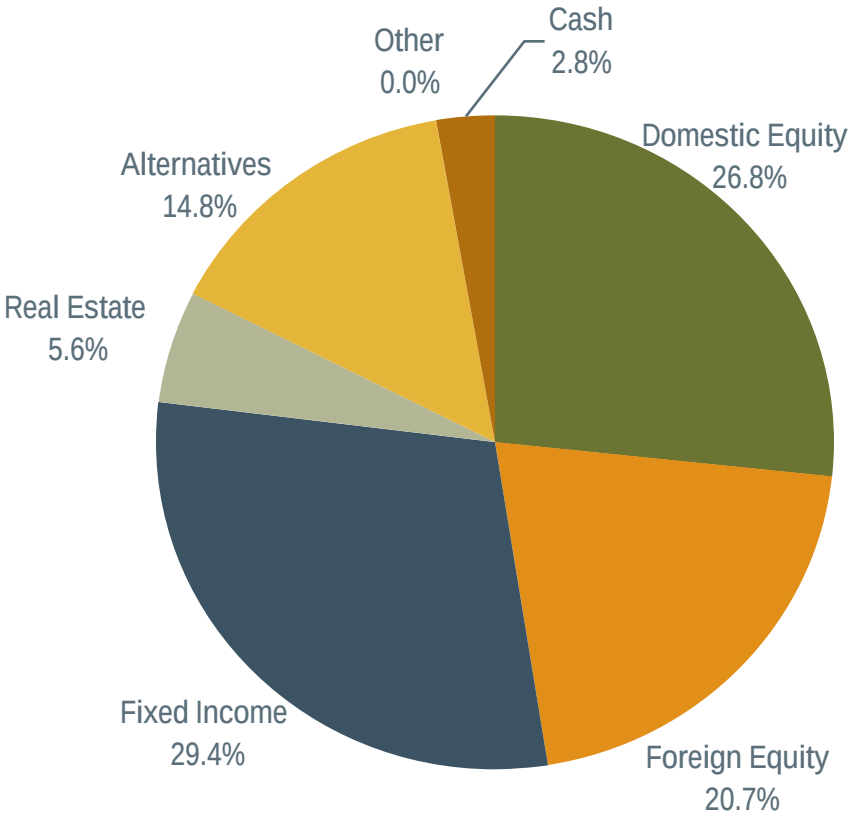
Comparison of Asset Allocation As of 3/31/10

FRS Pension Plan vs. Top Ten Defined Benefit Plans

FRS TOTAL FUND



TUCS TOTAL FUND



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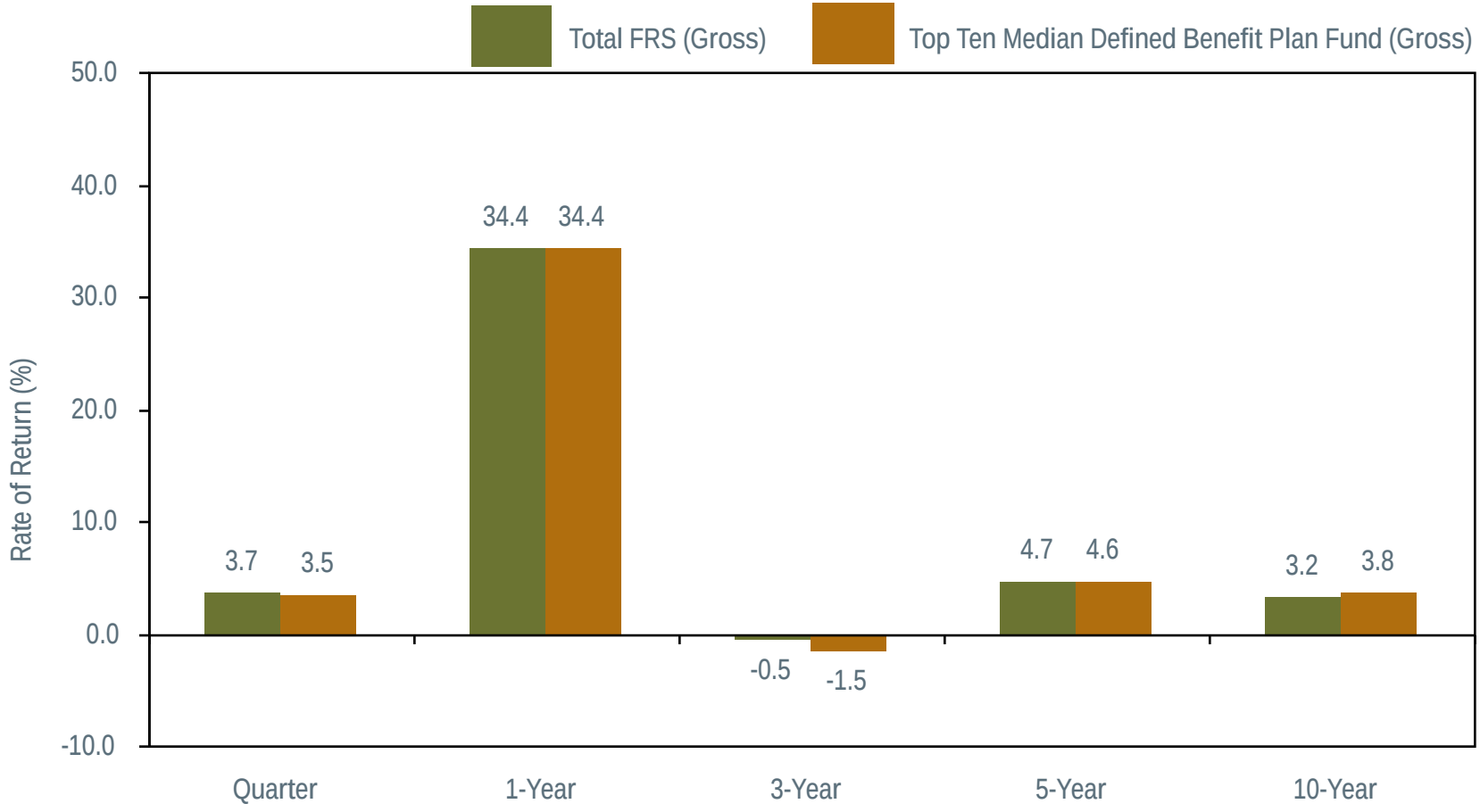
FRS Results Relative to TUCS Top Ten Defined Benefit Plans
Periods Ending 3/31/10



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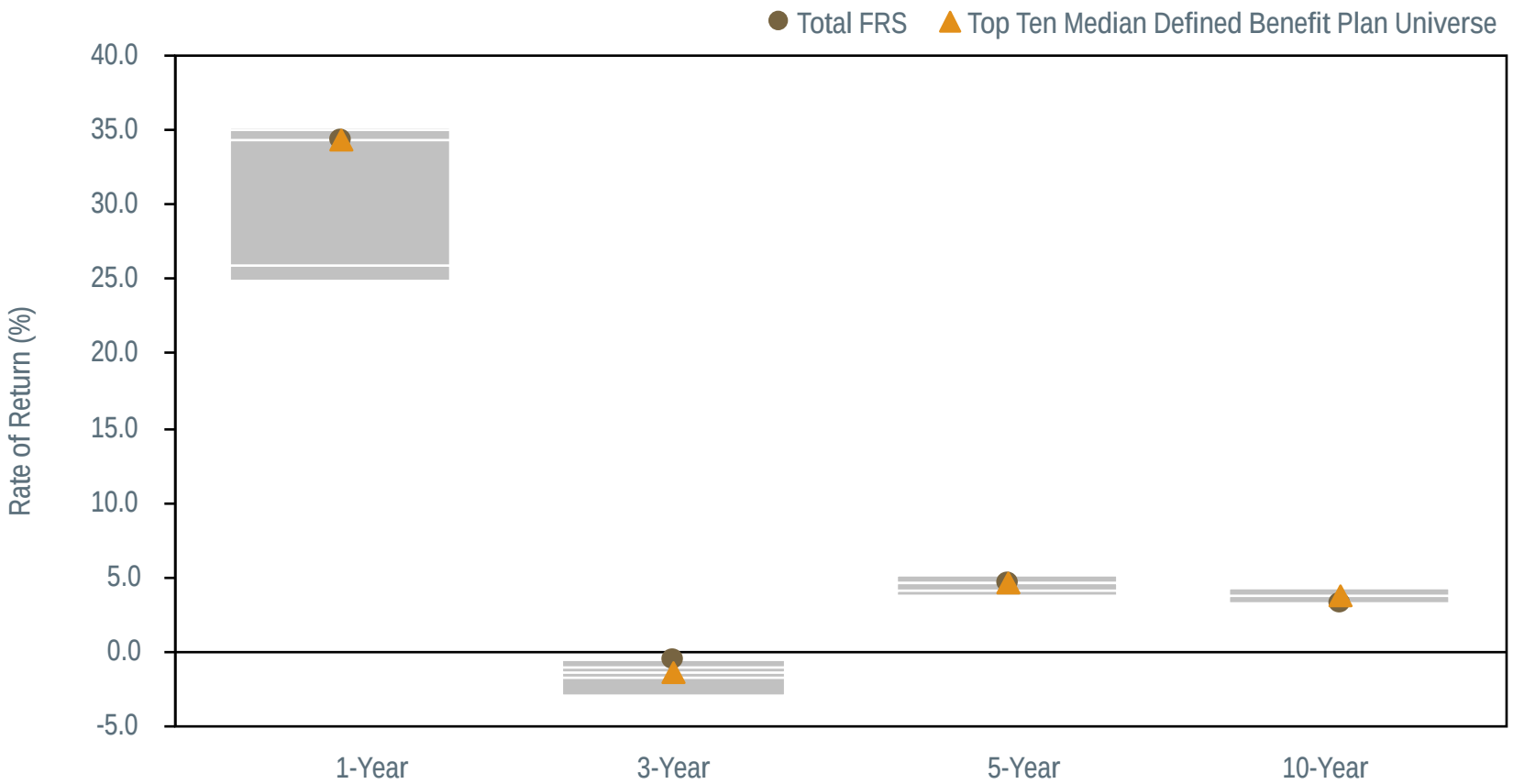
(TUCS)
Periods Ending 3/31/10



	1-Year	3-Year	5-Year	10-Year
FRS Percentile Ranking	50	5	25	99

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State Board of Administration of Florida
Florida Retirement System

Investment Plan Review

First Quarter 2010

Total Investment Plan Returns

Periods Ending 3/31/2010

	One-Year	Three-Year	Five-Year
FRS Investment Plan	28.2%	-0.3%	4.3%
*Average DC Plan**	39.3	-0.6	3.6
FRS Investment Plan vs. Average DC Plan	*-11.1*	*0.3*	*0.8*
Total Plan Aggregate Benchmark	27.0	-1.3	3.7
FRS Investment Plan vs. Total Plan Aggregate Benchmark	*1.2*	*1.0*	*0.6*

*Calculated *return estimates* based on average plan allocations data from PSCA (2008 Survey) and the median fund net of fee return data from Morningstar as of 3/31/2010.

**Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.

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Investment Plan Costs

FRS Investment Plan Expense Ratio*	0.24%
Peer Corporate DC Plan Expense Ratio*	0.30%

DB Plan Investment Management Fees**	
Corporate	0.44%
Public Funds	0.39%

*Source: CEM Benchmarking 2008 Report – Custom Peer Group for FSBA of 20 DC plans with assets between $2.1 - $7.1 billion.
**Source: Greenwich Associates – 2008 Survey.

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Investment Plan Costs (cont.)

Investment Category	Investment Plan Option Fee*	Average Mutual Fund Fee**
Large-Cap Equity Fund	0.28%	0.89%
Mid-Cap Equity Fund	0.57%	0.98%
Small-Cap Equity Fund	0.89%	1.08%
International Equity Fund	0.38%	1.17%
Diversified Bond Fund	0.29%	0.67%
Balanced Fund	0.07%	0.96%
Money Market	0.06%	0.45%
Lifecycle Funds	n/a	0.87%

*Average Fee if Multiple Products in Category as of 3/31/2010.

**Source: Morningstar and EnnisKnupp as of 12/31/2009.

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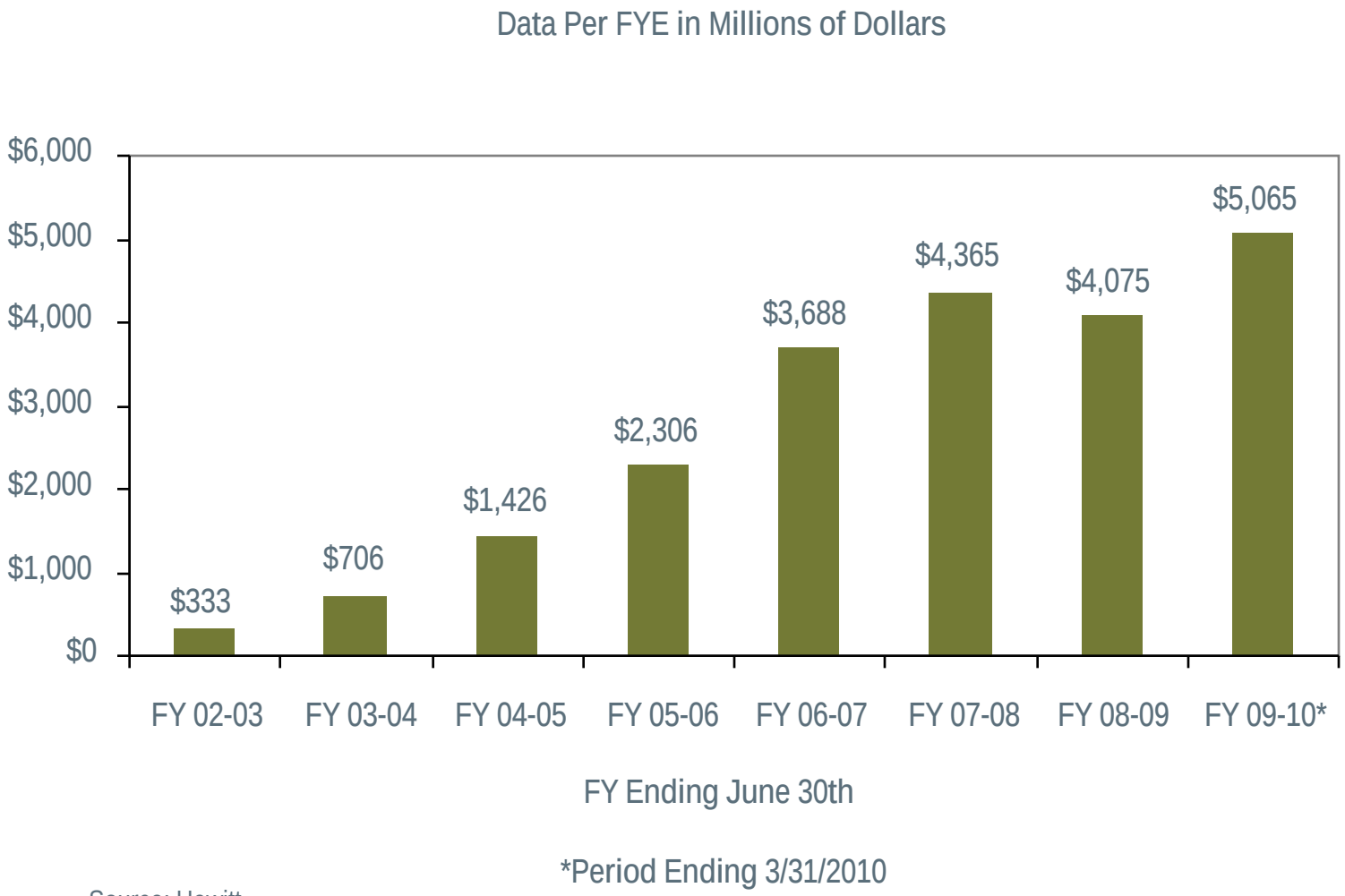
Investment Plan Fiscal Year End Assets Under Management



Source: Hewitt

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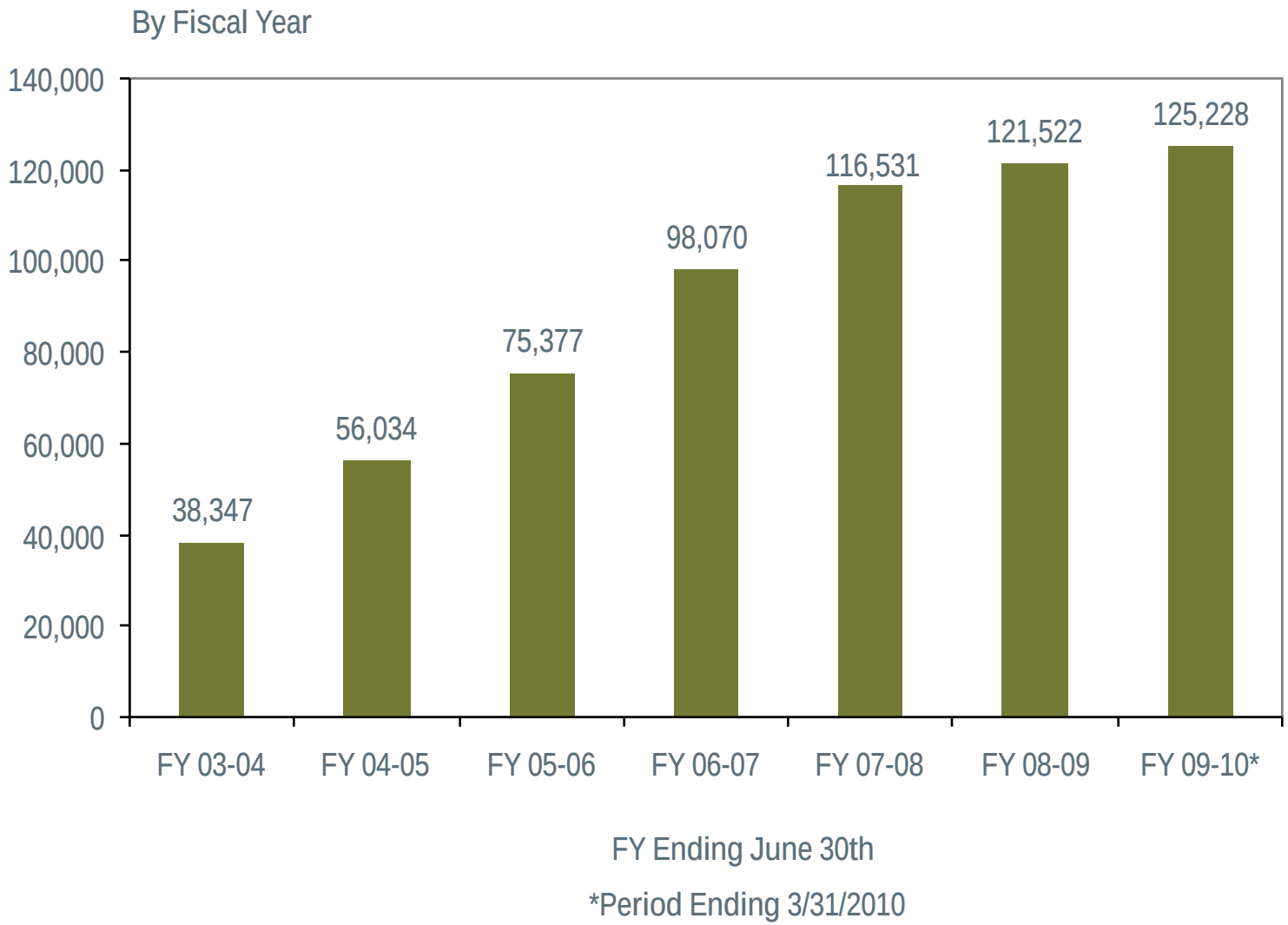
Investment Plan Membership



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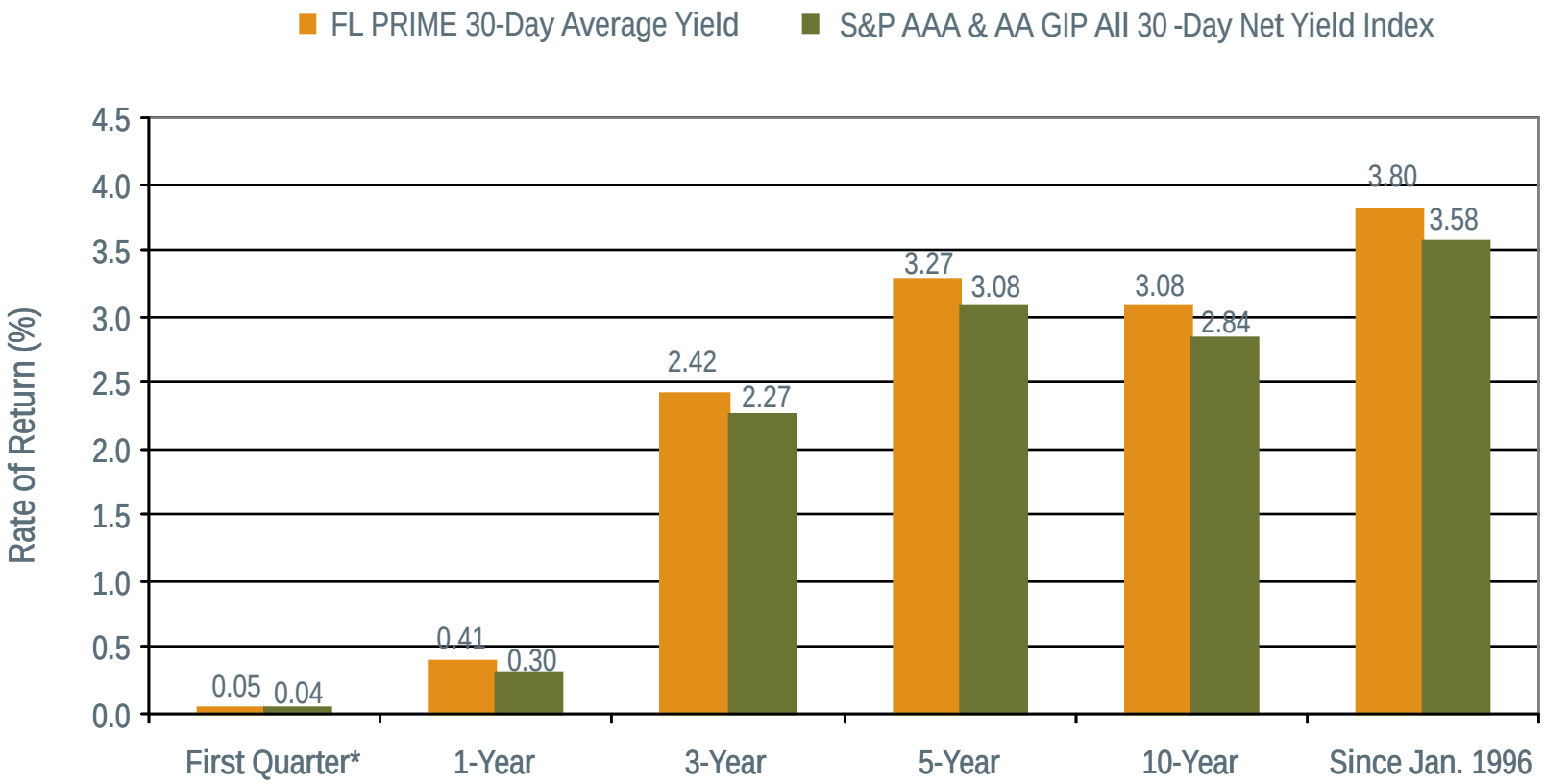
State Board of Administration of Florida

Florida PRIME and Fund B

First Quarter 2010

Florida PRIME Investment Results
Periods Ending 3/31/2010



*Returns less than one year are not annualized.

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Florida PRIME Characteristics
Quarter Ending 3/31/2010

Cash Flows as of 3/31/2010	Florida PRIME
Opening Balance (1/1/2010)	$6,537,858,013
Participant Deposits	$2,235,374,519
Transfers from Fund B	$49,475,000
Gross Earnings	$3,276,617
Participant Withdrawals	($3,031,395,016)
Fees	($391,217)
Closing Balance (3/31/2010)	$5,794,197,917
Change Over Quarter	**($743,660,096)**

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Florida PRIME Characteristics
Period Ending 3/31/2010

Effective Maturity Schedule	Effective
1-7 days	36.4%
8-30 days	23.5
31-90 days	28.1
91-180 days	6.0
181+ days	6.0
Total % of Portfolio:	100.0%

S & P Credit Quality Composition	
A-1+	63.6%
A-1	36.4
Total % of Portfolio:	100.0%

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Fund B Distributions to Participants
Period Ending 3/31/2010

Fund B Distributions to Participants

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
12/5/07	$	$	$ 2,009,451,941	0.0%
1/18/08	$ 50,000,000	$ 50,000,000	$ 1,959,451,941	2.5%
2/11/08	$ 518,000,000	$ 568,000,000	$ 1,441,451,941	28.3%
3/18/08	$ 210,550,000	$ 778,550,000	$ 1,230,901,941	38.7%
4/21/08	$ 106,000,000	$ 884,550,000	$ 1,124,901,941	44.0%
6/19/08	$ 291,500,000	$ 1,176,050,000	$ 833,401,941	58.5%
6/26/08	$ 150,500,000	$ 1,326,550,000	$ 682,901,941	66.0%
7/7/08	$ 34,700,000	$ 1,361,250,000	$ 648,201,941	67.7%
8/6/08	$ 10,400,000	$ 1,371,650,000	$ 637,801,941	68.3%
9/5/08	$ 9,300,000	$ 1,380,950,000	$ 628,501,941	68.7%
10/7/08	$ 11,750,000	$ 1,392,700,000	$ 616,751,941	69.3%
11/7/08	$ 8,700,000	$ 1,401,400,000	$ 608,051,941	69.7%
12/4/08	$ 20,500,000	$ 1,421,900,000	$ 587,551,941	70.8%
1/9/09	$ 7,900,000	$ 1,429,800,000	$ 579,651,941	71.2%
2/9/09	$ 6,800,000	$ 1,436,600,000	$ 572,851,941	71.5%
3/9/09	$ 5,800,000	$ 1,442,400,000	$ 567,051,941	71.8%
4/9/09	$ 6,600,000	$ 1,449,000,000	$ 560,451,941	72.1%
5/8/09	$ 8,200,000	$ 1,457,200,000	$ 552,251,941	72.5%
6/8/09	$ 7,500,000	$ 1,464,700,000	$ 544,751,941	72.9%
7/9/09	$ 7,100,000	$ 1,471,800,000	$ 537,651,941	73.2%
8/7/09	$ 8,150,000	$ 1,479,950,000	$ 529,501,941	73.6%
9/4/09	$ 10,000,000	$ 1,489,950,000	$ 519,501,941	74.1%
10/7/09	$ 8,050,000	$ 1,498,000,000	$ 511,451,941	74.5%
11/6/09	$ 6,750,000	$ 1,504,750,000	$ 504,701,941	74.9%
12/8/09	$ 6,250,000	$ 1,511,000,000	$ 498,451,941	75.2%
1/8/10	$ 34,800,000	$ 1,545,800,000	$ 463,651,941	76.9%
2/8/10	$ 8,575,000	$ 1,554,375,000	$ 455,076,941	77.4%
3/8/10	$ 6,100,000	$ 1,560,475,000	$ 448,976,941	77.7%

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State Board of Administration of Florida
CAT Fund

First Quarter 2010

Florida Hurricane Catastrophe Fund Summary

- The purpose of the Florida Hurricane Catastrophe Fund (FHCF) is to provide a stable, ongoing and timely source of reimbursement to insurers for a portion of their hurricane losses.
- The State Board of Administration of Florida (SBA) manages two FHCF accounts, the CAT Fund (Operating Fund) and the CAT 2007 A Fund (Pre-Event Floating Rate Taxable Notes). Both are internal actively managed portfolios benchmarked to a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Gross Index.
- As of March 31, 2010, the total value of both FHCF accounts managed by the SBA was $8.08 billion.

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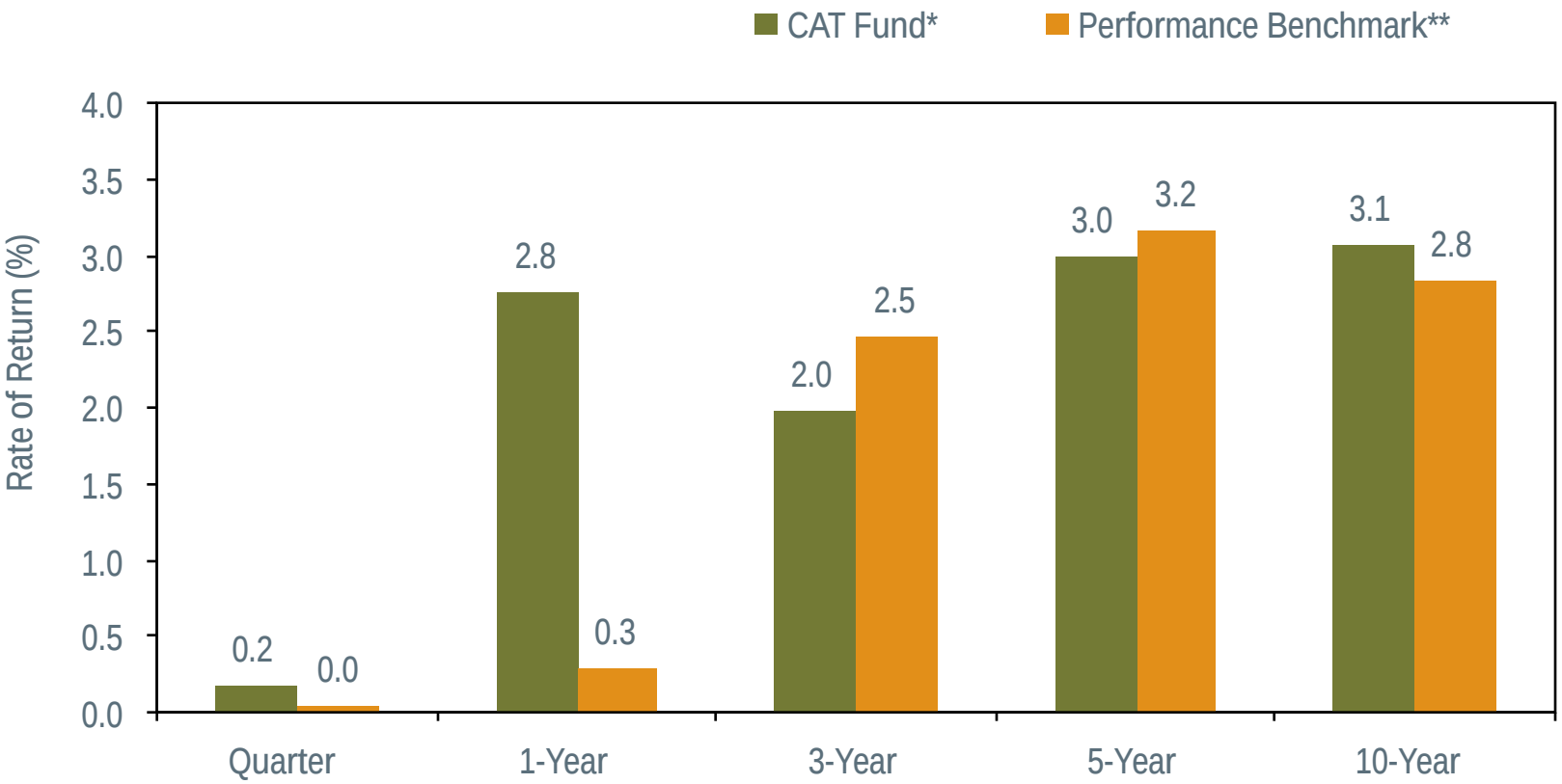
CAT Fund Investment Results
Periods Ending 3/31/2010



*CAT Fund: Beginning March 2008, the returns for the CAT Fund reflect marked-to-market returns. Prior to that time, cost-based returns are used.
**Performance Benchmark: The CAT Fund was benchmarked to the IBC First Tier through February 2008. From March 2008 to December 2009, it was the Merrill Lynch 1-Month Libor. Effective January 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Gross Index.

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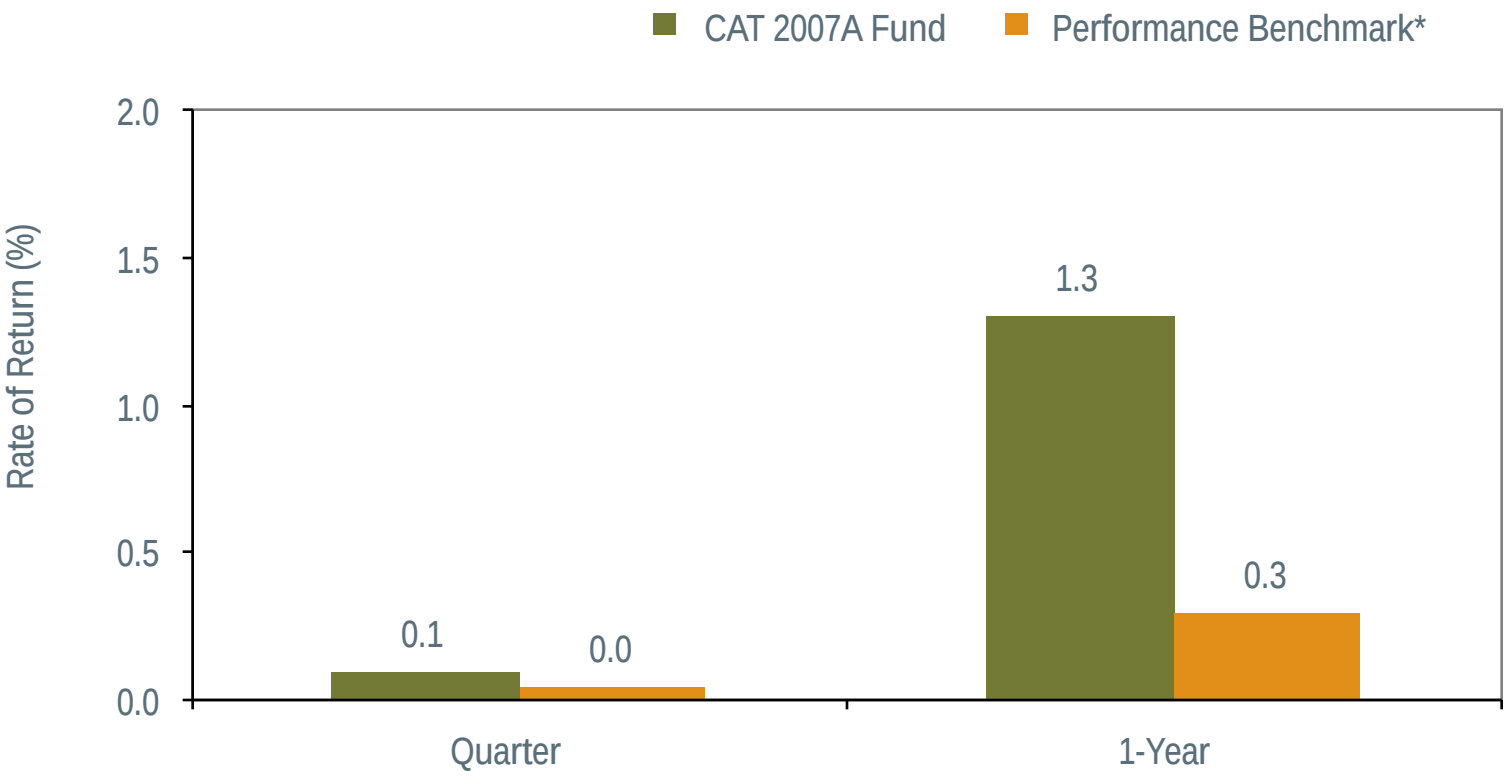
CAT 2007 A Fund Investment Results
Periods Ending 3/31/2010



*Performance Benchmark: The CAT 2007 A Fund was benchmarked to the Merrill Lynch 1-Month Libor. Effective January 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Gross Index.

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Audit Committee

June 8, 2010

SBA FLORIDA

INVESTING FOR FLORIDA'S FUTURE

➡ Audit Committee Report

- Continuing Education
- Ernst & Young to Audit FRS Pension Plan Trust Fund & FRS Investment Plan Trust Fund
- Audit Recommendations
- Appointment of Audit Committee Members

➡ Participant Local Government Advisory Council

- Completed best practices report and statutory compliance review.
- Currently implementing SEC reforms affecting Rule 2a-7, and related changes to Investment Policy.
- Evaluated further enhancements to pool's service model.
- Continued to build Florida PRIME brand and enhance communications.
- Investment performance.

General Counsel

June 8, 2010

SBA FLORIDA

INVESTING FOR FLORIDA'S FUTURE

➡ SBA General Counsel Activities

- Litigation - Master Agreements, Active Cases & Passive Recoveries
- SBA Agreements - New Agreements and Amendments
- Special Projects

Inspector General

June 8, 2010

SBA FLORIDA

INVESTING FOR FLORIDA'S FUTURE

➡ SBA Inspector General Activities

- Investment Protection Principles compliance results for 2009
- Modification of Personal Investment Activity policy
- Planned Fraud Awareness, Prevention and Detection Training
- Additional communications of SBA Fraud Hotline to vendors

Corporate Governance

June 8, 2010

SBA FLORIDA

INVESTING FOR FLORIDA'S FUTURE

➡ SBA Governance Activities

- Regulatory Commentary
  - Proxy Access—final decision by SEC expected soon.
- Proxy Voting Oversight Group
- Proposal Submitted at Hospitality Properties Trust
  - SBA proposal supported by 88.9% of voted shares.
  - Just under 95% supermajority voting threshold to pass.

➡ 2010 Proxy Season Key Voting Issues

Say-on-Pay:

- ✓ First ever disapproval of an advisory vote at a U.S. company.
- ✓ Motorola (5/5), Occidental Petroleum (5/7), and KeyCorp (5/21) pay structures unsupported by majority of shareowners.

Board Elections:

- ✓ Massey Energy (5/18)

Majority Voting:

- ✓ Supported by 76% of votes cast at FirstEnergy (5/18).
- ✓ 64% support for majority voting at Graco (4/23)

SBA Proxy Voting Statistics

Fiscal Year To Date (as of May 24, 2010)	
Votes in Favor of Directors **73.2%**	Total Proxies Voted **2,706**
Votes in Favor of Auditors **96.0%**	Total Ballot Items Voted **21,521**
Votes in Favor of Governance Related Shareowner Proposals **77.0%**	Total Portfolios Voted **63**
Votes with Management **72.0%**	Distinct Voting Categories **306**

Risk Management & Compliance

June 8, 2010

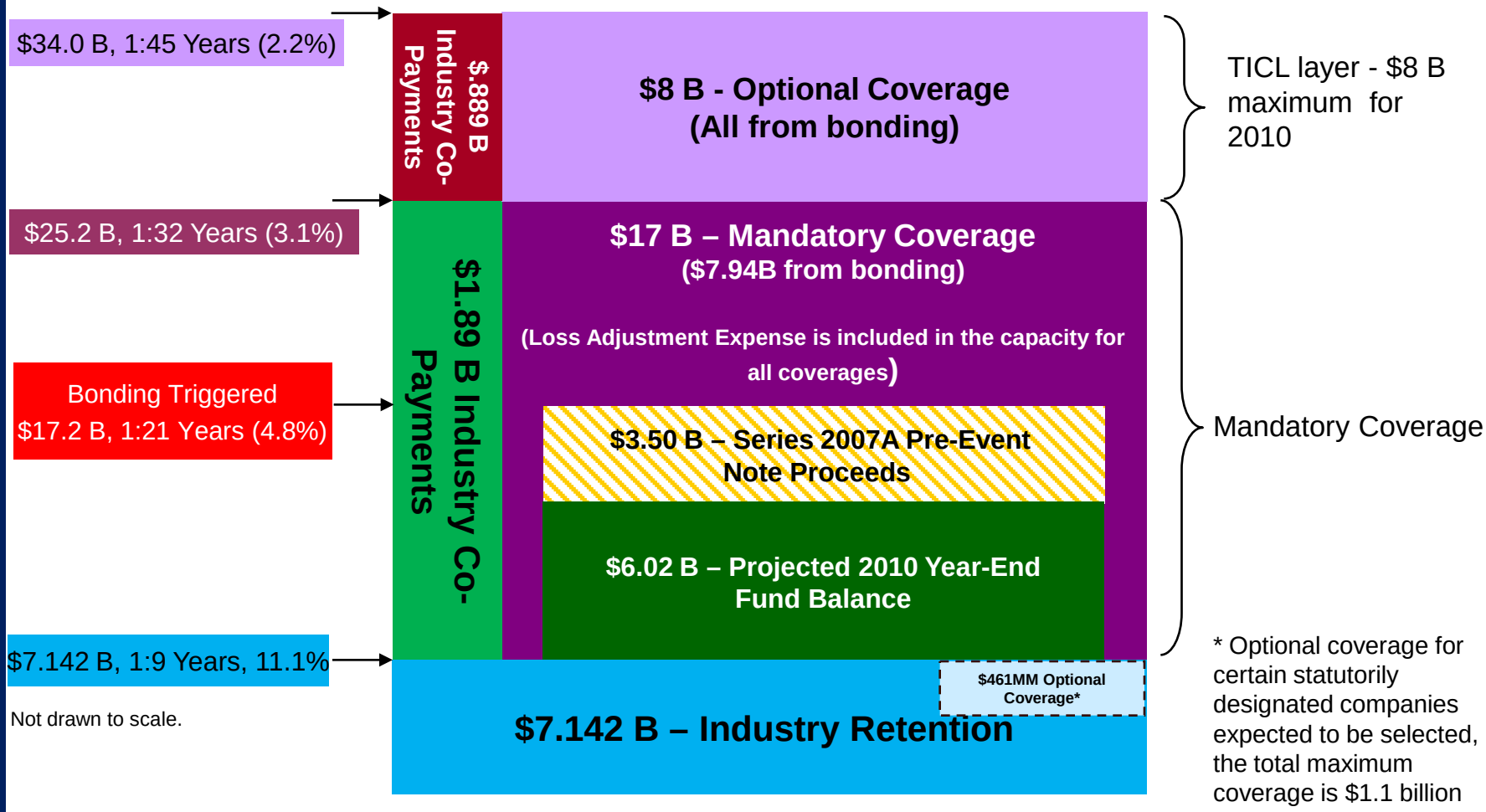
SBA FLORIDA

INVESTING FOR FLORIDA'S FUTURE

➡ Risk Management & Compliance

- Compliance
- External Investment Manager Oversight
- LGIP (Florida PRIME) Risk-Based Compliance Program
- Risk Management
- Training & Development

The FHCF's Potential Obligations for 2010



Total Potential FHCF 2010 Obligations = $17 B (mandatory layer) + $8 B (TICL) + $461 M (optional coverage for certain companies) = $25.461 B

Hamilton Lane

Florida Growth Fund

June 2010

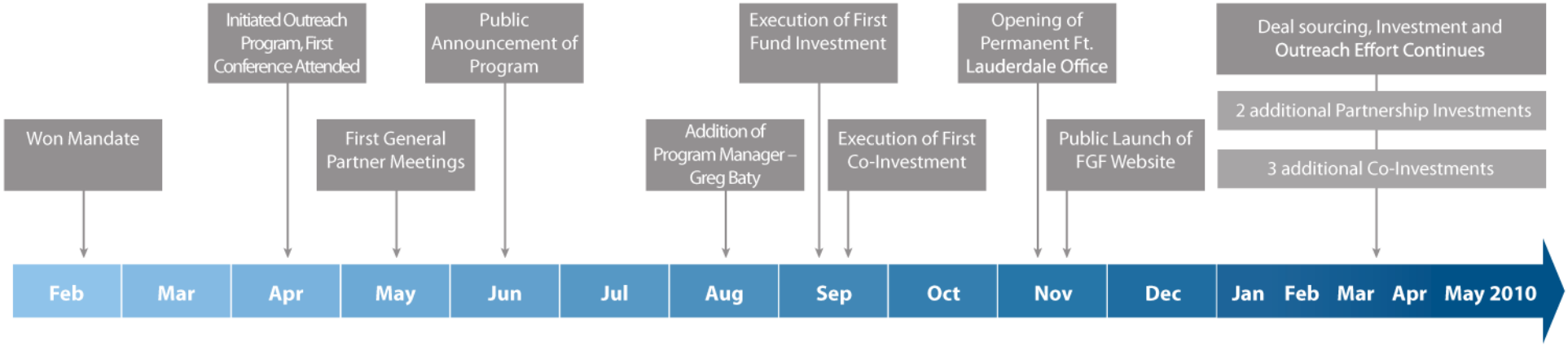
PHILADELPHIA LONDON HONG KONG SAN FRANCISCO SAN DIEGO NEW YORK FORT LAUDERDALE TEL AVIV TOKYO SINGAPORE

Overview of the Florida Growth Fund

Hamilton Lane

The Florida Growth Fund

- Senate Bill 2310
- $250 million of capital, dedicated to investments in technology and growth related businesses with significant presence in the state of Florida
- As part of the Florida Retirement System Pension Plan Trust Fund, the Florida Growth Fund will seek to enhance Florida's capacity for development, growth and innovation
- 4 year investment period
- Hamilton Lane pursues investment opportunities for the Florida Growth Fund through one of two structures:
  - Private equity fund investments
  - Directly into companies through investments with other institutional investors



Overview of the Florida Growth Fund (cont'd)

Hamilton Lane

Direct Investment Opportunities

- The direct investment portion of the Florida Growth Fund will make co-investments into companies alongside private equity partnerships. Hamilton Lane's dedicated direct investment team rigorously reviews each opportunity, focusing on:
  - Companies headquartered in, or conducting a significant portion of its business in Florida
  - Industry and stage agnostic
  - Experienced management teams
  - Attractive growth trends, with a preference toward technology-related businesses
- $3 million to $15 million equity investments
- Willing to participate in follow-on capital investments, but prefer to be aligned with the lead equity sponsor

Fund Partnership Opportunities

- The Fund will seek to make meaningful commitments to top tier private equity partnerships identified through Hamilton Lane's rigorous due diligence process, with specific focus on:
  - Venture Capital, Growth Equity and Small to Mid-Sized Buyouts
  - Funds based in Florida or that have a significant investment presence in Florida
  - Seeking attractive track records, stable and cohesive management teams, strong and coherent investment strategies
  - $5 million to $15 million commitments

Investment Summary

Hamilton Lane

Florida Growth Fund Investment Summary		
	Co-Investments	Partnerships
Number of Investments	4	3
Capital Committed	$23.0 million	$32.5 million
Capital Drawn	$13.0 million	$3.4 million
Remaining Capital for New Investments	$102.0 - $127.0 million	$67.5 - $92.5 million

ACTIVITY REVIEW

Co-Investment Pipeline

Preliminary Screening: 224

Initial Diligence: 125

Final Diligence: 7

Closed: 4

Partnership Pipeline

Screening: 35

Meeting: 22

Site Visit: 6

Closed: 3

Note: This represents all investment activity from FGF inception to date

FGF –CO-INVESTMENTS ($23 MILLION)

(as of December 31, 2009)	Vintage Year	Strategy	Industry	Commitment	Paid in Capital	Distributions	Market Value
Primary Fund - Co Investments							
Voxeo	2009	Late Stage Venture	IT Software / Hardware/Services	$4,500,000	$4,500,000	-	$4,481,067
W Company	2009	Buyout	Business Services	7,000,000	7,052,656	-	7,000,000
T Company	2009	Late Stage Venture	Digital Media / Internet	1,464,000	1,476,500	-	1,464,000
A Company	2009	Buyout	Other	10,000,000	-	-	-
Total Co Investments				**$22,964,000**	**$13,029,156**	**-**	**$12,945,067**

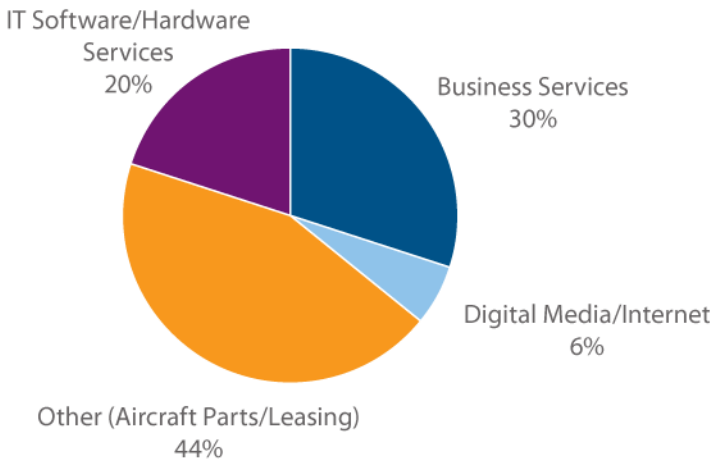
FGF –PARTNERSHIP INVESTMENTS ($32.5 MILLION)

(as of December 31, 2009)	Vintage Year	Strategy	Industry	Commitment	Paid in Capital	Distributions	Market Value
Primary Fund - Partnership Investments							
Ballast Point Ventures II	2009	Late Stage Venture	Healthcare IT / Services	$15,000,000	$3,375,000	-	$2,825,866
Arsenal Ventures II	2010	Early Stage Venture	IT Software / Hardware/Services	7,500,000	-	-	-
Palm Beach Capital III	2010	Buyout	Business Services	10,000,000	-	-	-
Total Partnership Investments				**$32,500,000**	**$3,375,000**	**-**	**$2,825,866**

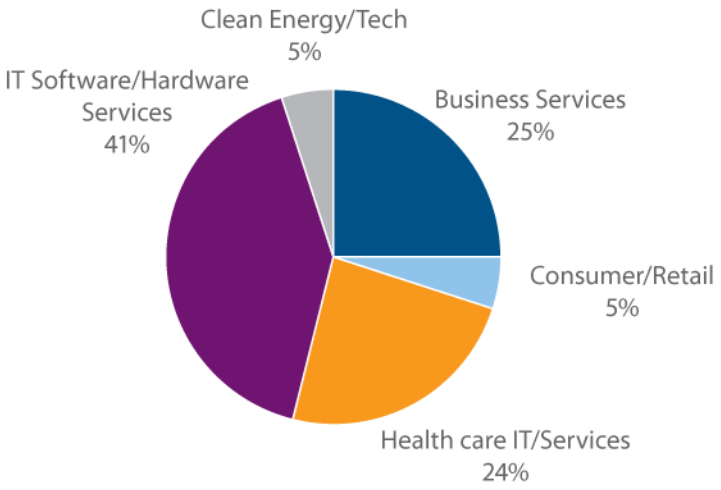
Portfolio Diversification

Hamilton Lane

Co-Investments
Based on Commited Capital



Partnerships
Based on Commited Capital



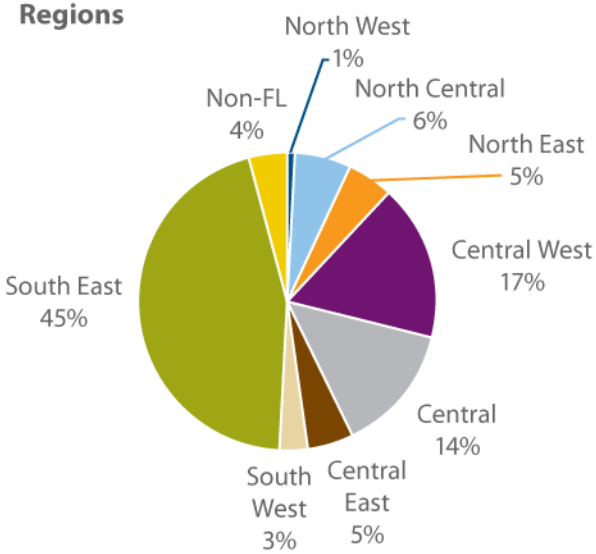
Geographic Location
Co-Investments & Partnerships

Screening Profile and Outreach

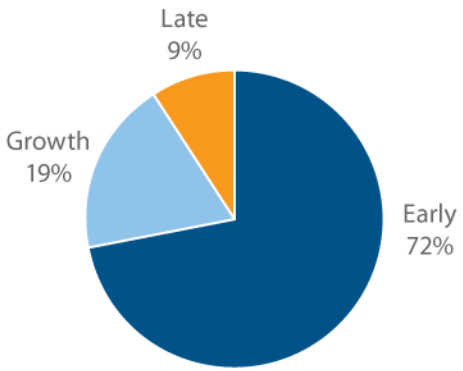
Hamilton Lane

Investment Screening Profile

Regions

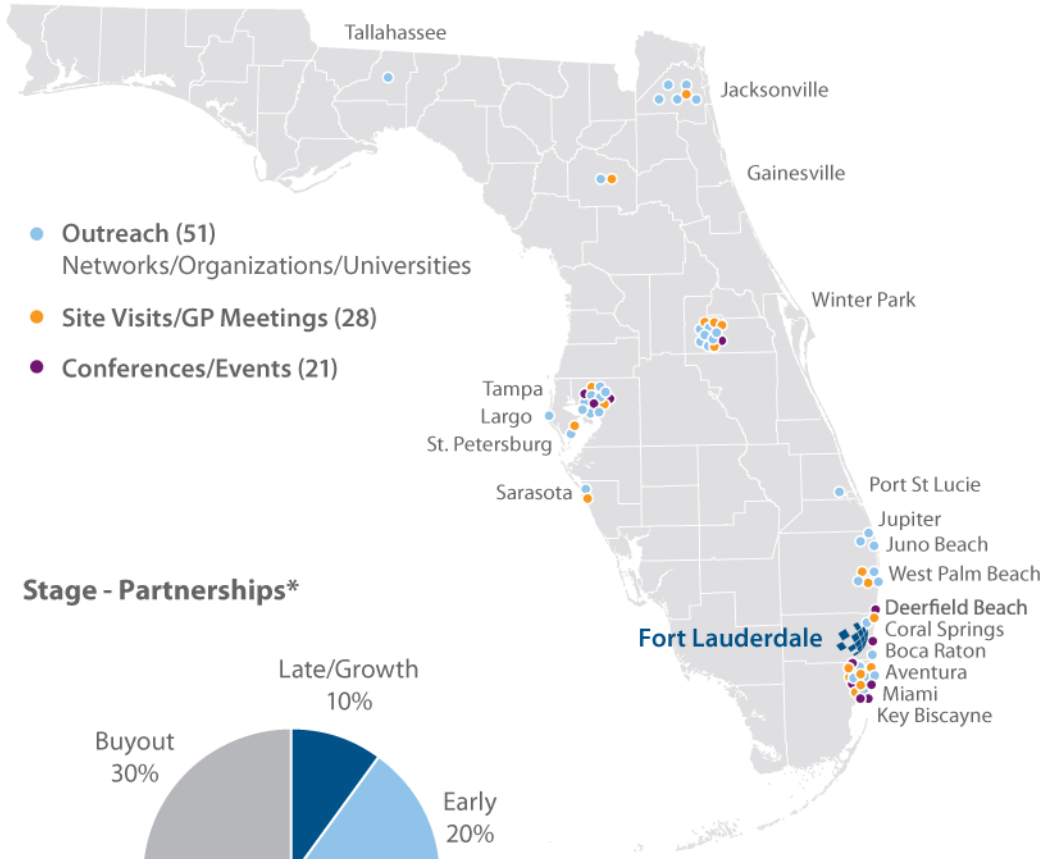


Stage - Co-Investments



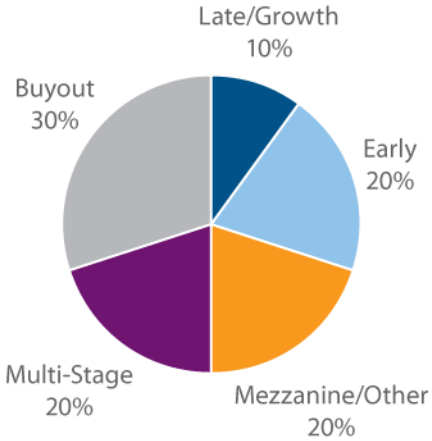
* Based on number of opportunities reviewed/screened

Outreach



- **Outreach (51)** Networks/Organizations/Universities
- **Site Visits/GP Meetings (28)**
- **Conferences/Events (21)**

Stage - Partnerships*



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State Board of Administration of Florida

Asset/Liability and Asset Allocation Update and Investment Policy Review

June 2010

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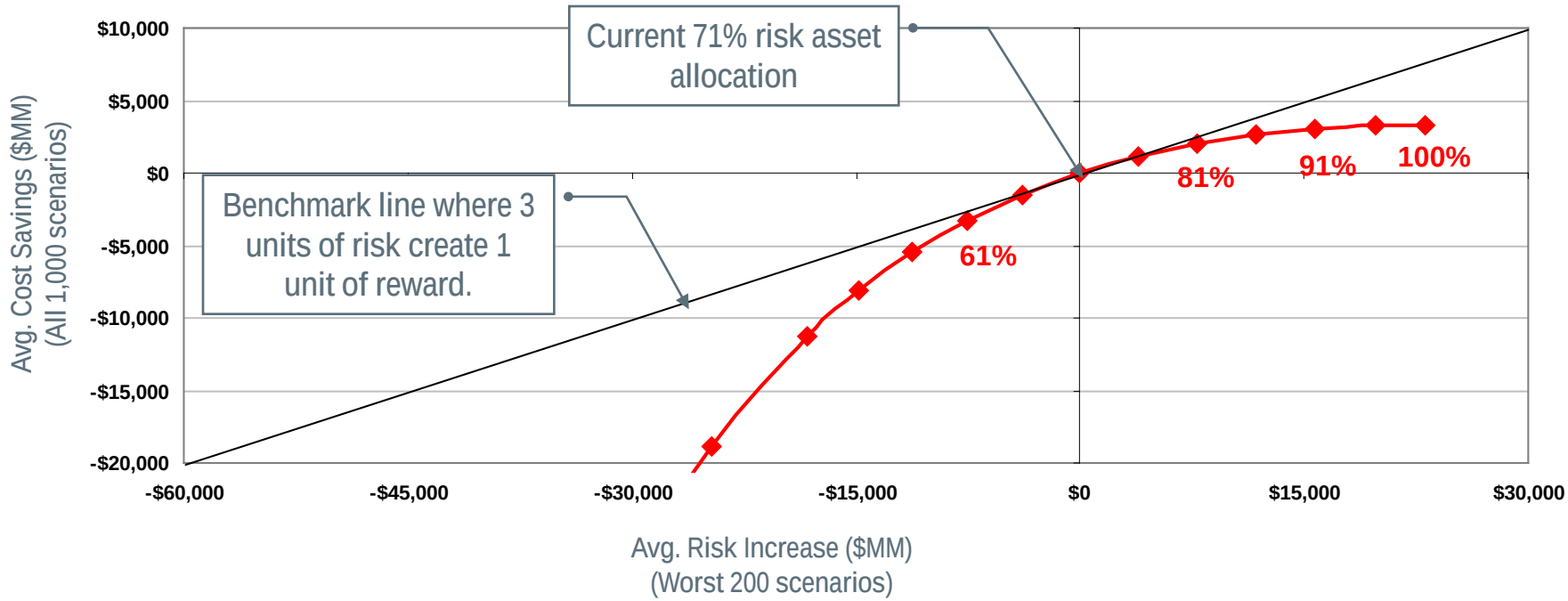
2010 Risk-Reward Analysis: Based On Long-Term Economic Cost



Asset/Liability Study Phase 1: How much overall portfolio risk?

<u>Conclusion</u>: The current policy is in the middle of the risk-reward optimal range, supporting maintenance of the current level of risk.

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Changes From Recent Legislative Session

- Legislative changes made:
  - For the fiscal year beginning July 1, 2010, only the Normal Cost will be funded (i.e. no amortization payment toward the Unfunded Actuarial Liability). Funding for subsequent years will revert back to the standard contribution setting process.
  - The Deferred Retirement Option Program (DROP) interest rate is dropped to 3% for new DROP entrants after June 30, 2010.
- When we re-ran the analysis, the revised risk-reward curve was virtually indistinguishable from the Phase 1 results, so the conclusion remains that the current overall portfolio risk level is in the optimal range.

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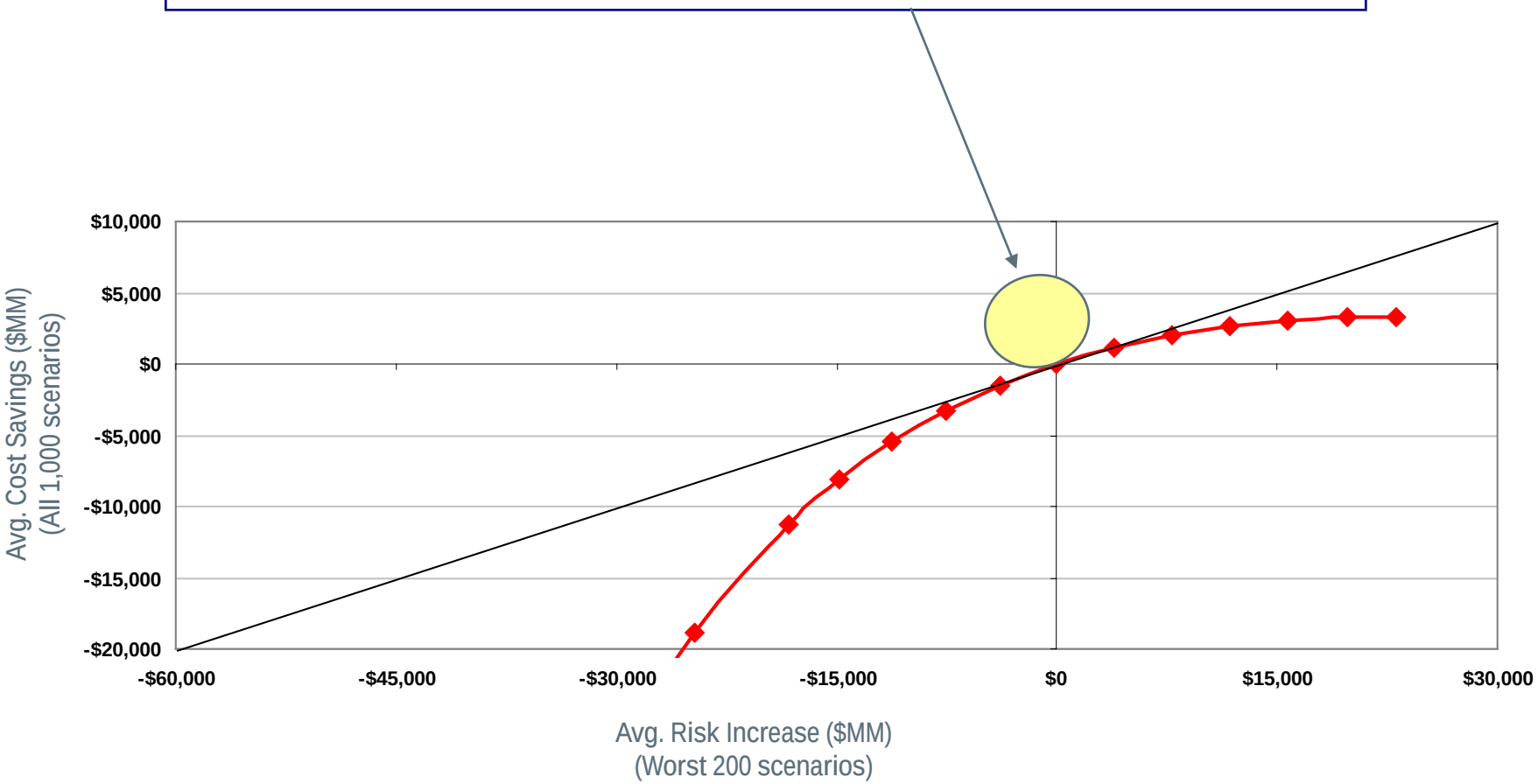
Investment Policy Phase 2: Diversification

Phase 2: Can we improve results with better diversification—finding solutions in the shaded space below?



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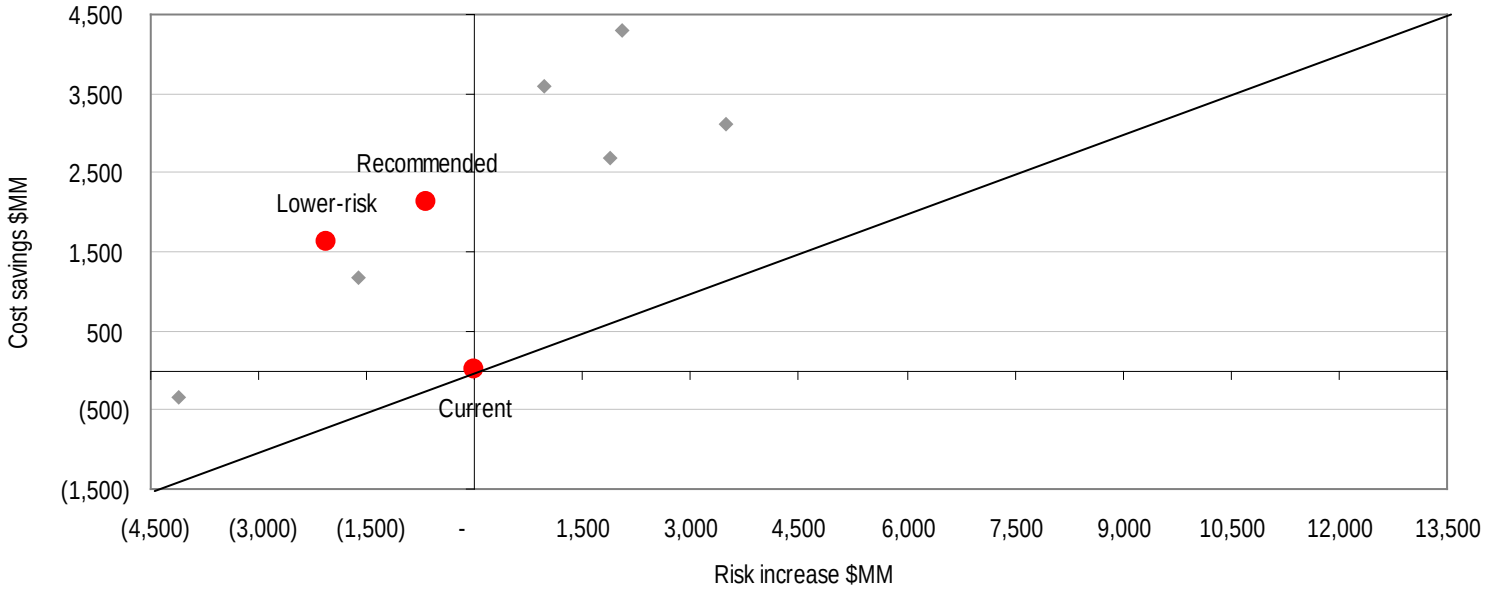
Final Recommendation

Diversification changes can improve the results.

The Recommended policy, which will be presented, offers long-term cost savings of $2.1 billion, with a modest reduction in risk (as defined by expected long-term cost if future outcomes are unfavorable). A Lower-Risk alternative offers savings of $1.6 billion, with a more substantial reduction in risk.

The gray dots in the chart below represent alternative scenarios considered during the evaluation.



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Process

- In conjunction with staff, EnnisKnupp:
  - Developed return and risk assumptions for a wide variety of traditional and opportunistic asset categories
  - Reviewed a broad set of alternative asset allocation policies
  - Developed a **Recommended policy** with volatility of year-to-year returns similar to that of the current policy, but with increased expected returns, and corresponding lower expected long-term cost, reflecting broader and more opportunistic diversification
  - Developed a **Near-Term policy** to allow for transition toward the Recommended portfolio as legislative authority for increased allocations to alternative investments is sought
    - The total allocation to private equity, venture capital, distress funds and hedge funds is currently subject to a legal limit of 10% of the total fund
  - Identified a **Lower-Risk policy alternative** that would allow for a modest reduction in risk if that is the desired course of action

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Diversification Themes: Global Orientation

- EnnisKnupp has always recommended that clients invest in the broadest definition of each asset class, resisting biases toward or away from various market segments.
- Finance theory suggests that holding an equity portfolio in market proportions is optimal and investors will maximize the risk/return tradeoff.
- A greater allocation to foreign equities allows greater diversification and enhanced participation in global economic growth
- Recommendation: Global orientation in public equities
  - Increase in allocation to foreign equities
  - Consolidation of public equities into one asset class, Global Equities

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Diversification Themes: Opportunistic Investing

- Removing constraints allows skilled staff members and external investment managers to more efficiently take risk
- Consistent with “parsimonious investing” theme of accessing principal protection through the fixed income allocation, and economic growth through equity risk premiums, while accessing the best of investment manager talent in a more opportunistic framework
- Recommendation: More opportunistic and flexible approach, not as tethered to narrow benchmarks
  - Expansion of the Strategic Investments asset class, including increased allocation to private debt investments and an allocation to infrastructure
  - Expansion of real estate and private equity investments is also anticipated
  - Substantial investment in hedge fund strategies in dollar terms

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Current and Recommended Asset Allocation Policies

Asset Class	Current Policy*	Near-Term	Recommended
Domestic Equities	37.4%	--	--
Foreign Equities	20.0	--	--
Global Equities	--	56%	52%
Fixed Income (Investment Grade)	26.1	26	24
High Yield Fixed Income	2.1	--	--
Real Estate	6.4	7	7
Private Equity	3.5	4	5
Strategic Investments	1.8	6	11
Cash	1.0	1	1
Total	100%	100%	100%

*As of December 31, 2009

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Strategic Investments Detail

Asset Category	Current Policy*	Near-Term	Recommended
Debt-Oriented Funds	1.8%	2.0%	3.0%
Infrastructure	--	--	2.0
Absolute Return Hedge Funds	--	1.0	2.0
Long/Short Equity Hedge Funds	--	2.0	2.0
Open Mandate Hedge Funds	--	1.0	2.0
Commodities	--	--	--
Timberland	--	--	--
Total Strategic Investments	1.8%	6.0%	11.0%

- Allocations reflect current expectations for future allocations in Strategic Investments for modeling purposes. Actual allocations, including possible investments in commodities and timberland, will vary dependent on identification of attractive opportunities.

**As of December 31, 2009.*

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Alternative Portfolio Statistics

Asset Class	Current Policy*	Near-Term	Recommended
Global Equities	59.1	56%	52%
Fixed Income (Investment Grade)	26.1	26	24
Real Estate	6.4	7	7
Private Equity	3.5	4	5
Strategic Investments	3.9	6	11
Cash	1.0	1	1
Total	100%	100%	100%
Expected Nominal Return	7.4	7.4	7.6
Expected Real Return	4.8	4.8	5.0
Risk	12.1	11.9	12.1
Sharpe Ratio	0.368	0.372	0.381
Probability of Return > 7.75%	52%	52%	54%

*As of December 31, 2009. For clarity of presentation, Global Equities includes existing Domestic Equities and Foreign Equities allocations, and existing global equities mandates; Strategic Investments includes existing High Yield allocation.

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Alternative Policies in Asset/Liability Context

	Current Policy	Near-Term	Recommended
15-Year Cost Savings Relative to Current Policy (Millions):			
During Normal Conditions	--	$29	$2,134
During Bad Conditions (Worst 20%)	--	398	674
Distribution of Funded Ratio After 15 Years			
5th Percentile	41%	41%	40%
25th Percentile	70	70	71
Median	97	97	99
75th Percentile	128	128	131
95th Percentile	180	178	186
Probability of Funded Ratio After 15 Years Being:			
Above 115%	34%	34%	36%
85% to 115%	27	27	26
Below 85%	39	39	38
Above July 1, 2009 Funded Status	72	72	72

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Appendix

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Assumptions: Traditional Asset Classes

Asset Class	Risk	Expected Return	Methodology
Non-Risky			
Fixed Income (Investment Grade)	6.6%	4.6%	Barclays Capital U.S. Aggregate Bond Index
Treasuries	6.5	3.6	Barclays Capital U.S. Treasury Index
Treasury Inflation Protected Securities (TIPS)	5.8	4.1	Barclays Capital U.S. TIPS Index
Cash	0.2	3.0	90-Day Treasury Bill
Risky			
High Yield Bonds	12.3	6.2	Citigroup High Yield Bond Index
U.S. Equity	17.1	8.0	Dow Jones U.S. Total Stock Market Index
Non-U.S. Equity	19.7	7.7	MSCI All Country World ex-U.S. Index
Global Equity	17.1	8.0	MSCI All Country World Index
Core Private Real Estate*	12.3	6.2	MIT-Transaction Based Index
Private Equity (Broad)**	32.3	10.9	Venture Economics Post-Venture Capital Index

**Includes 1.0% liquidity premium adjustment*
***Includes 3.0% liquidity premium adjustment*

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Assumptions: Strategic Investments Asset Types

Asset Type	Risk	Expected Return	Methodology
Debt-Oriented Funds*	10.5%	9.7%	HFRI Distressed Securities Index
Infrastructure**	27.9	8.8	Macquarie Global Infrastructure Index
Absolute Return Hedge Funds	9.3	5.9	Developed by Staff with Consultants' Input
Long/Short Equity Hedge Funds	12.9	7.8	Developed by Staff with Consultants' Input
Open Mandate Hedge Funds	10.6	7.4	Developed by Staff with Consultants' Input
Commodities	16.0	4.1	Dow Jones/UBS Commodity Index
Timberland**	8.0	6.4	NCREIF Timberland Index

**Includes 3.0% liquidity premium adjustment and adjusted for active management premium*
***Includes 3.0% liquidity premium adjustment*

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Lower-Risk Policy Alternative

Asset Class	Current Policy*	Lower-Risk
Domestic Equities	37.4%	--
Foreign Equities	20.0	--
Global Equities	--	52%
Fixed Income (Investment Grade)	26.1	23
Fixed Income (TIPS)	--	3
High Yield Fixed Income	2.1	--
Real Estate	6.4	7
Private Equity	3.5	5
Strategic Investments	1.8	9
Cash	1.0	1
Total	100%	100%

**As of December 31, 2009.*

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Strategic Investments Detail

Asset Category	Current Policy*	Lower-Risk
Debt-Oriented Funds	1.8%	4%
Infrastructure	--	1
Absolute Return Hedge Funds	--	1
Long/Short Equity Hedge Funds	--	2
Open Mandate Hedge Funds	--	1
Commodities	--	--
Timberland	--	--
Total Strategic Investments	1.8%	9.0%

**As of December 31, 2009.*

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Alternative Portfolio Statistics

Asset Class	Current Policy*	Lower-Risk
Global Equities	59.1	52
Fixed Income (Investment Grade)	26.1	23
Fixed Income (TIPS)	--	3
Real Estate	6.4	7
Private Equity	3.5	5
Strategic Investments	3.9	9
Cash	1.0	1
Total	100%	100%
Expected Nominal Return	7.4	7.5
Expected Real Return	4.8	4.9
Risk	12.1	11.8
Sharpe Ratio	0.368	0.382
Probability of Return > 7.75%	52%	53%

**As of December 31, 2009. For clarity of presentation, Global Equities includes existing Domestic Equities and Foreign Equities allocations, and existing global equities mandates; Strategic Investments includes existing High Yield allocation.*

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Alternative Policies in Asset/Liability Context

	Current Policy	Lower-Risk
15-Year Cost Savings Relative to Current Policy (Millions):		
During Normal Conditions	--	$1,631
During Bad Conditions (Worst 20%)	--	2,072
Distribution of Funded Ratio After 15 Years		
5th Percentile	41%	41%
25th Percentile	70	71
Median	97	98
75th Percentile	128	129
95th Percentile	180	180
Probability of Funded Ratio After 15 Years Being:		
Above115%	34%	35%
85% to 115%	27	27
Below 85%	39	39
Above July 1, 2009 Funded Status	72	72

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SBA Business Model Review and Performance Update

SBA Trustee Meeting

June 8, 2010

SBA FLORIDA

INVESTING FOR FLORIDA'S FUTURE

➡ Primary Focus of the SBA Business Model Review

- Assessing the optimal deployment of internal, external, active and passive strategies
  - 80% passive in domestic equities. Considering merits of more passive and/or lower risk approaches in other asset classes
  - Reviewing the comparative advantages/disadvantages of internal versus external investment management

- Assessing how to best access opportunistic investments and opportunistic investment management skill
  - Hedge funds as a complement or replacement for traditional active managers
  - Private market strategies, including infrastructure, private debt funds, timberland, etc.

➡ SBA Business Model: Global Equity

- Combined single asset class led by co-Senior Investment Officers from Domestic Equities and Foreign Equities
- External investment managers would be reviewed for retention/capacity in the wake of the asset transition
  - Large cap Domestic Equities active managers would be replaced over time only to the extent that compelling long-only managers were available; otherwise higher passive
  - Small cap Domestic Equities active managers would be replaced as needed
- Foreign Equities passive would be increased, but:
  - Searching for increased capacity in small cap foreign and emerging markets
  - Active managers would be replaced as needed over time
- In FY 2010-11, staff and a consultant would conduct a formal cost-benefit study of implementing an internal foreign equities index fund—potentially leveraging multi-billion internal Domestic Equities passive operation

SBA Business Model: Investment Grade Fixed Income

- Passive allocation would be increased to a minimum of 50% in order to lower risk and increase liquidity of the asset class
  - All passive monies would be managed internally
  - Current external passive MBS portfolios would be brought internal with a potential annual savings approximating $1 million
- The internal active program would be lowered to not exceed 15% of the asset class (compared to 25% currently)
- Balance of the asset class (i.e., ~35%) would be invested with external active managers
- The overall restructuring would result in projected annual fee savings of approximately $5 million to $7 million

➡ Other SBA Business Model Issues

- Hedge Funds
  - Hedge funds would be managed with dedicated staff within Strategic Investments
  - Specialized resources from other asset classes would be available to be used within a matrix/team approach

- Subsequent to approval of any policy changes by the IAC/Trustees:
  - A formal plan would guide a multi-billion dollar asset transition to achieve global equity index weights—effected through an external transition manager(s) with oversight from staff and consultant
  - Active risk monitoring standards, final asset class structures and investment manager lineups would be determined
  - Provide regular reporting on the progress of the transition to the IAC and Trustees throughout FY2010-11

SBA Mandates Month End Market Values
($Millions)

Mandate	Mar-09	Dec-09	Mar-10	May 24, 2010*
FRS Pension Plan	$90,201	$113,502	$116,718	$111,130
FRS Investment Plan	$3,640	$4,810	$5,067	$4,899
CAT Fund	$7,641	$8,906	$8,883	$9,104
Lawton Chiles Endowment	$1,278	$666	$695	$658
Florida PRIME	$5,956	$6,538	$6,537	$5,512
Other SBA Mandates	$4,673	$4,203	$3,933	$4,795
Total	$113,388	$138,625	$141,834	$136,099

*Unaudited and Tentative Data

Major SBA Mandate Official Performance

Official Performance through April 2010

Managed vs. Benchmark Returns

Mandate	3-month	1-year	3-year	5-year	10-year
FRS Pension Plan	0.75%	2.60%	0.21%	0.27%	0.40%
FRS Investment Plan	0.04%	1.04%	1.00%	0.61%	
CAT Operating Fund	0.14%	1.92%	-0.45%	-0.15%	0.25%
CAT Fund 2007A Note Proceeds	0.02%	0.79%			
Lawton Chiles Endowment	0.34%	1.05%	0.29%	0.59%	0.34%
Health Insurance Subsidy	0.16%	-0.09%	-1.37%	-0.99%	
SBA Investment Pools					
Local Government Investment Pool	0.01%	0.09%	0.15%	0.18%	0.23%
CAMP Money Market A	-0.02%	-0.04%	0.23%	0.17%	0.17%

FRS Pension Plan Additive Performance vs. Benchmark

Preliminary Data as of April 2010

	Last 3 Months	Last 12 Months
Asset Allocation	0.07%	0.04%
Domestic Equities	-0.03%	-0.03%
Foreign Equities	0.09%	0.17%
Fixed Income	0.45%	2.49%
High Yield	-0.01%	-0.09%
Real Estate	0.17%	0.75%
Private Equity	-0.10%	-1.23%
Cash	0.00%	0.39%
Strategic Investments	0.10%	0.02%
TOTAL	**0.75%**	**2.60%**

FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.[1] For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Board has statutory responsibility for the

[1] The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(9), Florida Statutes.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 5% per annum (compounded and net of investment expenses) should be attained, consistent with the actuarial investment return assumption of 7.75%. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is failing to earn the absolute real target rate of return over long periods of time, and the asset mix is developed to minimize this risk. In selecting the Target Portfolio,

the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility and liquidity.

The Target Portfolio defined in Tables 2 (i.e., 2a and 2b, as applicable) and, 4 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund's net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio's potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between -0.5% and 9.9% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -2.7% and 10.9%.

Table 1: Expected Risk in Target Portfolio's Real Returns

Time Horizon	5th Percentile Real Return	10th Percentile Real Return	90th Percentile Real Return	95th Percentile Real Return
10 Years	-4.9%	-2.8%	10.3%	11.4%
15 Years	-2.7%	-0.5%	9.9%	10.9%
20 Years	-1.3%	0.4%	9.5%	10.3%
25 Years	-0.7%	1.0%	9.1%	10.1%
30 Years	-0.2%	1.5%	9.0%	9.8%

Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the

relative values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2 (i.e., 2a and 2b, as applicable).

The Executive Director is directed by the Trustees to seek expanded statutory authority to invest in alternative investments (i.e., private equity, venture capital, distress funds, hedge funds and certain other investments described at s. 215.47(15), Florida Statutes) beyond the current limit of 10%. The policy allocation in Table 2a would be effective upon such expanded authority becoming effective in law. Upon the effective date of this policy statement, but prior to obtaining such expanded statutory investment authority, a Transitional Asset Allocation Policy described in Table 2b would govern.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

Table 2a: Expanded Authority

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	52%	44%	60%
Fixed Income	24%	16%	32%
Real Estate	7%	2%	12%
Private Equity	5%	0%	7%
Strategic Investments	11%	0%	20%
Cash Equivalents	1%	0%	9%
Total Fund	100%	--	--

Table 2b: Transitional

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	56%	48%	64%
Fixed Income	26%	18%	34%
Real Estate	7%	2%	12%
Private Equity	4%	0%	7%
Strategic Investments	6%	0%	20%
Cash Equivalents	1%	0%	9%
Total Fund	100%	--	--

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type.[2] An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (employer contributions minus benefit payments) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Flow ($ millions/ % Fund)

	In 5 Years	In 10 Years
10th Percentile	-$3,982/ -3.1%	-$7,353/ -3.5%
25th Percentile	-$3,781/ -2.8%	-$6,480/ -3.1%
Median	-$3,575/ -2.6%	-$5,282/ -2.8%
75th Percentile	-$3,288/ -2.4%	-$3.233/ -2.3%
90th Percentile	-$1,872/ -2.1%	-$705/ -0.8%

[2] The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

Table 4: Authorized Target Indices

Asset Class	Index
Global Equity	A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida's Investments Act
Fixed Income	The Barclays Capital U.S. Aggregate Index
Real Estate	An average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 90%, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%
Private Equity	The Russell 3000 index return plus a fixed premium return of 300 basis points per annum
Strategic Investments	A weighted-average of individual portfolio level benchmark returns
Cash Equivalents	iMoneyNet First Tier Institutional Money Market Funds Net Index

The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 5 weighted by the target allocations indicated by Table 2 (i.e., 2a and 2b, as applicable), but adjusted for floating allocations. The policy allocation for Strategic Investments, Private Equity and Real Estate would all "float" against Global Equity (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations).

Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations the basis of tactical measurement shall be the asset class's actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the

Private Equity and Strategic Investments asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, a fund-based private equity benchmark (e.g., from Venture Economics or Cambridge Associates).
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 5%. Fundamentally, the Strategic Investments asset class is expected to improve the risk-adjusted return of the total fund over multiple market cycles.

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.

All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
    - Financial, operational and investment expertise and resources;
    - Alignment of interests;
    - Transparency and repeatability of investment process; and
    - Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 5% annualized real rate of return, commensurate with risk.
- Diversify the FRS Pension Plan assets.
- Provide a potential hedge against inflation.
- Increase investment flexibility, across market environments, in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the "Protecting Florida's Investments Act." Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective on the first business day of the month following approval by the Trustees. However, the target allocations listed in Table 2 and the target indices for the Global Equity and Real Estate asset classes indicated in Table 4 may be phased in over a 12 month period subsequent to the effective date(s). Authorized policy ranges shall be adjusted accordingly.

~~Approved by SBA Trustees December 9, 2008~~

Draft for Presentation to Investment Advisory Council on June 7, 2010

FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.[1] For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the ~~Stock~~Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain ~~small amounts of~~ other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Board has statutory responsibility for the

[1] The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(9), Florida Statutes.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. ~~A six-member~~An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return ~~of~~approximating 5% per annum (compounded and net of investment expenses) should be attained~~. This~~, consistent with the actuarial investment return ~~objective is based on a set of capital market assumptions reflecting current long-term capital market expectations.~~assumption of 7.75%. As additional considerations, the Board seeks to avoid ~~excessive volatility in short-term plan cost levels and~~ excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective~~.~~ within an appropriate risk management framework. The Board establishes asset classes, sets ~~permissible shares of the total portfolio's value~~target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is failing to earn the absolute real target rate of return over long periods of time, and the asset mix is developed to minimize this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as ~~historical~~ asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit ~~payment~~payments and other liabilities are an important ~~input. Periods of positive cash flow into the fund from net contributions and investment income receipts permit higher exposures to equities, while substantial cash demands on the portfolio may dictate lower equity exposures.~~consideration. Potential asset mixes are thus evaluated with respect to their expected return ~~and~~ , volatility ~~as well as risk~~and liquidity.

The Target Portfolio defined in Tables 2~~, 4~~ (i.e., 2a and ~~5~~2b, as applicable) and, 4 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return~~,~~ or actuarial return, material market risk must be borne~~,~~ (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund's net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates ~~the~~a modeled estimate of the Target Portfolio's potential range of real returns that could result over ~~various~~longer-term investment horizons. Over a ~~30~~15-year investment horizon there is ~~a 10~~an 80 percent probability that the Target Portfolio will experience a compound annual real return ~~of 2.46~~between -0.5% and 9.9% and a 90 percent ~~or less. Downside risk is considerably greater over shorter horizons, but the natural investment horizon for the Trust Fund is the very long-term.~~probability that the Target Portfolio will experience a compound annual real return between -2.7% and 10.9%.

Table 1: Expected Risk in Target Portfolio's Real Returns

Time Horizon	5th Percentile Real Return	10th Percentile Real Return	90th Percentile Real Return	95th Percentile Real Return
~~1 Year~~		~~-8.30%~~	~~20.28%~~	
~~5~~10 Years	-4.9%	~~-1.16%~~2.8%	~~11.59%~~10.3%	11.4%
~~10~~15 Years	-2.7%	-0.~~62%~~5%	9.~~63%~~9%	10.9%
~~15~~20 Years	-1.3%	~~1.41%~~0.4%	~~8.77%~~9.5%	10.3%
~~20~~25 Years	-0.7%	1.~~89%~~0%	~~8.26%~~9.1%	10.1%
~~25~~30 Years	-0.2%	~~2.21%~~1.5%	~~7.91%~~9.0%	9.8%
~~**30 Years**~~		~~2.46%~~	~~7.66%~~	

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Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically

achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2~~:~~ (i.e., 2a and 2b, as applicable).

The Executive Director is directed by the Trustees to seek expanded statutory authority to invest in alternative investments (i.e., private equity, venture capital, distress funds, hedge funds and certain other investments described at s. 215.47(15), Florida Statutes) beyond the current limit of 10%. The policy allocation in Table 2a would be effective upon such expanded authority becoming effective in law. Upon the effective date of this policy statement, but prior to obtaining such expanded statutory investment authority, a Transitional Asset Allocation Policy described in Table 2b would govern.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

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~~Asset Class~~

Table 2a: Expanded Authority

Asset Class	Target Allocation	Policy Range Low	Policy Range High
~~Domestic Equities~~	~~30%~~	~~47%~~	
~~Foreign Equities~~Global Equity	~~11%~~52%	~~25%~~44%	60%
~~High Yield~~Fixed Income	~~0%~~24%	~~7%~~16%	32%
~~Fixed Income~~Real Estate	~~20%~~7%	~~36%~~2%	12%
~~Real Estate~~Private Equity	~~2%~~5%	~~12%~~0%	7%
~~Private Equity~~Strategic Investments	11%	0%	~~7%~~20%
~~Strategic Investments*~~Cash Equivalents	1%	0%	~~10%~~9%
~~Cash Equivalents~~Total Fund	~~0%~~100%	~~9%~~--	--
~~Total Fund~~	~~--~~	~~--~~	

Table 2b: Transitional

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	56%	48%	64%
Fixed Income	26%	18%	34%
Real Estate	7%	2%	12%
Private Equity	4%	0%	7%
Strategic Investments	6%	0%	20%
Cash Equivalents	1%	0%	9%
Total Fund	100%	--	--

~~*In recognition of the dynamic nature of this asset class, there is no specific expected weight. Its actual allocation will vary within the policy range depending on the mix of included strategies at any given time. When the actual allocation of Strategic Investments is greater than zero, all other asset class target allocations shall be reduced pro-rata.~~

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type.[2] An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (employer contributions minus benefit payments) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Flow ($ millions/ % Fund)

	In 5 Years	In 10 Years
10th Percentile	~~-6,413~~ $3,982/ -3.1%	~~-8,661~~ $7,353/ -3.5%
25th Percentile	~~-5,808~~ $3,781/ -2.8%	~~-8,585~~ $6,480/ -3.1%
Median	~~-4,381~~ $3,575/ -2.6%	~~-6,074~~ $5,282/ -2.8%
75th Percentile	~~-~~ $3,~~491~~288/ -2.4%	~~-4,479~~ $3.233/ -2.3%
90th Percentile	~~-3,157~~ $1,872/ -2.1%	~~-1,953~~ $705/ -0.8%

[2] The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes~~:~~.

Table 4: Authorized Target Indices

Asset Class	Index
~~Domestic Equities~~	~~The Russell 3000 Index~~
~~Foreign Equities~~Global Equity	A custom version of the ~~Morgan Stanley Capital International ACWI~~ MSCI All Country World Investable Market Index~~, excluding the U.S.,~~ (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect ~~investments in strategies which are required to comply with~~ the provisions of the Protecting Florida's Investments Act
Fixed Income	The Barclays Capital U.S. Aggregate ~~Bond~~ Index
~~High Yield~~Real Estate	~~The Barclays Capital U.S. High Yield Ba/B 2% Issuer Capped Index~~ An average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 90%, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%
~~Real Estate~~Private Equity	~~An average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, gross of fees, weighted at 90%, and the Wilshire Real Estate Securities Index, weighted at 10%~~ The Russell 3000 index return plus a fixed premium return of 300 basis points per annum
~~Private Equity~~ Strategic Investments	~~The Domestic Equities target index return plus a fixed premium return of 450 basis points per annum~~ A weighted-average of individual portfolio level benchmark returns
~~Strategic Investments~~	~~An average of individual portfolio level benchmark returns~~
Cash Equivalents	iMoneyNet First Tier Institutional Money Market Funds ~~Gross~~Net Index

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The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table ~~4~~5 weighted by the target allocations indicated by Table 2~~,~~ (i.e., 2a and 2b, as applicable), but adjusted for floating allocations~~ indicated by Table 5.~~. The policy allocation for Strategic Investments, Private Equity and Real Estate would all "float" against

Global Equity (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations).

Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations~~, as defined in Table 5,~~ the basis of tactical measurement shall be the asset class's actual share~~. Differences between these actual shares and the target shares stated in Table 2 shall be allocated as indicated in Table 5~~.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity and Strategic Investments asset ~~class over short periods~~classes shall be assessed relative to ~~an aggregation of its individual portfolios' benchmarks; over long periods of time it shall be assessed relative to~~both the applicable index in Table 4 and:

- For Private Equity, a fund-based private equity benchmark (e.g., from Venture Economics or Cambridge Associates).
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 5%. Fundamentally, the Strategic Investments asset class is expected to improve the risk-adjusted return of the total fund over multiple market cycles.

~~**Table 5: Asset Classes with Floating Allocations**~~

~~Asset Class with Floating Allocation~~	~~Allocation of Difference Between Target and Actual Allocations~~
~~Private Equity~~	~~To Domestic Equities~~
~~Real Estate~~	~~40% to Domestic Equities and 60% to Fixed Income~~

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop

guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.

All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. ~~The portfolios shall also be well diversified with respect to the benchmark.~~To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
    - Financial, operational and investment expertise and resources;
    - Alignment of interests;
    - Transparency and repeatability of investment process; and
    - Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 5% annualized real rate of return, commensurate with risk.
- Diversify the FRS Pension Plan assets.
- Provide a potential hedge against inflation.
- Increase investment flexibility, across market environments, in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the "Protecting Florida's Investments Act." Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.

- ~~•~~ Special investment reports pursuant to Section 215.~~47(6),~~44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This ~~plan~~policy statement shall be effective ~~upon~~on the first business day of the month following approval~~.~~ by the Trustees. However, the ~~change to a custom version of the Morgan Stanley Capital International Investable Market Index authorized~~target allocations listed in ~~section VII shall be effective retroactively on April 1, 2008. The change to an aggregate benchmark to measure the effectiveness of the implementation of~~Table 2 and the ~~Strategic Investments~~target indices for the Global Equity and Real Estate asset ~~class authorized~~classes indicated in ~~section VII~~Table 4 may be phased in over a 12 month period subsequent to the effective date(s). Authorized policy ranges shall be ~~effective retroactively on June 1, 2007.~~adjusted accordingly.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
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32317-3300

CHARLIE CRIST
GOVERNOR
AS CHAIRMAN

ALEX SINK
CHIEF FINANCIAL OFFICER
AS TREASURER

BILL McCOLLUM
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

June 8, 2010

The Honorable Alex Diaz de la Portilla
Chair
Joint Legislative Auditing Committee
330 Senate Office Building
404 South Monroe Street
Tallahassee, Florida 32399-1300

The Honorable Greg Evers
Alternating Chair
Joint Legislative Auditing Committee
212 The Capitol
402 South Monroe Street
Tallahassee, Florida 32399-1100

Dear Senator Diaz de la Portilla and Representative Evers:

Section 218.409(9), F.S., requires the Trustees to report to the Joint Legislative Auditing Committee that they have reviewed the Auditor General's annual Financial Audit of the Local Government Surplus Funds Trust Fund (now know as 'Floride PRIME'). The fund's Financial Audit for the fiscal year 2009 was completed in March 2010. The Trustees are also required to certify that any necessary item(s) are being addressed by corrective action by the State Board of Administration (SBA).

I am pleased to report this single recommendation ("the SBA had not established, documented, and communicated a complete risk-based monitoring program for the LGIP") made by the Auditor General's office as a result of their annual Financial Audit of Florida PRIME was completed, and fully implemented, on May 14, 2010. The SBA now has a clear, documented compliance monitoring program, and extensive risk procedures. We feel we have taken appropriate steps to respond to the Financial Audit recommendation and have improved the risk assessment and compliance oversight for the Florida PRIME.

Please be advised that the State Board of Administration Trustees have authorized me to convey to you their certification in the affirmative that the necessary steps to accomplish this occurred on May 14, 2010.

Please contact me if you have any questions.

Sincerely,

Ashbel C. Williams
Executive Director & CIO

ACW/db
Attachments
cc: Senator Andy Gardiner
Senator Charlie Justice
Senator Jeremy Ring
Senator Stephen Wise
Representative Betty Reed
Representative Dwayne Taylor
Representative John Tobia
Representative Charles Van Zant
Ms. Kathy Dubose, Director

DRAFT

REPORT NO. 2010-127
MARCH 2010

STATE OF FLORIDA

STATE BOARD OF ADMINISTRATION

LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

Financial Audit

For the Fiscal Year Ended
June 30, 2009

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

STATE BOARD OF ADMINISTRATION

The State Board of Administration, Board of Trustees, is composed of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. 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 audit team leader was Matthew Tracy, CPA, and the audit was supervised by Allen Weiner, CPA. Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 487-9085.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 17

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the financial statements prepared by the State Board of Administration (SBA) present fairly, in all material respects, the net assets of the Local Government Surplus Funds Trust Fund (LGIP) and the changes in net assets 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 the LGIP'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*; however, we noted an additional matter as summarized below.

ADDITIONAL MATTER

Finding No. 1: The SBA had not finalized and communicated for the LGIP a complete, risk-based investment compliance monitoring program, including provisions establishing members of the Investment Oversight Group, program objectives, control activities, and procedures.

Audit Objectives and Scope

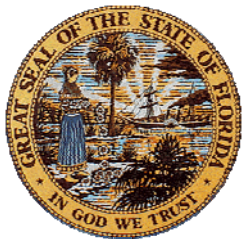
Our audit objectives were to determine whether the SBA had:

- **Presented the LGIP'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, and contracts that are material to the financial statements;**
- **Taken corrective actions for findings included in the prior audit report.**

The scope of this audit included an examination of the LGIP's basic financial statements as of and for the fiscal year ended June 30, 2009. We obtained an understanding of 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, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and the LGIP investment policy.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent SBA records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



AUDITOR GENERAL
STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-488-5534
FAX: 850-488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (LGIP), as of and for the fiscal year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of SBA's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the net assets and changes in net assets of the LGIP and do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the LGIP as of June 30, 2009, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of SBA's internal control over financial reporting relating to the LGIP and on our tests of its compliance with certain provisions of

laws, rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 5) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

David W. Martin, CPA
March 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The State Board of Administration (SBA) is responsible for the management of the Local Government Surplus Funds Trust Fund (LGIP).[1] 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 Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

This discussion and analysis of the financial performance of the LGIP provides an overview of the LGIP's financial activities for the fiscal year ended June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements provide financial information about the LGIP 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 LGIP presents the following basic financial statements: a Statement of Net Assets and a Statement of Changes in Net Assets. The Statement of Net Assets presents all LGIP assets and liabilities with the difference reported as net assets. The Statement of Changes in Net Assets shows the increase or decrease in net assets during the year as a result of investment activities and participant contributions and withdrawals.

FINANCIAL SUMMARY

A summary comparison of the LGIP's Statement of Net Assets at June 30, 2009, and 2008, is presented below (in thousands):

	Year Ended June 30	
	2009	2008
Total assets	$ 5,997,756	$ 7,064,678
Total liabilities	13,462	867
Net assets held in trust for pool participants	$ 5,984,294	$ 7,063,811

[1] Effective August 3, 2009, the LGIP was renamed as Florida PRIME.

A summary comparison of the LGIP's Statement of Changes in Net Assets for the years ended June 30, 2009, and 2008, is presented below (in thousands):

	Year Ended June 30	
	2009	2008
Increase (decrease) in net assets		
Net income from investing activity	$ 88,429	$ 844,594
Net decrease in fair value of investments	……	(191,590)
Net income from securities lending	……	269
Redemption fees	1	7,233
Distributions paid and payable	(88,429)	(709,807)
Participant contributions	9,363,390	21,422,499
Participant withdrawals	(10,581,058)	(44,596,247)
Investment transfer from Fund B	138,150	……
Investment transfer to Fund B	……	(653,341)
Total increase (decrease) in net assets	(1,079,517)	(23,876,390)
Net assets, July 1	7,063,811	30,940,201
Net assets, June 30	$ 5,984,294	$ 7,063,811

FINANCIAL HIGHLIGHTS

The LGIP experienced turbulence in the fall of 2007 when participants, in response to fears about the quality and security of certain LGIP assets, withdrew an unprecedented $12.2 billion in net funds in November 2007.

Interest earnings for the year ended June 30, 2009, were significantly lower than previous fiscal years because of diminished average balances and depressed yields on short-term fixed income investments. Average balances were lower than the prior fiscal year due to participant withdrawals exceeding participant deposits. The Federal Reserve adopted a monetary policy stance during the fiscal year that pushed overnight interest rates to nearly zero in an effort to help stabilize global financial markets. As a result of this policy, other Federal government economic stimulus measures, and slow economic growth, short-term interest rates were cyclically low.

Working at the direction of SBA Trustees and the Florida Legislature, SBA management has implemented a series of major changes that have enhanced and strengthened the security of the LGIP.

- On June 27, 2008, SBA moved all remaining assets held in the LGIP Restricted Account[2] totaling $653 million to the newly formed, legally separate Fund B Surplus Funds Trust Fund (Fund B), which was created by Section 218.417(1), Florida Statutes. In the current fiscal year, over $138 million in liquid assets was transferred from Fund B to the LGIP. Fund B cash holdings are being distributed to participants as they become available from maturities, sales, and received income.
- Clifton Gunderson, LLP, conducted an independent investment compliance audit of the LGIP and other funds managed by SBA. The audit produced recommendations to enhance compliance, risk management, and investment policies which are in the process of being implemented.

[2] During the 2007-08 fiscal year, certain securities with limited liquidity were transferred from the LGIP to a temporary LGIP Restricted Account.

- The Participant Local Government Advisory Council was created to provide additional oversight to ensure that the LGIP is operated and managed in the best interest of the investors of the fund.
- The Legislature enacted legislation that provides LGIP participants with greater protection of their assets while establishing higher standards for governance, administration controls, investment policies and improved reporting of the LGIP's investment activities.
- SBA has begun an intensive reexamination and reengineering of its compliance and enterprise risk management policies and processes, with assistance from a consultant, Deloitte and Touche, LLP.
- The SBA engaged counsel to assess whether it should pursue legal action against the broker-dealers who sold certain investment grade securities to SBA that were subsequently rated to below-investment grade.

Reflecting these actions and others, the liquidity of the LGIP improved during the course of the fiscal year and on December 23, 2008, full liquidity for participants was restored.

These financial statements reflect only the transactions and balances for the LGIP. For additional information on this fund, please visit SBA's website at https://www.sbafla.com/prime/.

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

STATEMENT OF NET ASSETS

As of June 30, 2009
(In Thousands)

Assets	
Cash and cash equivalents	$ 13,258
Investments:	
Certificates of deposit, negotiable	1,870,007
Commercial paper	1,494,739
Money market funds	252,371
Domestic corporate bonds and notes	102,754
Repurchase agreements	2,170,000
Federal agencies	89,996
Total investments	5,979,867
Interest receivable	4,631
Total Assets	5,997,756
Liabilities	
Accounts payable and accrued liabilities	164
Due to local governments	13,298
Total Liabilities	13,462
Net Assets	
Held in trust for pool participants	$ 5,984,294

See accompanying notes to financial statements.

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

STATEMENT OF CHANGES IN NET ASSETS

Fiscal year ended June 30, 2009
(In Thousands)

Additions	
Investment operations:	
Income from investing activity:	
Interest income	$ 90,505
Bank fees	(64)
Legal fees	(10)
Standard and Poor's rating maintenance fees	(30)
Investment management fees	(1,592)
Administrative service charges	(380)
Net income from investing activity	88,429
Net increase (decrease) resulting from investment operations	88,429
Redemption fees	1
Total Additions	88,430
Deductions	
Distributions paid and payable	(88,429)
Total Deductions	(88,429)
Share Transactions	
Participant contributions	9,363,390
Participant withdrawals	(10,581,058)
Investment transfer from Fund B	138,150
Net increase (decrease) resulting from share transactions	(1,079,518)
Total decrease in net assets	(1,079,517)
Net assets, beginning of year	7,063,811
Net assets, end of year	$ 5,984,294

See accompanying notes to financial statements.

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

NOTES TO FINANCIAL STATEMENTS

Fiscal year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of the Local Government Surplus Funds Trust Fund's (LGIP)[1] significant accounting policies 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 the LGIP. 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 Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

The LGIP was created by act of the Florida Legislature effective October 1, 1977, (Chapter 218, Part IV, Florida Statutes). The law allowed 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.

Sections 218.40 through 218.415, Florida Statutes, and State Board of Administration Rules 19-7.001 through 19-7.017, Florida Administrative Code, promulgated pursuant to Section 218.405(4), Florida Statutes, govern the operation of the LGIP.

The assets and liabilities of the LGIP are included in the Comprehensive Annual Financial Report (CAFR) of the State of Florida. However, the accompanying financial statements present only the LGIP 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

The LGIP is not a registrant with the Securities and Exchange Commission (SEC); however, SBA has adopted operating procedures consistent with those required of an SEC 2a-7-like fund. A 2a-7-like external investment pool is one that is not registered with the SEC as an investment company, but

[1] Effective August 3, 2009, the LGIP was renamed as Florida PRIME.

nevertheless has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds.

c. Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

The LGIP is reported as an investment trust fund, a fiduciary fund type.

d. Measurement Focus and Basis of Accounting

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual 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. Investment trust funds are accounted for using the accrual basis of accounting. Earnings on investments, including interest income, are recognized as revenue when earned, and expenses are recorded when a liability is incurred.

e. Deposits and Investments

Consistent with GAAP, the LGIP reports as "Cash and cash equivalents" all cash on hand and on deposit in banks, including demand deposits, time deposits, and nonnegotiable certificates of deposit.

The LGIP's investments are recorded at amortized cost, consistent with GASB Statement Number 31. Fair values, for note disclosures, are calculated using quoted market prices. If quoted market prices are not available, the discounted cash flow model and broker quotes are used to price securities.

f. Method Used to Determine Participants' Shares Sold and Redeemed

In a manner similar to that used for SEC Rule 2a-7 money market funds, participants' shares are sold and redeemed in the LGIP using the amortized cost method, which is consistent with the method used to report the LGIP'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.

g. Legally Binding Guarantees

The SBA has not provided or obtained any legally binding guarantees during the fiscal year ended June 30, 2009, for the LGIP.

h. Involuntary Participation

There is no requirement under Florida Statutes for any local government or state agency to participate in the LGIP.

i. Frequency of Determining Fair Value of Shares

The fair value of the investments of the LGIP is determined on a daily basis. SEC Rule 2a-7 requires that a periodic comparison be made between amortized cost and market value and that specific actions be taken if the two values differ by more than one-half of one percent. As of June 30, 2009, the ratio of fair value to amortized cost was 100.025 percent.

j. Fees and Administrative Service Charges

Federated Investment Counseling (Federated) is the investment manager for the LGIP. Federated charges an annual investment management fee based on the average daily net assets (i.e., average daily amortized cost) of the LGIP, as follows:

First $1 billion in Account Assets	3.5 basis points
Next $1.5 billion in Account Assets	3.0 basis points
Next $2.5 billion in Account Assets	2.5 basis points
Balance of Account Assets over $5 billion	2.0 basis points

This fee is taken out of monthly earnings prior to the allocation of net earnings to participant balances. Total investment management fees incurred by the LGIP in the fiscal year ended June 30, 2009, were $1,592,372.

In addition, SBA charges a .6 basis point charge (.00006) on total LGIP assets to cover the SBA's administrative costs of the fund. These charges are generally shown as "administrative charges" on the monthly participant statements. Total administrative service charges incurred by the LGIP for the fiscal year ended June 30, 2009, were $380,371.

Various bank fees, including transaction charges, custody fees, and performance analytics fees are incurred by the LGIP. These fees are taken out of the monthly earnings prior to the distribution of net earnings to participant balances each month. The total bank fees incurred by the LGIP in the fiscal year ended June 30, 2009, were $63,996.

Standard and Poor's (S&P) rating maintenance fees of $30,000 and legal fees of $9,653 were incurred in the fiscal year ended June 30, 2009. The legal expenses 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 the LGIP is in compliance with Florida law.

2. DEPOSITS AND INVESTMENTS

a. Deposits

At June 30, 2009, LGIP deposits totaled $13,258,184. All deposits in the LGIP were covered by Federal insurance or the State's collateral pool pursuant to Chapter 280, Florida Statutes. Chapter 280, Florida Statutes, generally requires public funds to be deposited in a bank or savings association designated by the Chief Financial Officer (CFO) as authorized to receive deposits in the State and that meets the collateral requirements as set forth in Chapter 280, Florida Statutes.

The CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository 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 CFO's permission.

b. Investment Authority and Compliance

The SBA has the authority to administer and invest the funds of the LGIP in accordance with Chapter 218, Part IV, Florida Statutes. The statute states SBA shall invest the moneys of the LGIP 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 SBA to administer its varied investment responsibilities. The Investment Policy Guidelines (Guidelines) for the LGIP allowed only the following eligible investments:

1. United States (U.S.) Treasury obligations.
2. U.S. Government Agency obligations.
3. Insurance contracts, including guaranteed investment contracts, funding agreements and annuities.
4. Corporate debt securities, such as notes, bonds, debentures, commercial paper, interest in bank loans to companies, and demand instruments.
5. 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.
6. Asset backed securities, which may be in the form of commercial paper, notes, or pass-thru certificates.
7. Municipal securities issued by states, counties, cities, and other political subdivisions and authorities.
8. Foreign securities (i.e., U.S. dollar-denominated securities of issuers based outside the United States).

9. Mortgage-backed securities representing interests in pools of mortgages. Mortgages may have fixed or adjustable interest rates.

10. Shares of registered investment companies that are money market mutual funds, including those that are affiliated with Federated (Investment Manager).

11. Special transactions, including repurchase agreements and delayed delivery transactions. Repurchase agreements involve transactions in which the LGIP 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 the LGIP buys securities for a set price, with payment and delivery of the securities scheduled for a future time.

The primary investment objectives for the LGIP, in priority order, are safety, liquidity, and competitive returns with minimization of risks. This is accomplished by structuring the portfolio consistent with Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds). In buying and selling portfolio securities for the LGIP, the Investment Manager will comply with the diversification, maturity, and credit quality conditions imposed by Rule 2a-7 under the 1940 Act; with the requirements imposed by any nationally recognized statistical rating organization (NRSROs) that rates the LGIP 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 market value and amortized cost of the LGIP exceeds 0.25 percent, the Guidelines required that the Investment Manager establish a formal action plan. The Guidelines also required 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 market value and amortized cost of the LGIP exceeds 0.50 percent, the Guidelines required that the Executive Director promptly consider what action, if any, would be initiated.

c. *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 Guidelines, investment credit risk and concentration of credit risk of debt securities will be managed as follows:

1. 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 NRSRO, or be deemed to be of comparable quality thereto by the Investment Manager, subject to Section 215.47(1)(j), Florida Statutes.

2. The Investment Manager will perform a credit analysis to develop a database of issuers and securities that meet the Investment Manager's standard for minimal credit risk. The Investment Manager will monitor the credit risks of all the LGIP's portfolio securities on an ongoing basis by regularly reviewing the financial data, issuer news and developments, and ratings of NRSROs.

3. At least 50 percent of the LGIP assets will be invested in securities rated "A-1+" or those deemed to be of comparable credit quality thereto by the Investment Manager, subject to Section 215.47(1)(j), Florida Statutes. 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 the LGIP assets.

In the event that a security no longer meets the criteria for purchase due to default, event of insolvency, a credit rating downgrade or other material event (Affected Security), the Investment Manager must either dispose of the security within five business days or present a justification for the retention of the security to the Investment Oversight Group within three business days. If an Affected Security matures within five business days, no further action is required. An Affected Security may be held after five days 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 the LGIP to dispose of the security taking into account market conditions that may affect an orderly disposition.

The LGIP's credit quality ratings were as follows at June 30, 2009 (expressed in thousands):

Fair Value of LGIP Investments						Ratings [1]	
Certificates of Deposit	Commercial Paper	Money Market Funds	Domestic Corporate Bonds & Notes	Federal agencies	Total	S&P	Moody's
$ ……	$ ……	$ 252,371	$ ……	$ ……	$ 252,371	AAAm	
……	……	……	37,999	90,250	128,249	AAA	
……	……	……	35,017	……	35,017	AA	
……	……	……	24,035	……	24,035	A	
……	……	……	6,000	……	6,000	Not rated	Aa
……	1,290,393	……	……	……	1,290,393	A-1	
……	99,986	……	……	……	99,986	A-2	
……	104,658	……	……	……	104,658	Not rated	P-1
1,870,668	……	……	……	……	1,870,668	Not rated	Not rated
$ 1,870,668	$ 1,495,037	$ 252,371	$ 103,051	$ 90,250	$ 3,811,377		
		Repurchase agreements			2,170,000	Not rated [2]	Not rated [2]
		Total			$ 5,981,377		

[1] Ratings for investments are presented using S&P credit ratings. If S&P did not rate a security, then Moody's ratings are presented. All of the investments presented as "Not rated" either had issuer credit ratings that met the LGIP's investment guidelines, or were considered by the Investment Manager to have credit ratings that were equivalent to acceptable credit ratings under the LGIP's investment guidelines.

[2] Repurchase agreements are not negotiable instruments and do not carry individual security ratings.

With respect to the concentration of credit risk, except for investments in repurchase agreements, all exposure above 5 percent at June 30, 2009, was due to share withdrawals and/or market movements. At June 30, 2009, the LGIP had exposure of 5 percent or more to each of the following issuers (expressed in thousands):

Issuer Name	Carrying Value	Percent of Portfolio Carrying Value	Fair Value	Percent of Portfolio Fair Value
Bank of America [1]	$ 1,645,000	27.51%	$ 1,645,000	27.50%
Morgan Stanley [1]	700,000	11.71%	700,000	11.70%
State Street Bank & Trust Company	300,000	5.02%	300,194	5.02%
Bank of Tokyo-Mitsubishi Ltd., New York	300,000	5.02%	300,102	5.02%
Danske Corporation	299,762	5.01%	299,741	5.01%

[1] The Bank of America holdings included overnight repurchase agreements of $1.47 billion and certificates of deposit of $175 million, representing 24.58% and 2.93% of total carrying value. The Morgan Stanley holdings consisted entirely of overnight repurchase agreements. Under SEC Rule 2a-7, a fund is permitted to invest up to 25 percent of its total assets in a single issuer for a period of up to three business days. For purposes of SEC Rule 2a-7 exposure restriction calculations, however, acquisitions of repurchase agreements may be deemed to be acquisitions of the underlying securities, provided the obligation of the seller is fully collateralized. The underlying holdings for the repurchase agreements noted above, along with other applicable investments in the LGIP, did not violate the exposure limitations.

d. Investments, Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, 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 does not have an overall policy addressing custodial credit risk. However negotiated trust and custody contracts required that all investments be held in SBA's name by SBA's custodial financial institution at June 30, 2009.

e. 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 Guidelines, the Investment Manager will target a dollar-weighted average maturity range for the LGIP 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 the LGIP's dollar-weighted average maturity when it expects interest rates to rise and extend the LGIP's dollar-weighted average maturity when it expects interest rates to fall. The Investment Manager generally intends to maintain a dollar-weighted average maturity of 60 days or less for the LGIP. Next reset dates are used for investments with floating and variable interest rates to calculate weighted average maturity (WAM).

Presented below are the investments held in the LGIP at June 30, 2009, at fair value (expressed in thousands), with the WAM for each security type:

Investment Type	Fair Value	Weighted Average Days to Maturity [1]
Certificates of deposit[2]	$ 1,870,668	67
Commercial paper [2]	1,495,037	82
Domestic corporate bonds & notes	103,051	44
Federal agencies	90,250	199
Money market funds [3]	252,371	1
Repurchase agreements	2,170,000	1
Total	$ 5,981,377	
Portfolio weighted average maturity		**46**

[1] Interest rate reset dates were used in the calculation of the weighted average days to maturity.

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

[3] The weighted average days to maturity of the underlying securities in the money market funds at June 30, 2009, was 49 days. However, the LGIP had daily liquidity.

f. Investments, Foreign Currency Risk

The LGIP may purchase only U.S. dollar-denominated securities. The LGIP did not have any foreign currency risk as of June 30, 2009. All investments were denominated in U.S. dollars.

g. Securities Lending

The LGIP did not participate in any securities lending programs in the fiscal year ending June 30, 2009.

h. Summary of Investment Holdings

The following table provides as of June 30, 2009, a summary of the fair value, carrying amount, the number of shares or the principal amount, ranges of interest rates, and maturity dates of each major investment classification (expressed in thousands):

	Par	Carrying Value	Fair Value	Range of Interest Rates[1]	Range of Maturity Dates[2]
Certificates of deposit	$ 1,870,000	$ 1,870,007	$ 1,870,668	.40% - 1.68%	7/8/09 - 12/10/09
Commercial paper	1,497,000	1,494,739	1,495,037	.25% - 1.16%	7/1/09 - 12/7/09
Money market funds	252,371	252,371	252,371	0.20%	N/A
Domestic corporate bonds & notes	103,035	102,754	103,051	.60% - 3.75%	8/31/09 - 8/1/37
Federal agencies	90,000	89,996	90,250	.80% - .85%	3/11/10 - 6/22/10
Repurchase agreements	2,170,000	2,170,000	2,170,000	0.07%	7/1/09
Totals	$ 5,982,406	$ 5,979,867	$ 5,981,377		

[1] The coupon rate in effect at June 30, 2009, is reported. If a security is discounted, the purchase yield is reported. The 30 day yield as of June 30, 2009, is reported for the money market fund. The yield fluctuates daily.

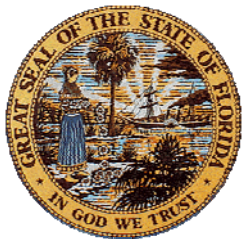
[2] Money market funds do not have a specified maturity date.

3. PENDING MATTERS

The SBA provided disclosure to LGIP participants on the https://www.sbafla.com/prime website and at a publicly noticed meeting in March 2008, that the Florida Department of Financial Services - Office of Financial Regulation, the SEC, the Financial Industry Regulation Authority and other persons were requesting documents and information from the SBA and investigating the events and occurrences relating to the purchase and sale of secured notes issued by KKR Atlantic, KKR Pacific, Ottimo, and Axon (among others) to the SBA on behalf of the LGIP and other funds by various broker-dealers. The investigations were acknowledged at various subsequent discussions of the LGIP in publicly noticed meetings and in press reports available to LGIP participants.

At the request of the SBA's General Counsel, on October 17, 2008, the SEC communicated an *Order Directing Private Investigation and Designating Officers to Take Testimony* (Order) that was dated July 31, 2008. In the furtherance of its investigation, the SEC took sworn testimony of several SBA employees in late October 2008, and on April 2, 2009, subpoenaed certain documents from the SBA. The Order and subsequent subpoenas have been published on the https://www.sbafla.com/prime website.

On March 3, 2010, the SBA received from SEC staff, notification that the investigation as to the SBA had been completed and that there was no intention to recommend any enforcement action by the Commission.



AUDITOR GENERAL
STATE OF FLORIDA

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DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-488-5534
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

We have audited the financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (LGIP), as of and for the fiscal year ended June 30, 2009, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS.** We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SBA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects SBA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the LGIP's financial statements that is more than inconsequential will not be prevented or detected by SBA's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by SBA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted an additional matter which is described in finding No. 1 of the **SCHEDULE OF FINDINGS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS** section of this report is included as Exhibit – A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and applicable parties.

Respectfully submitted,

David W. Martin, CPA
March 4, 2010

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

BACKGROUND

The State Board of Administration (SBA), pursuant to Florida law,[1] is responsible for administering the Local Government Surplus Funds Trust Fund (LGIP). The LGIP is comprised of local government surplus funds deposited by participating local governments, and Federated Investment Counseling serves as the investment manager for the LGIP.

The LGIP is described as a "2a-7-like" pool, meaning that it is operated so as to reasonably comply with Securities and Exchange Commission (SEC) Rule 2a-7,[2] which establishes requirements relating to money market funds operated by SEC registered investment companies. Consequently, SBA management is responsible for the design and operation of internal controls which reasonably ensure compliance with Rule 2a-7 and related LGIP investment policy provisions.

ADDITIONAL MATTERS

Finding No. 1: Investment Compliance Monitoring

The establishment of an effective investment compliance monitoring program for the LGIP is necessary to ensure that the external investment manager administers the LGIP in accordance with Rule 2a-7, the LGIP's Investment Policy Guidelines (Guidelines), contract terms, and Standard and Poor's AAAm requirements, thereby providing current and prospective participants with assurance that the LGIP operates in a manner consistent with the safety, liquidity, and returns of a money market fund.

In audit report No. 2009-124R, we reported that SBA had not established, documented, and communicated a complete risk-based monitoring program for the LGIP. In response, SBA indicated that it agreed to finalize implementation of a fully documented investment compliance monitoring program and had hired a consultant to assist in this endeavor. Subsequently, in June 2009, the SBA received the final consultant's report. Our current audit disclosed that SBA had made progress during the fiscal year ended June 30, 2009, in implementing a structured compliance monitoring program administered by the Investment Oversight Group (IOG). The program generated monthly and ad hoc reviews of the LGIP, improved documentation of reviews of investment manager data, as well as independent verification of LGIP compliance with selected Guideline requirements. However, we noted during our current audit that SBA still had not finalized and communicated a complete risk-based investment compliance monitoring program, including provisions establishing members of the IOG, program objectives, control activities, and procedures.

[1] Part IV, Chapter 218, Florida Statutes.
[2] Title 17, Section 270, Code of Federal Regulations.

The establishment of a documented risk-based monitoring program would better ensure clear communication of IOG membership, the actions to be taken by the IOG, how the work of the IOG is to be documented and retained, and who is accountable for performing and maintaining documentation of compliance work conducted. In response to inquiry, SBA management indicated that it was still in the process of formalizing written compliance procedures.

Recommendation: We recommend that SBA finalize and implement a documented, risk-based investment compliance monitoring program for the LGIP.

EXHIBIT A
MANAGEMENT'S RESPONSE

STATE BOARD OF ADMINISTRATION
OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

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32317-3300

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GOVERNOR
AS CHAIRMAN

ALEX SINK
CHIEF FINANCIAL OFFICER
AS TREASURER

BILL McCOLLUM
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

March 3, 2010

Mr. David W. Martin
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

We reviewed the preliminary and tentative finding and recommendation related to your audit of the Local Government Surplus Funds Trust Fund Financial Statements for the fiscal year ended June 30, 2009. We offer the following response in regard to the information presented in the report.

Audit Recommendation: We recommend that SBA finalize and implement a documented, risk-based investment compliance monitoring program for the LGIP.

SBA Response: We agree with this recommendation and expect to have full implementation by fiscal year-end 2010. Significant steps have been taken to date to implement a risk-based compliance monitoring program for the LGIP, including:

- Effective 12/1/09, the organization was restructured to create a separate Risk Management & Compliance unit, headed by a Chief Risk & Compliance Officer who reports directly to the Executive Director & CIO. Significant resources have been allocated to the new unit to enhance the compliance function, consistent with recommendations received from the external consultant retained in FY2009 to evaluate the SBA compliance program.

- Executive Director Policy #10-064 "Senior Investment Group" (SIG) was updated effective 1/2/10 to incorporate Investment Oversight Groups (IOG) as standing sub-committees of the SIG and to set forth objectives and membership of IOGs. The IOGs' mandate per policy is to meet monthly (or on an ad hoc basis as circumstances dictate) to review compliance exceptions that may have a material impact on client portfolios and to develop and document responses to compliance exceptions. Membership of the Short-Term Fixed Income IOG (which is responsible for LGIP compliance) consists of:

  -Deputy Executive Director
  -Chief Risk & Compliance Officer
  -Director of Fixed Income Compliance
  -Senior Investment Officer of Fixed Income
  -Director of Investment Risk Management

MANAGEMENT'S RESPONSE (CONTINUED)

Mr. David W. Martin
March 3, 2010
Page 2

- Procedures for the LGIP compliance process have been drafted by the Director of Fixed Income Compliance and are currently being reviewed.

- A preliminary risk assessment has been prepared for the LGIP compliance program by the Director of Fixed Income Compliance in conjunction with the Director of External Investment Manager Oversight. The risk assessment is currently being reviewed, and upon finalization will serve as the foundation for the "risk-based investment compliance monitoring program for the LGIP" as recommended by the Auditor General's staff.

We welcome the Auditor General's efforts and, as always, we appreciate your diligence and professionalism.

Sincerely,

Ashbel C. Williams
Executive Director & CIO

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
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CHARLIE CRIST
GOVERNOR
AS CHAIRMAN

ALEX SINK
CHIEF FINANCIAL OFFICER
AS TREASURER

BILL McCOLLUM
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

June 8, 2010

The Honorable Alex Diaz de la Portilla
Chair
Joint Legislative Auditing Committee
330 Senate Office Building
404 South Monroe Street
Tallahassee, Florida 32399-1300

The Honorable Greg Evers
Alternating Chair
Joint Legislative Auditing Committee
212 The Capitol
402 South Monroe Street
Tallahassee, Florida 32399-1100

Dear Senator Diaz de la Portilla and Representative Evers:

Section 218.405(3), Florida Statutes, requires the Trustees of the State Board of Administration to "annually certify to the Joint Legislative Auditing Committee that the trust fund is in compliance with the requirements of this part and that the Trustees have conducted a review of the trust fund and determined that the management of the trust fund is in accord with best investment practices."

Please be advised that the Trustees have approved the attached legal compliance and best investment practices reviews and authorized me to convey their certification of compliance and determination of management in accordance with best investment practices to you.

Please contact me if you have any questions.

Sincerely,

Ashbel C. Williams
Executive Director & CIO

ACW/db
Attachments
cc: Senator Andy Gardiner
Senator Charlie Justice
Senator Jeremy Ring
Senator Stephen Wise
Representative Betty Reed
Representative Dwayne Taylor
Representative John Tobia
Representative Charles Van Zant
Ms. Kathy Dubose, Director

DRAFT

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ATTORNEYS AT LAW

Helping Shape Florida's Future®

Reply to: Tallahassee

June 1, 2010

LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
STATUTORY COMPLIANCE REVIEW

The Local Government Surplus Funds Trust Fund (Trust Fund or Fund) was created in 1977 and is governed by Part IV of Chapter 218, Florida Statutes, titled Investment of Local Government Surplus Funds. Although this name does not appear in the statute or rules, the Fund has historically been referred to as the Local Government Investment Pool (LGIP). In 2009 the Fund was renamed and rebranded, in conjunction with the introduction of new website functions. It is now known as Florida PRIME and is accessed on the internet from the State Board of Administration website via the Investment Funds/Pooled Funds/LGIP link. This change was approved by the Participant Local Government Advisory Council (PLGAC) and was effective August 10, 2009.

In Chapter 2008-59, Laws of Florida, effective May 28, 2008, the legislature mandated changes in the operation of the Fund and, at section 218.405(3), required a two part annual certification:

> (3) The trustees shall annually certify to the Joint Legislative Auditing Committee <u>that the trust fund is in compliance with the requirements of this part</u> and that the trustees have conducted a review of the trust fund and determined that the management of the trust fund is in accord with best investment practices. (Emphasis added.)

This is the second annual review of the Fund under section 218.405(3). Chapter 2009-21, Laws of Florida, amended one section of Part IV to conform internal references, but there have been no substantive changes to the statute since last year's review.

SCOPE OF REVIEW

This review addresses the first part of the annual certification and examines whether the Trust Fund is "in compliance with the requirements of this part." "This part" refers to Part IV of Chapter 218, Florida Statutes, which includes sections 218.40 – 218.422, Florida Statutes. The Trust Fund to be certified is defined at section 218.403(9) as follows:

> (9) "Trust fund" means the pooled investment fund created by s. 218.405 and known as the Local Government Surplus Fund Trust Fund.

The scope of this review will be sections 218.40 – 218.412, Florida Statutes, which control the operation of the Trust Fund, and the substantive requirements of the statute will be addressed in the order they appear. The time period covered by this review is May 30, 2009 through May 31, 2010.

PURPOSE

The purpose of Part IV of Chapter 218 is set out at section 218.401, Florida Statutes:

> 218.401. Purpose.
>
> It is the intent of this part to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of government, based on the principals of investor protection, mandated transparency, and proper governance, with the goal of reducing the need for imposing additional taxes.

By its terms, the Fund is limited to units of local government, as defined at section 218.403(11):

> 'Unit of local government' means any governmental entity within the state not part of state government and shall include, but not be limited to, the following and the officers thereof: any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporations, or any other political subdivision of the state.

This is a very broad definition, as it covers not just "any governmental entity…not a part of state government," but includes authorities, boards and public corporations, and is specifically not limited to the enumerated bodies. In addition, the definition of surplus funds, found at section 218.403(8), includes:

> [A]ny funds in any general or special account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purposes intended.

The listed names of some current Fund participants, as shown on Exhibit C, may appear not to fall within the commonly perceived sense of what would constitute a unit of local government, but are encompassed in the definitions above. For instance, Citizens Property Insurance is not a traditional local government, but is a not for profit, government corporation with a public purpose and is a public corporation.

Other entities, such as the Florida Department of Community Affairs (DCA) and the Florida League of Cities do not appear to be units of local government in any sense. The account established under the DCA title is for the Florida Communities Trust Fund, which is a "nonregulatory state agency and instrumentality which shall be a public body corporate and politic," section 380.504(1), Florida Statutes, which funds projects for the benefit of municipalities and counties. §380.502. So although the participant named is a state agency, the funds it holds are for the benefit of local governments. The League of Cities accounts are various insurance affiliates that serve municipal entities, such as the Florida Municipal Self-Insurers Fund. Other insurance-type funds include the Southwest Florida Intergovernmental Risk Management Association Health Trust, which operates under an intergovernmental cooperative agreement, and appear to be funds held by a trustee on behalf of a unit of local government.

There are various Fund participants related to the state university system. For instance, participant Florida State University Research Foundation is a not for profit corporation and a direct support organization authorized by section 1004.28, Florida Statutes to receive and administer property for the benefit of a state university or a research and development park or authority. §1004.28(1)(a). Although the state universities are a part of the executive branch of state government per section 1004.21, Florida Statutes, and therefore a part of state government, the FSU Research Foundation falls within the above definition as both an authority and a public corporation. In addition, university direct-support organizations are given express authority in section 1004.21(2)(a) to establish accounts under Part IV of Chapter 218, Florida Statutes.
I note that it is the Fund participant which is charged by statute with making the determination as to whether it is in its interest to participate in the fund. §218.407(2). The current enrollment materials require the participant to certify that it has determined it is authorized to invest in the Fund and state that the SBA is not responsible for independently verifying that the participant is so authorized. (Disclosure Statement, New Participant Enrollment Guide, p. 14.)

CREATION, OBJECTIVES

The Trust Fund is created at section 218.405, Florida Statutes.

218.405 Local Government Surplus Funds Trust Fund; creation; objectives; certification; interest; rulemaking.

> (1) There is hereby created a Local Government Surplus Funds Trust Fund to be administered by the board and to be composed of local government surplus funds deposited therein by units of local government under the procedures established in this part. The board may contract with a professional money management firm to manage the trust fund.

The State Board of Administration (Board) has contracted with a professional money management firm, Federated Investment Counseling (Federated), to manage the Trust Fund.

> (2) The primary objectives, in priority order, of investment activities shall be safety, liquidity, and competitive returns with minimization of risks.
> (3) (Certification requirement, cited above)
> (4) The board may adopt rules to administer the provisions of this section.

Both sections 218.405(4)(above) and 218.412(below) make rulemaking to administer the Trust Fund permissive rather than mandatory. The Board has adopted rules to govern the administration of the Trust Fund, which are found at Chapter 19-7, Florida Administrative Code. The majority of these rules were enacted in 1982, with recent amendments occurring in 2002. Rule 19-7.002 was amended effective December 13, 2009 to adopt the current Investment Policy Guidelines and to reference its availability on the website. New draft amendments to the rules have been proposed, along with a rulemaking timeline that would result in adoption toward the end of July of this year (Exhibit A). These amendments address the rate of return calculation (19-7.011), eliminate language that was duplicative of statutory provisions (19-7.012), eliminate the requirement of a reserve fund (19-7.017)(the statute makes a reserve fund permissive, not mandatory §218.409(3)), and amend the way accrued expenses are deducted (19-7.015).

HOW THE TRUST FUND INTERACTS WITH LOCAL GOVERNMENT AUTHORITIES

Section 218.407 sets out the requirements that must be met before a unit of local government may deposit surplus funds in the Trust Fund.

> 218.407—Local government investment authority.
>
> (1) Prior to any determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the trust fund, the board or a professional money management firm must provide to the governing body enrollment materials, including a trust fund profile containing impartial educational information describing the administration and investment policy of the trust fund, including, but not limited to:
> (a) All rights and conditions of participation, including potential restrictions on withdrawals.
> (b) The historical performance, investment holdings, credit quality, and average maturity of the trust fund investments.
> (c) The applicable administrative rules.
> (d) The rate determination processes for any deposit or withdrawal.
> (e) Any fees, charges, penalties, and deductions that apply to the account.

> (f) The most recently published financial statements or independent audits, if available, prepared under generally accepted accounting principles.
> (g) A disclosure statement for signature by the appropriate local government official.

The Board, with Federated, has created enrollment materials which include a Trust Fund profile and education information which appear to be impartial and to accurately describe the administration and investment policies of the Trust Fund and which meet the specific requirements of the above section.

All materials are provided at the Board's web site: www.sbafla.com/prime at the Local Government Investment Pool heading, which connects to the new Florida PRIME website, and at a separate link to the new site, and any amendments to the educational materials are noticed on the website.

The Local Government Investment Pool New Participant Enrollment Guide, now the Florida PRIME New Participant Enrollment Guide, was modified March 9, 2010. It is found at the website, and at pages six and seven (items one through nine), tracks the specific statutory requirements set out in section 218.407(1), and provides the required information. In addition, the Florida PRIME website includes a separate document titled Description of Investment Pool Apportionment Subsystem, which describes how investment earnings are allocated to participants. Exhibit B.

> (2) Upon review of the enrollment materials and upon determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the trust fund, a resolution by the governing body and the signed acceptance of the disclosure statement by the local government official, who may be the chief financial or administrative officer of the local government, shall be filed with the board and, if appropriate, a copy shall be provided to a professional money management firm authorizing investment of its surplus funds in the trust fund established by this part. The resolution shall name:
> (a) The local government official, who may be the chief financial or administrative officer of the local government, or
> (b) An independent trustee holding funds on behalf of the unit of local government, responsible for deposit and withdrawal of such funds.

Attached Exhibit C lists all open accounts now in the Trust Fund, the inception date of each, and indicates, based on staff review, the following:

- Whether a resolution or letter authorizing investment of the local government surplus funds in the Trust Fund is on file.

The requirement that a resolution by the governing body of the local government be filed with the Board predates the 2008 statutory amendments. Pursuant to 218.405, a"[u]nit of local government," defined in section 218.403(11) to include both governmental entities and the officers thereof, may make deposits in the Trust Fund. Section 218.407 requires a determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the Trust Fund, and a resolution to that effect. Officers such as tax collectors are specifically included in the definition of "unit of local government," and therefore are qualified to be Fund participants, but have no legislative power to pass resolutions. A common sense reading of these potentially conflicting provisions and all of Part IV of Chapter 218 in pari materia suggests that such officers may authorize investment in the Fund by documentation other than a resolution (such as the authorizing letters currently on file), signifying acceptance of the terms of participation in the Fund. The 19 accounts which were noted on last year's review as having no resolution on file, now show receipt of those resolutions. Accounts of the Brevard County Tax Collector shown last year as not having a resolution on file have been confirmed to have a letter of authorization. This column on Exhibit C has now been changed to read Resolution/Letter, in recognition that not all entities authorized to invest in the Fund have the power to pass resolutions.

The resolution is required to name the local government official or the independent trustee responsible for deposit and withdrawal of funds. Some of the resolutions and letters on file identify the responsible local official by title rather than by individual name.

- Whether the disclosure statement required by section 218.407(1)(g) has been provided for signature by the appropriate local government official, and whether a signed acceptance of this disclosure statement is on file:

Although the contents of this disclosure statement are not specified by the statute, because it is the last in the statutory list of items required to be provided by the Board to potential participants, it appears to be a statement that the specified materials have been received and therefore "disclosed" to the local government. The New Participant Enrollment Guide includes a form Disclosure Statement which acknowledges receipt and review of all pertinent enrollment materials. The disclosure acceptance statement requirement was added by the 2008 statutory changes.

Accounts opened after the date the new legislation took effect, by entities already participating in the Trust Fund, do not have disclosure acceptance statements and are shown on Exhibit C at note (1).

Participants enrolled since the 2008 amendments added the disclosure statement requirement and after the disclosure form was developed have these forms on file.

In the absence of any indication to the contrary, statutes are presumed to act prospectively rather than retrospectively. The statutory requirement of a filed, signed "acceptance of the disclosure statement" generally would not apply to participants qualified before May 28, 2008, but would apply to any accounts opened after that date by new participants.

There is another interpretation that suggests that any participant depositing moneys into the Trust Fund after May 28, 2008, was required to have submitted all the items specified by newly amended section 218.407. Section 218.409(1) was amended at the same time to add the underlined words to this sentence: "Upon receipt of the items specified in s.218.407 ~~resolution~~ from the local governing body, the ~~State~~ board or a professional money management firm ~~of Administration~~ shall accept all wire transfers of funds into the trust fund." This arguably creates the inference that transfers of funds should not have been accepted after May 28, 2008 without the disclosure acceptance statement. However, all participants have had notice of and access to the revised statute and all the material specified by section 218.407 through posting to the Fund's website, and therefore had actual or putative knowledge of the materials required to be disclosed. It would have been both illogical and impractical for the Fund to have refused deposits from existing participants with resolutions on file, based on lack of an executed disclosure statement, beginning on the May 28, 2008 effective date of the statutory amendments. Under the most cautious reading of the statute, however, a signed acceptance of disclosure would be required from each Fund participant that transferred additional money to the Trust Fund after May 28, 2008, and from all participants from which additional future deposits are anticipated.

The 2008 amendments also added at section 218.407(2), a requirement that "if appropriate, a copy [of the signed disclosure statement] shall be provided to a professional money management firm." Since the ability of the Board to use a professional money management firm to invest the moneys of the Fund was added at the same time, a strict reading of the words "if appropriate" appears to require a copy of the disclosure statement be provided to the outside management firm, if one is being used by the Board. Under this reading, for any participant submitting a signed disclosure statement, this statement would be provided to the money manager. Staff is of the opinion that Federated is serving as an investment manager of a pooled fund, and not managing individual investment accounts. For that reason, staff does not deem it appropriate to send participant account information to Federated. This is also a plausible reading of this part of the statute.

> (3) The board or a professional money management firm shall, upon the filing of the resolution, invest the moneys in the trust fund in the same manner and subject to the same restrictions as are set forth in s.215.47. All units of local government that qualify to be participants in the trust fund shall have surplus funds deposited into a pooled investment account.

The cross-referenced statute cited above details the types of investments permitted for all Board funds, including the fund here reviewed. This Trust Fund also must be invested in accordance with the LGIP Investment Policy Guidelines pursuant to section 218.409(2)(a). Part two of the

certification required by section 218.405(3), being conducted by Ennis Knupp & Associates, will determine if the Trust Fund is in accord with best investment practices.

ADMINISTRATION OF THE TRUST FUND, ADVISORY COUNCIL

218.409 Administration of the trust fund; creation of advisory council.—

> (1) Upon receipt of the items specified in s. 218.407 from the local governing body, the board or a professional money management firm shall accept all wire transfers of funds into the trust fund. The board or a professional money management firm shall also wire-transfer invested local government funds to the local government upon request of the local government official named in the resolution.

Staff confirms that funds may be transferred between the local governing bodies and the Board by wire-transfer, upon request of the local government official named in the resolution. A clearing account maintained by Bank of America, which is a qualified public depository, accepts money transmitted to the Board and transfers to BNY Mellon, as the custodian, as discussed further below. (See also the discussion of this section above.)

> (2)(a) The trustees shall ensure that the board or a professional money management firm administers the trust fund on behalf of the participants. The board or a professional money management firm shall have the power to invest such funds in accordance with a written investment policy. The investment policy shall be updated annually to conform to best investment practices. The standard of prudence to be used by investment officials shall be the fiduciary standards as set forth in s. 215.47(9), which shall be applied in the context of managing an overall portfolio. Portfolio managers acting in accordance with written procedures and an investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this part.

The Board administers the Trust Fund on behalf of the participants and handles accounting, statements, monthly reporting and compiling and maintaining enrollment materials. Federated, a professional money management firm contracted by the Board, invests the Trust Fund funds in accordance with the written Investment Policy Guidelines, interacts with participants to answer inquiries and facilitates Standard and Poor's ratings. BNY Mellon acts as custodian of all assets of the Fund and processes all trades made by Federated. BNY Mellon also does valuation and pricing for the Fund, on a daily basis.

Part two of the certification required by section 218.405(3), being conducted by Ennis Knupp & Associates, will determine if the Investment Policy Guidelines conform to best investment practices and if Federated has invested the funds in accordance with those Guidelines, as required above.

> (b) Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business on behalf of the trust fund. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the board.

The Board Inspector General provides, and all Board employees are required to complete, annual training sessions to assure that Board officers and employees involved in the investment process are not engaged in personal business activity that could conflict with the Trust Fund program or impair their ability to make impartial decisions. The training module for these annual sessions is attached with a list which shows completion of this training by all employees on or before September 30, 2009. Exhibit D. Employees and investment officials are required to disclose material interests in financial institutions with which they also conduct Trust Fund business, and any personal financial or investment positions that could be related to performance of the Trust Fund portfolio. The Board Ethics Policy 10-040 has recently been updated, on January 2, 2010, and is attached as Exhibit E. It now includes a section imposing an affirmative duty on management and staff to report and escalate:

> SBA management and staff have an affirmative duty to immediately escalate and report directly to either the Executive Director & CIO, the Inspector General, or the General Counsel, employee or contractual party fraud or misconduct (whether actual or suspected), employee or contractual party material error that adversely affects SBA or client assets or interests, misrepresentation or omission of material information in internal and external reporting and client communications, and violations of laws, rules or SBA policies. The Inspector General shall investigate any report upon first being made aware of the alleged fraud, misconduct, misrepresentation, error or omission under this provision.

Staff confirms that there have been no reports to date under the above provisions. Since the Fund is invested by a professional management firm, the Board has developed a process and document to be used by Federated to certify that it is in compliance with statutory ethics requirements. Exhibit F is the executed 2009 Compliance certificate. Federated has represented to Board staff that no disclosures have been made to date pursuant to the applicable ethics requirements.

> (c) The board or a professional money management firm and all employees have an affirmative duty to immediately disclose any material impact to the trust fund to the participants. To ensure such disclosure, a system of internal controls shall be established by the board, which shall be documented in writing as part of the investment policy. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls shall also include formal escalation reporting guidelines for all employees. The guidelines shall establish procedures to address material impacts on the trust fund that require reporting and action.

The written Investment Policy Guidelines include a system of internal controls, found at section IX of the 2009 Investment Policy Guidelines, Controls and Escalation Procedures, and require actions by BNY Mellon as the custodian, by Federated as the investment manager and by the nationally recognized statistical rating organization (Standard and Poor's) that performs regular independent surveillance of the Trust Fund.

For approximately three years, the Board intranet home page has included an employee toll-free fraud hotline number, highlighted in red, which allows all employees to anonymously report any concerns with regard to any aspect of Board functions, including the Trust Fund, and for these to be escalated directly to the Board's Inspector General or other appropriate person for investigation. In the period of time covered by this report, no complaints regarding the Trust Fund have been received. The hotline, operated by an independent company, is available 24 hours a day, 7 days a week and has recently been made available to Board vendors and service providers as well.

The Investment Policy Guidelines call for the Executive Director of the Board to organize an Investment Oversight Group (IOG) to regularly review and formally escalate exceptions or events that might have a material impact on the Trust Fund. The Investment Oversight Group has been formed and the minutes of its meetings, which have occurred at least monthly as required by the Guidelines, are posted to the Fund website. The controls and escalation procedures mandate immediate disclosure to participants of any material impact on the Fund, and include specific thresholds, based on percentage deviation between the market value and amortized cost

of the Fund, at which responsive action must be taken by the custodian, the investment manager, the IOG and the Executive Director. The investment manager is required to perform daily compliance monitoring, regular compliance reports and 24 hour notification to the IOG of compliance exceptions. The minutes of the IOG meetings covering the applicable dates shows active monitoring of Federated Investors activity in the Fund, review of compliance actions and reporting and routine reviews of monthly compliance reports.

The SBA is currently engaged in implementing an improved, risk-based, investment compliance monitoring program administered by the IOG. Effective December 1, 2009, a separate Risk Management & Compliance unit, headed by a Chief Risk & Compliance Officer reporting directly to the Executive Director and CIO was created. New Compliance Program Procedures were approved by the IOG effective May 14, 2010 and are attached as Exhibit G.

The Guidelines also require the Trustees to review and approve management summaries of material impacts on the Fund and any actions or escalations, along with any required actions thereon. The Local Government Investment Pool and Fund B Monthly Summary Reports, which are provided at the website, constitute these management summaries. (See further discussion on the contents of this Report under section 218.409(6).) As reflected in the agendas of the meetings of the Board Trustees for the applicable period of time, which are posted to the Cabinet Affairs website at www.myflorida.com, and attached as Exhibit H, the following approvals were requested: annual certification of legal compliance and best investment practices, July 28, 2009, quarterly review certification to the Joint Legislative Auditing Committee showing approval of monthly summary reports: October 27, 2009, January 26, 2010 and April 27, 2010.

The above safeguards assure that the administration of the Trust Fund is in accordance with stringent standards of disclosure designed to prevent the loss of funds from fraud, error, misrepresentation, market changes or imprudent actions by the Board or a money manager, and in some aspects exceed what is required by statute. The statutory requirement of a written reporting guideline directing all employees how to formally escalate such matters has now been met, with the amendment of the Ethics policy, 10-040 (see above), the Internal Controls and Fraud policy, 10-042 amended 11/2/09 and the Code of Conduct and Disciplinary Action policy, 20-250 amended 7/20/09 to each include a statement on how such matters are to be reported and escalated. Exhibit E.

> (d) The investment policy shall be reviewed and approved annually by the trustees or when market changes dictate, and in each event the investment policy shall be reviewed by the Investment Advisory Council and by the Participant Local Government Advisory Council.

Recommended changes to the Guidelines were developed based on evolving best practices in the money market fund industry and were endorsed by the Investment Advisory Council and the

Participant Local Government Advisory Council in their joint session of June 18, 2009 and approved by the Trustees on July 28, 2009.

> (3) The board or a professional money management firm may purchase such surety or other bonds as may be necessary for its officials in order to protect the trust fund. A reserve fund may be established to fulfill this purpose. However, any reserve must be a portion of the management fee and must be fully disclosed, including its purpose, in the enrollment materials at the time a unit of local government considers participation. Further, any change in the amount to be charged for a reserve must have a reasonable notice period to allow any participant to withdraw from the trust fund prior to the new reserve charge being imposed.

No surety or other bonds have been purchased to protect the Trust Fund. A reserve fund already existed before the period of this review and no additions have been made to it during the period of this review.

> (4) The board or a professional money management firm shall purchase investments for a pooled investment account in which all participants share pro rata in the capital gain, income, or losses, subject to any penalties for early withdrawal. Any provisions for penalties, including their purpose, must be disclosed in the enrollment materials. Any change in the amount to be charged for a penalty must have a reasonable notice period to allow any participant to withdraw from the trust fund prior to the new penalty charge being imposed. A system shall be developed by the board, and disclosed in the enrollment materials, subject to annual approval by the trustees, to keep account balances current and to apportion pooled investment earnings to individual accounts.

All participants in the Trust Fund share pro rata in all capital gain, income or losses, as set out in the Description of Investment Pool Apportionment Subsystem, posted to the website as part of the enrollment materials. This system is designed to keep account balances current and to apportion pooled investment earnings to individual accounts. According to staff, penalties for early withdrawal, in the form of a 2% redemption fee, existed until December of 2008, but were eliminated going forward from that time. Any changes to enrollment material contents required in sections 218.40-.415, Florida Statutes, are noticed to Fund participants no less than 45 days prior to the effective date of the change, pursuant to section VI of the New Participant Enrollment Guide. A recent Change to Participant Account Reporting, dated January 31, 2010, provided that all costs, both internal and external fees, would be charged directly to Fund earnings at the pool rather than participant level. In conjunction with this change, a new disclosure table breaking out all operating and investment costs was added to the Monthly Summary Report.

> (5) The board shall keep a separate account, designated by name and number of each participating local government. A maximum number of accounts allowed for each participant may be established by the board. Individual transactions and totals of all investments, or the share belonging to each participant, shall be recorded in the accounts.

Separate accounts are kept for each participant, with a maximum number of ten accounts for each participant.

> (6)(a) The board or a professional money management firm shall provide a report, at a minimum monthly or upon the occurrence of a material event, to every participant having a beneficial interest in the trust fund, the board's executive director, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The report shall include:
>
> 1. Reports of any material impacts on the trust fund and any actions or escalations taken by staff to address such impacts. The trustees shall provide quarterly a report to the Joint Legislative Auditing Committee that the trustees have reviewed and approved the monthly reports and actions taken, if any, to address any impacts.
> 2. A management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary shall be prepared in a manner that will allow anyone to ascertain whether investment activities during the reporting period have conformed to investment policies. Such reporting shall be in conformance with best market practices. The board or a professional money management firm shall furnish upon request the details of an investment transaction to any participant, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

A document titled Monthly Summary Report is produced monthly to address the above requirements and made available at the Trust Fund website.

The record of the quarterly report of the Trustees to the Joint Legislative Auditing Committee showing that the Trustees have reviewed and approved the monthly reports and taken responsive action, per section 218.409(6)(a) 1, is found at Exhibit H, agendas of the meetings of the State Board of Administration.

> (b) The market value of the portfolio shall be calculated daily. Withdrawals from the trust fund shall be based on a process that is

> transparent to participants and will ensure that advantages or disadvantages do not occur to parties making deposits or withdrawals on any particular day. A statement of the market value and amortized cost of the portfolio shall be issued to participants in conjunction with any deposits or withdrawals. In addition, this information shall be reported monthly with the items in paragraph (a) to participants, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

The market value of the Fund portfolio is calculated daily by BNY Mellon and posted on the website. The Information Statement and Operating Procedures, posted to the website with the enrollment materials, sets out at Section VII the operating procedures for the Fund, including hours of operation, holidays and timing of transactions. These procedures are transparent and appear to ensure, to the extent possible, that disadvantages do not occur to parties making deposits or withdrawals on particular days, as each participant has equal access to the transaction system. A statement of the market value and amortized cost of the portfolio is available at all times to participants on the website, and participants receive monthly individual account statements.

> The review of the investment portfolio, in terms of value and price volatility, shall be performed with practices consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, consideration shall be given to GASB Statement 31.

Compliance with the above part of section 218.409(6)(b) will be determined in part two of the annual certification, conducted by Ennis Knupp & Associates.

> Additional reporting may be made to pool participants through regular and frequent ongoing multimedia educational materials and communications, including, but not limited to, historical performance, investment holdings, amortized cost and market value of the trust fund, credit quality, and average maturity of the trust fund investments.

Additional materials are available on the Trust Fund website, are provided through the monthly reports, and are available at periodic Federated and Board conference call meetings open to all participants. At these meetings, participants are able to talk with representatives of Federated, the Board Executive Director and Board staff representing various areas of expertise. In addition, Federated attends a number of participant association meetings to provide information about the Fund.

> (7) Costs incurred in carrying out the provisions of this part shall be deducted from the interest earnings accruing to the trust fund. Such deductions shall be prorated among the participant local governments in the percentage that each participant's deposits bear to the total trust fund. The remaining interest earned shall be distributed monthly to participants according to the amount invested. Except for costs, the board or a professional money management firm may not transfer the interest or use the interest for any other purpose, including, but not limited to, making up investment losses.

Cost amounts are shown in the monthly reports. As stated above, the Monthly Summary Report now features enhanced reporting of all Fund fees and pool expenses intended to increase transparency by disclosing all components of fees, rather than reporting them in aggregate. The above statutory requirement, which was present in the law before the 2008 revisions, is still potentially problematic: If fund investment values were to decline sufficiently in a given month, there would be no interest from which to pay costs and fees, and the literal requirements of this provision could not be met. Staff confirms that, after deduction of costs, interest earnings are distributed monthly to participants, and that interest has not been used for any other purpose.

> (8)(a) The principal, and any part thereof, of each and every account constituting the trust fund shall be subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action shall be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government 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 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 prior to the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.

In the time period covered by this review, the principal of all accounts in the Trust Fund has been paid at any time requested by a participant and there have been no events causing the Executive Director to limit contributions or withdrawals.

> (b) An order to withdraw funds may not be issued upon any account for a larger amount than the share of the particular account to which it applies; and if such order is issued, the responsible official shall be personally liable under his or her bond for the entire overdraft resulting from the payment if made.

In the time period covered by this review, there have been no orders to withdraw funds for a larger amount than the share of a particular account.

> (9) The Auditor General shall conduct an annual financial audit of the trust fund, which shall include testing for compliance with the investment policy. The completed audit shall be provided to the participants, the board, the trustees, the Investment Advisory Council, the Participant Local Government Advisory Council, and the Joint Legislative Auditing Committee. As soon as practicable, but no later than 30 days after completion of the audit, the trustees shall report to the Joint Legislative Auditing Committee that the trustees have reviewed the audit of the trust fund and shall certify that any necessary items are being addressed by a corrective action plan that includes target completion dates.

The Auditor General annual financial audit of the Trust Fund was completed in February, 2009, including management response of February 16, 2009, and December 3, 2009, and is posted on the website. This audit was reissued in December, 2009 with an additional finding and management response of December 3, 2009 to confirm full disclosure of pending or threatened litigation, claims and assessments to the Auditor General and a commitment to providing all regulatory communications to the Auditor General, even those not subject to public disclosure. The Auditor General's annual financial audit for fiscal year ended June 30, 2009, with management response of March 3, 2010 is posted on the website and was forwarded to the Trustees on March 10, 2010 with response. Approval of a letter to the Joint Legislative Auditing Committee stating that items noted in the Auditor General's Annual Financial Audit have been addressed by a corrective action plan is scheduled for consideration by the Trustees at the June 8, 2010 Cabinet meeting, and reflects that the single recommendation of the audit has been met, and that the Board now has a clear, documented compliance monitoring and risk assessment procedure.

> (10)(a) There is created a six-member Participant Local Government Advisory Council for the purposes of regularly reviewing the administration of the trust fund and making recommendations regarding such administration to the trustees. The members of the council shall be appointed by the board and subject to confirmation by the Senate. Members must possess special knowledge, experience, and familiarity obtained through active, long-standing, and material participation in the

> dealings of the trust fund. Each member shall serve a 4-year term. Any vacancy shall be filled for the remainder of the unexpired term. The council shall annually elect a chair and vice chair from within its membership. A member may not serve consecutive terms as chair or vice chair.

The Participant Local Government Advisory Council (PLGAC) members have been appointed. At an initial meeting on February 25, 2009, a chair and vice chair were elected. Quarterly meeting notices, agendas and minutes of Council activities are posted on the Fund website. The PLGAC reviews investment reports, including the Monthly Summary Report, and any annual reports, oversees Fund operations and provides strategic guidance on policy issues.

> (b) The council shall prepare and submit a written biennial report to the board, trustees, the Investment Advisory Council, and the Joint Legislative Auditing Committee that describes the activities and recommendations of the council.

The PLGAC has met four times since the initial organizational meeting; on June 18, September 21 and November 30, 2009 and March 17, 2010. It plans to file its first written biennial report within two years of its inaugural meeting, by February 25, 2011. Although the specific components of the biennial report are not enumerated by statute, staff anticipates that the report will cover all major policy decisions, participant communications, operational enhancements and investment management policies taken over the prior 24 month timeframe.

AUTHORIZATION TO PROVIDE ASSISTANCE

218.411 Authorization for state technical and advisory assistance.

> (1) The board is authorized, upon request, to assist local governments in investing funds that are temporarily in excess of operating needs by:
> (a) Explaining investment opportunities to such local governments through publication and other appropriate means.
> (b) Acquainting such local governments with the state's practice and experience in investing short-term funds.
> (c) Providing, in cooperation with the Department of Community Affairs, technical assistance to local governments in investment of surplus funds.
> (2) The board may establish fees to cover the cost of such services, which shall be paid by the unit of local government requesting such service. Such fees shall be deposited to the credit of the appropriation or appropriations from which the costs of providing the services have been paid or are to be charged.

During the time period covered by this review, the Board has not received a request from any local government to provide the assistance authorized by the above section.

218.412 Rulemaking authority.—

The board may adopt rules as it deems necessary to carry out the provisions of this part for the administration of the trust fund.

As noted above, the Board has adopted rules for the administration of the Fund at Chapter 19-7, Florida Administrative Code, and is in the process of amending those rules.

OTHER SECTIONS OF PART IV, CHAPTER 218, FLORIDA STATUTES

Part IV of Chapter 218, Florida Statutes covers other facets of investment of local government funds, such as local government investment policies (Section 218.415) and the Fund B Surplus Funds Trust Fund (Sections 218.417 through 218.422). Because this review, as mandated by Section 218.405, is of the pooled investment fund created by 218.405 only, these sections are not a part of this review.

Note, however, that a portion of the Monthly Summary Report is devoted to Fund B status and actions. A comprehensive set of questions and answers about Fund B and its underlying collateral was produced on February 12, 2009 and is posted to the website.

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Florida PRIME Best Practices Review

June 2010

Florida State Board of Administration (SBA)

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Based on our best practices review of the Local Government Surplus Funds Trust Fund (formerly the Local Government Investment Pool), we continue to believe that the pool is currently being managed according to best practices and is positioned to be a high quality investment option for its participants. In our report, we provide an overview of our current recommendations, a review of actions taken in response to our recommendations from the 2009 Best Practices Review, and we review other new improvements made over the past year. The final sections of the report provide detailed information on the recent 2a-7 changes, Federated's full service model proposal, the ongoing communication efforts, improvements to the compliance procedures, and a review of the pool's operations.

Please note that we now refer to the Local Government Surplus Funds Trust Fund as the "Florida PRIME", which is the re-branded name for the pool.

Recommendations

- Revise the investment policy statement to reflect the expected changes in the management of the pool resulting from the recent SEC Rule 2a-7 reforms, specifically related to liquidity and illiquid securities

- Consider having Federated present a summary of the stress tests performed on the pool at least annually

- Work with Federated to adopt a process similar to that recommended by the SEC that will create a list of four approved Nationally Recognized Statistical Rating Organizations (NRSROs) for the pool

- Post the 7-day yield to the Florida PRIME website in addition to the 30-day and daily yields

- Retain Federated as the investment manager for the Florida PRIME, and continue to service the participants internally at the SBA; however, the SBA should consider the additional enhancements that Federated's full service model can offer and assess whether these services will increase the value of the pool to participants

- Consider additional enhancements to the Florida PRIME website that will result in more readily available information on the home page and fewer Adobe Portable Document Format (PDF) documents

- Revisit procedures regarding initiation and approval of cash wires associated with Federated's investment management activities and consider allowing Federated to handle cash wire activity

Actions Taken in Response to 2009 Best Practices Review

The SBA has made many improvements to the Florida PRIME since our last review of the pool in mid-2009. We list below the improvements made and actions taken by the SBA in direct response to EnnisKnupp's recommendations from the 2009 annual review of the pool.

- Maintain the current "2a-7-like" nature of the fund. We believe that, given the strict risk controls attendant to the current management practices of the LGIP, SEC registration (a very rare practice among LGIP's peers) would add (yield-reducing) cost and complexity without corresponding significant gains to participants.

  Action: Florida PRIME remains a "2a-7-like" fund. The following section details additional actions taken to ensure the pool remains "2a-7-like".

- Amend the LGIP's Investment Policy Guidelines to require compliance with the Investment Company Institute (ICI) Money Market Working Group's recommendations as a matter of policy, not just current practice.

  Action: A new investment policy statement is now in place that incorporates the ICI's previous recommendations. Later in the report we also describe additional changes that will be made based on the most recent SEC Rule 2a-7 reforms.

- Explore the possibility of expanding the lineup of pools available to participants. Currently one pool, with one attendant level of risk, is available to participants. The SBA might consider adding a second option which is restricted to government securities and avoids all forms of credit risk, for participants who desire such an option.

  Action: The SBA has discussed this in detail since the last review and while this continues to be a matter for consideration, there is no plan to add another fund(s) at this point in time. The main reasons for this are the lack of demand for an additional fund(s) and the SBA's desire to further stabilize the management of and grow participation within Florida PRIME. While we continue to encourage the SBA to consider and pursue this option, we concur with their assessment given current circumstances.

- Arrange for Bank of New York Mellon (BNY Mellon), the LGIP's custodian and book of record, to calculate the yield on the LGIP based on the SEC's yield calculation rules. This includes having BNY Mellon calculate a 7-day yield to be posted to the LGIP's website in order for investors to be able to compare the LGIP yield to other like products.

  Action: Since the last review of Florida PRIME, SBA worked with BNY Mellon who is now calculating the 7-day yield in compliance with the methodology set by the SEC Rule 2a-7 for money market funds.

- Consider extending the daily transaction deadline. The LGIP 11:00 AM ET deadline is relatively early compared with some peer and competing funds. If feasible, extending the transaction deadline to 1:00 PM ET or later would increase the convenience of participants. We understand that staff is currently working to change the transaction deadline by July 1, 2009 and therefore, has already adopted our recommendation.

  Action: Since the last review, the SBA successfully implemented a new daily transaction deadline of 1:00 PM ET from 11:00 AM ET.

- As a longer-term future consideration, explore using a third-party web interface for participant transactions. Currently a proprietary SBA system (SPLASH) is used. Federated's offerings in this area would be one candidate for consideration.

  Action: The SBA, in conjunction with EnnisKnupp, conducted a full review, complete with an onsite visit, of Federated's recordkeeping, client service, and online reporting capabilities. Section 3 of this report further expands on our observations and conclusions.

- Continue to improve the look and feel of the LGIP's website, which we understand is part of a current rebranding initiative. The LGIP website offers a wealth of information and disclosure, which we recognize as highly valuable. Streamlining the way this information is presented may help participants readily find the information they seek.

  Action: Florida PRIME now has a new website that presents information in a user-friendly manner to participants. This report provides additional analysis on the current website and offers some additional recommendations.

- Consider formalizing the process of monitoring communication (conference attendance, meetings, calls) between Federated and LGIP participants, to help evaluate their effectiveness and document any frequently arising issues.

  Action: The SBA and Federated's marketing department completed a re-branding of the pool during the year from the LGIP to the Florida PRIME complete with a new logo and marketing/education materials. This effort along with Mark Bloss, the Participant Consultant, who is on the ground in Florida, demonstrates success in formalizing the communication between Federated and the Florida PRIME participants.

- Change the primary benchmark from the gross S&P GIP benchmark to the corresponding net of fees benchmark given that the yield is calculated net of fees.

  Action: The primary benchmark for Florida PRIME is now the S&P AAA/AA Rated GIP All 30-Day Net Index.

Other Improvements to Florida PRIME

- Approved a new gain/loss policy
- All fees are now charged directly to the pool, consistent with the practices of SEC registered 2a-7 funds
- Provide full fee transparency in the monthly summary report
- Finalized a risk-based investment compliance monitoring program

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The SBA has made a number of changes over the past year that are bringing the management and reporting structure of the Florida PRIME more in-line with the rules and best practices set forth by the SEC for registered 2a-7 money market funds. We acknowledge that the Florida PRIME is not a registered 2a-7 fund and does not report to the SEC; these changes are in the spirit of the pool remaining a "2a-7 like" fund. These changes are detailed below.

Investment Guideline Changes

On January 27th, 2010 the SEC approved new rules for registered 2a-7 money market funds. The two primary goals of these new regulations are to 1) Increase transparency of funds' risks and investments and 2) Lower the overall risk profile of the funds by increasing liquidity and limiting lower quality investments.

The following table compares the old 2a-7 guidelines with the new rules recently put in place by the SEC. The fourth column details the expected change to the management of Florida PRIME once a discussion occurs between the SBA and Federated. The last column is the compliance date by which the SEC requires compliance for registered 2a-7 funds. In addition, we note that the SEC has repeatedly commented that there is the distinct possibility for additional reforms and that there are still many issues that need to be debated and addressed.

Policy	Old Rules	New Rules	Florida PRIME	Compliance Date
Liquidity	5% liquid within 1 day 20% liquid within 7 days	10% liquid within 1 day 30% liquid within 7 days	Adopt new liquidity guidelines	May 30, 2010
Illiquidity Standard	10% maximum in illiquid securities	5% maximum in illiquid securities	Adopt new illiquid securities guidelines	May 30, 2010
Credit Quality	5% maximum for Tier 2 securities and 1% in a single Tier 2 issuer Tier 2 limited to 397 day maturity	3% maximum for Tier 2 securities and 0.5% in a single Tier 2 issuer Tier 2 limited to 45 day maturity	Already adopted	May 30, 2010
Maturity Limits	WAM: 90 days & WAL: No Limit	WAM: 60 days & WAL: 120 days	Already adopted	June 30, 2010
"Know-Your-Investor"	No requirement	Funds must hold sufficiently liquid securities to meet redemptions and develop procedures to identify potential redemption requests that may pose a risk for the fund	Already adopted	--
Stress Tests	No requirement	Fund managers must examine fund's ability to maintain stable NAV per share in the event of shocks	Federated to provide results of the stress test at least annually to the IOG	August 31, 2010
Repurchase Agreements	Collateral limited to highly rated securities	Collateral must be agency or government securities and creditworthiness of the counterparty must be evaluated	Already adopted	May 30, 2010
NRSROs[1]	Can only invest in securities rated in top two rating categories (still in place)	Must designate at least four NRSROs considered reliable by fund's board	Further discussions needed, but Federated is developing procedures	December 31, 2010
Monthly Website Posting	No requirement	Funds must post portfolio holdings each month to their website and must be maintained for at least six months	SBA's current practices of posting holdings on a weekly basis exceed this requirement	October 7, 2010
Monthly Reporting	"Shadow" NAV reported twice a year to the SEC with a 60-day lag	Funds must report detailed portfolio schedules to the SEC each month	SBA already reports the market value and amortized cost of the pool on the website on a 2-day lag	December 7, 2010

[1] Nationally Recognized Statistical Rating Organizations

Many of the new reforms are already included in the Florida PRIME investment policy statement and are currently being implemented by Federated and the SBA. The investment policy statement already requires a maximum weighted average maturity (WAM) of 60 days and a maximum weighted average life (WAL) of 120 days. In addition, Florida PRIME does not currently invest in Tier 2 securities, and therefore, the guideline changes that lower the WAM, add a maximum WAL, and restrict investments in Tier 2 securities do not affect the current management of the pool.

Federated also pays close attention to the characteristics and intentions of participants in the pool, and the SBA includes a participant concentration report in the monthly summary report. Both the SBA and Federated also closely monitor daily cash flows and are aware of the cyclicality and trends in each participant's withdrawals and contributions during the year. Federated also has a representative (Mark Bloss) who acts as a liaison between the SBA and the participants, a position that allows him to closely monitor and "get to know" each participant. This intimate knowledge of the pool's participants allows Federated and the SBA to monitor large redemptions and ensure that there is adequate liquidity available. In addition, this positions the pool advantageously relative to the SEC's "Know-Your-Investor" rules.

The SBA also posts the pool's weekly holdings to the Florida PRIME website, which is on a much more frequent basis than is now required by the SEC, and the daily market value and amortized cost information on a two day lag. In addition, Federated only invests in repurchase agreements that have agency or government securities as collateral and a full review of each counterparty is conducted before investment. This is in-line with the new SEC rules. Therefore there will be no discussion regarding any changes to these current practices as they are already in-line with or exceed the SEC requirements for 2a-7 funds.

The main changes to the management of the pool are expected to include increasing the daily and weekly liquidity levels and decreasing the percentage invested in less-liquid securities—two requirements for registered 2a-7 funds starting May 30, 2010. In addition, by May 30, 2010, the SEC will require registered 2a-7 funds to stress test portfolios for changes in interest rates, redemption schedules, credit events, and credit spread widening and in addition, to present the results to the Board of Directors each quarter. While Federated currently completes periodic stress testing and scenario analysis on interest rates and redemptions in order to ensure that the pool maintains adequate liquidity, a discussion between Federated and the SBA will need to occur in order to decide whether both parties are interested and believe it to be beneficial to exactly mirror the guidelines set by the SEC for stress testing. Federated is currently drafting and re-writing the current procedures and expects to present this to the SBA in the near future. Currently, Federated is not required to provide the stress test results to the SBA. We believe that providing a summary of the results of the stress tests at least annually will be sufficient.

Further discussion is also warranted with regard to the new reform related to NRSROs. The current rule states that funds can only invest in securities rated in the top two rating categories, which will remain in place; however, the new rule also specifies that the portfolio manager must designate at least four NRSROs considered reliable by the fund's Board. We recommend the SBA work with Federated to adopt a process similar to that recommended by the SEC that will create a list of four approved NRSROs for the pool.

Calculation of the SEC 7-Day Yield

In our 2009 Best Practices Review of the pool, we recommended that the SBA calculate yields based on the methodology described in FORM N-1A and post a 7-day yield on Florida PRIME's website. Our reason for this recommendation was to allow current and prospective participants to compare the Florida PRIME's performance with those of other money market fund products. We also recommended that BNY Mellon, Florida PRIME's custodian, calculate the yield.

Since this recommendation was made, BNY Mellon has begun calculating the 7-day yield for Florida PRIME. In conjunction with the new calculation, SBA staff has instituted a reconciliation process between SBA and BNY Mellon to ensure the yield calculation is accurate before being viewed by participants. While the change to the yield calculation still needs to be adopted as an amendment to the Rules and Regulations of Florida PRIME, the SBA is planning to post the 7-day yield on Florida PRIME's website in the near future, which will be in addition to the 30-day and daily yields. This will not only allow participants to compare across money market funds, but will also allow them to compare to other large local government investment pools, which typically post a monthly or daily yield.

Realized Gain/Loss Policy

The 2009 Best Practices Review also recommended the SBA adopt the proposed Realized Gain/Loss Allocation Policy. We did note that while the policy was not entirely consistent with how most registered 2a-7 funds account for gains and losses, it was consistent with best practices of other local government investment pools. Since that report, the policy has been reviewed and approved by the Participant Local Government Advisory Council (PLGAC).

The policy still allows for the use of the Reserve Account to make up for any losses that do not have sufficient gains to be offset. At this time, there is not a Reserve Policy given that a Reserve Account is currently not being utilized, maintained, or funded. We are comfortable with this approach given that if the SBA decided to implement a Reserve Account the PLGAC would approve this decision and in conjunction, approve a formal Reserve Policy.

Fee Calculation and Transparency

Another measure taken by the SBA to mirror the practices of 2a-7 registered money market funds, to be consistent with industry best practices, and to provide more transparency to participants, was to charge all fees directly to the pool, instead of to individual participants, and provide full disclosure of all fees charged.

Historically, internal operating costs (approximately 0.6 bps) were charged directly to the participants and were disclosed on the participants' monthly statements. However, the external banking and oversight costs (e.g. custody fees, compliance monitoring, etc.; approximately 3 bps) were charged directly to the pool and were not disclosed to participants. Since January 2010, the SBA has charged all fees directly to the pool instead of a portion paid directly by individual participants, and has fully disclosed the components of the fees in the monthly summary report. This fee disclosure provides a detailed breakdown of the costs associated with the pool including fees for client service, account management, fiduciary oversight, investment management, custody, S&P rating, and audit reviews. This will remain a permanent aspect of the monthly reporting package.

Overview

The SBA currently provides the pool participants with full recordkeeping capabilities, daily and monthly position and transaction reports online or in Microsoft Excel or .CSV format, a daily call center, and a business continuity plan. In late April 2010, representatives of the SBA and EnnisKnupp visited Federated's Pittsburgh and Warrendale, PA offices to learn about the full suite of services Federated could potentially provide to the pool participants. Federated has the capability to provide a full suite of investor services that goes beyond investment management and the marketing/communication services currently provided. The purpose of our review is to determine whether the additional cost that adoption of a full service model would incur is worth the extra services and whether the full service model would add significant value to participants above and beyond what is already offered.

Federated could provide the SBA and Florida PRIME's participants with access to a daily call center and ongoing financial markets training, a suite of online tools that allow participants to execute transactions and access position and transaction information, a business continuity plan, and a dedicated relationship manager. We describe each service below based on information gathered from our onsite visit to Federated's offices.

Client Service

Federated currently employs 162 individuals within Investor Services, a division of Federated that is dedicated to providing a wide range of services to its clients. Federated supports both individual participants as well as intermediaries that offer a particular investment (or investments) managed by Federated Investors. The entire staff within Investor Services is FINRA-licensed, with the majority of the employees having passed both the Series 6 and 7 exams. This is intended to ensure that the client service teams are adequately prepared to assist participants and intermediaries and have an appropriate level of knowledge with regards to the securities industry.

If the SBA decides to implement Federated's full service model, Federated would assign a dedicated relationship manager to the Florida PRIME account. The proposed client service representative for Florida PRIME is currently the relationship manager for TexPool (Texas's $19 billion local government investment pool) and therefore has experience servicing a large local government investment pool similar to Florida PRIME. We also talked directly with TexPool and learned that their experience working with Federated and the services Federated provides TexPool has been very satisfactory and well received by the pool's participants.

Call Center

Federated's call center, open 8AM-6 PM EST, currently employs 50 individuals that each respond to 200,000 calls per year. The managers within the group monitor calls conducted by the client service representatives (CSRs) and track the outcome of each call. The team tracks various quantitative metrics in an attempt to understand changes in call volume, drop rates, and response time. In addition, the managers are able to track phone calls and provide constructive feedback to the CSRs on an ongoing basis.

Federated also tracks the specific questions asked by the caller, any research conducted during the call, and the level of satisfaction of the participant. This information is stored in the system and can be accessed by anyone on the call center team, which is intended to maintain continuity among calls from a single participant.

Overall, our impression of the call center was that they place a strong emphasis on client service and have processes in place to ensure their level of client service remains high. The technology that is in place helps to monitor the success of each call, gauges the participant's satisfaction, and assists in ongoing training.

The SBA currently has an individual that is dedicated to answering participant phone calls of which there are about 100 to 150 per month. This individual tracks the number of calls each month and keeps a detailed monthly log that indicates the reason for each call. The call center is open from 7:30AM to 4:30PM.

Training and Education

Federated has developed a curriculum of educational courses that local governments can use to fulfill state requirements or meet the criteria for continuing education for Certified Public Accountants. All of the courses are offered online and are available 24 hours a day, seven days a week by having access to an internet connection. Each course takes approximately 50 minutes, has a test at the end wherein the participant must score at least a 80% in order to pass, and when completed, Federated sends a Certificate of Completion to the participant as proof of completion. The system is fairly sophisticated in that Federated has the ability to track who is using the system, how long he or she spent on a particular course, and whether he or she passed the course.

The Level 1 curriculum was developed using the experience of Federated's investment professionals and includes the following courses: Managing Risk, Mutual Fund Concepts, and General Securities Series that includes Money Market Instruments, Municipal Bond Sector, Equity Sector, Government Bond Sector, and Corporate Bond Sector. Federated has also begun to develop Level 2 courses and higher that consist of Factors that Move the Market, Anatomy of a Recession, The Regulators, and Ask the Portfolio Manager, Analyst, and Trader (sessions narrated by investment professionals in each of those areas).

Access to the education and training program can be controlled by the SBA based on any number of criteria including dollars invested in the pool. This is something that Federated has the ability to customize for the SBA, if necessary.

Recordkeeping and Online System

Federated outsources pool recordkeeping to Boston Financial Data Services (BFDS), which is integrated with Bank of New York Mellon, the SBA's current custodian of record. BFDS is responsible for reviewing and auditing the monthly account statements that are mailed by the 5th business day of each month, and available online by the 3rd business day. Federated conducts an audit and due diligence review of BFDS on an annual basis.

Federated's online system allows participants to execute transactions, including deposits, withdrawals, and inter-fund transfers and access account statements that detail each account's transactions, income distributions, and positions. SBA's current service model also provides similar account statements and online access to execute transactions. The account statements are available online by the 1st business day and can be viewed online or exported to excel. The SBA then typically mails participant statements on the 2nd business day. In addition, both the SBA and Federated offer future-dated transactions for participants should they desire to enter a transaction for a pre-set date. On Federated's system, participants can also initiate online vendor bill payments, which is not currently a feature offered by the SBA. In addition, Federated offers next day settlement on ACH transfers and pool messaging wherein information can be disseminated to participants through the monthly account statements. Access to the various services is controlled by the participant's 6-digit PIN number.

Disaster Recovery

Federated has two locations, one in downtown Pittsburgh and the other in Warrendale, PA, approximately 25 miles outside of Pittsburgh. These two sites each act as a secondary site for the other, meaning that individuals in the Warrendale office will move to the Pittsburgh office and vice versa should an event occur that compromises the ability of an office to continue to function. Each year, Federated undertakes a live test and moves one group to the secondary office, either from Warrendale to Pittsburgh or vice versa.

The SBA also has a disaster recovery and business continuity plan. The SBA has two additional sites: 1) the State of Florida Shared Resource Center and 2) an alternate workgroup site. The Shared Resource Center is located in an area of Tallahassee, FL separate from the primary data center (the Hermitage Centre) that replicates all critical data applications, including those related to the Florida PRIME. The alternative workgroup site is located in Marianna, FL, approximately 70 miles west of Tallahassee. This site is intended to be an ideal location as it is close enough for SBA staff to readily commute to, but is also far enough away that the risk of a hurricane or other disruptive event affecting both sites simultaneously is diminished. Both centers have the necessary hardware to ensure that there is no break in service or availability of the various systems during an electrical storm, and the viability of both centers is tested annually.

Conversion

A critical consideration in this evaluation would be the process of converting from the SBA's current recordkeeping systems to Federated's; a task that is no small undertaking. The Business Integration Services team at Federated is dedicated to assisting new clients in converting to Federated's platform. This team has significant experience in converting clients to Federated's system and would apply their experience and expertise to mitigate any disruptions experienced by the participants. The conversion process would take between four and five months to complete. Federated plans to initially focus on converting the current services offered through the SBA's current platform (Conversion Part 1) and, once this is completed, would then seek to roll out additional enhancements to the system (Conversion Part 2).

Fees

Federated proposed a fee schedule for their potential servicing model that begins at 2.5 basis points (bps) and decreases as assets grow. These fees are in addition to the fees charged by Federated for investment management, as well as other fees associated with the administration of the pool, including compliance and audit fees. Currently, the SBA reports that it costs slightly more than 1 bp for the administration of the pool and service to participants; however, the SBA currently only charges 0.6 bps to the pool. Therefore, current total fees are approximately 3.6 bps; however, if the fee to the pool matched the cost to the SBA, the total fee charged by the pool would be approximately 4 bps. If Federated's full service model were adopted, SBA's internal costs would decrease to approximately 0.4 bps from 1 bp, but Federated's fee would increase by 2.5 bps (assuming a balance of $5 billion or less). Overall, this would result in an increase of the pool's fee to approximately 6 bps. This fee would include not only investment management and the SBA's administration costs, but also include custody, portfolio accounting, and transfer agency (participating level accounting) functions.

Conclusion

In looking at the practices of Florida PRIME's peers, approximately 50% of the pools in the iMoneyNet 2009 LGIP Comparison use an outside administrator and recordkeeper. When looking at the top 25 pools with the largest assets under management ($3 billion to $25 billion), approximately 25% use an outside administrator. This suggests that among the largest pools, which presumably have larger staffs and greater levels of resources dedicated to the pool, the majority continue to provide recordkeeping and administrative support to participants in-house.

From our perspective, the team that services the Florida PRIME participants at the SBA and the technology available, including the recordkeeping, accounting, and online systems, appear to provide the participants with accurate and timely reports and tools and procedures that allow them to manage their transaction needs efficiently. Federated's online, recordkeeping, accounting, and reporting capabilities are generally comparable to those of the current SBA service model. In addition, both institutions have disaster recovery and business continuity plans. For these reasons, we recommend the SBA continue providing investor services to the pool participants.

However, we do note that Federated's model does include some additional enhancements that may be appealing to current and prospective pool participants:

- Call center's advanced technology for tracking and monitoring participant calls
- Financial education and training program
- Enhanced online capabilities, including online vendor bill pay and pool messaging
- Additional features customizable to the needs of the pool participants such as a securities pricing tool

In determining whether to pursue the full service model, the key consideration should be whether the additional services provided by Federated, above and beyond what is offered by the current model, will make the pool more valuable to participants. The SBA should also consider the types of participants investing in the pool and whether these additional services are attractive and desired. In order to assist in this evaluation, the SBA sent out a survey to participants on May 7th, 2010 to better understand how participants are utilizing the current service offerings and gauge interest in these additional services. There were 108 responses, which we recognize is a small number relative to the overall number of participants; however, the information provides some perspective on participant daily activities and needs as it relates to their investments in the Florida PRIME.

Based on the 108 responses to the survey, the majority of responders believe the current website to be very useful and relatively easy to use. In addition, for those participants that utilize the call center, the responses indicated that they consider the current call center staff at the SBA to be helpful, knowledgeable, and responsive. With regards to additional services, there appears to be interest in adding the option to request withdrawals via ACH or wire, extending the pool hours beyond 1PM EST, and allowing participant directed wires and future dated transactions. There was mild interest in employee training; however, there was very little interest in having access to securities pricing and vendor bill pay. When asked about their interest in these additional services at a higher fee, the interest in all additional services dropped, indicating a significant aversion to higher fees charged by the pool.

This information along with the reality of imposing a higher fee on the pool (an increase of approximately 2.5 bps) should be considered in conjunction with the potential disruption to the pool's 1,400 participants, and the additional work required by the SBA staff, to convert the pool to Federated's platform.

Communication with the pool participants, both existing and prospective, continues to be an important and critical aspect of the services provided by the SBA. The SBA works closely with Federated's marketing and corporate communications department to continually improve and enhance the level of communication between the SBA and the pool participants.

2009 Accomplishments

Communication initiatives completed in 2009 included the launch of the Florida PRIME brand, complete website redesign, and development of additional marketing materials. In developing the brand identity, Federated and the SBA worked together to solicit feedback from both the PLGAC and the pool participants in order to arrive at the most appropriate look and feel for the pool's new brand. This new brand was then launched through the redesign of the website as well as new marketing materials distributed via the website, email, and direct mail.

The SBA and Federated also worked in 2009 to ensure the information on the website was readily available and organized in a user-friendly manner for both current and prospective participants. When compared to the websites of other large local government investment pools, we believe that Florida PRIME's website is one of the best as it provides significant transparency and all of the necessary information in an organized manner and is relatively easy to navigate. Some of the most relevant information for participants is listed directly on the main home page including the 30-day and daily yields as well as the market value and amortized cost.

The website also contains the current and historical monthly summary reports, current and historical pool performance, rules and statutes, S&P ratings information, minutes and presentations from both the Investment Oversight Group and PLGAC meetings, enrollment materials, the most recent audit report, current and historical financial statements, and detailed information on Fund B. Importantly, all of this information is just one or two clicks away from the pool's home page.

Below we list just a few suggestions for enhancements to the website:

- Include "pop-up" definitions for the various financial terms used on the home page.
- There is a link on the home page to the Florida PRIME Fact Sheet; however, we suggest adding a few paragraphs on the home page (without needing to click) that defines Florida PRIME and why it should be considered the best investment value for Florida local governments.
- An enhancement to be considered is the ability to show pool performance and characteristics directly on the website instead of opening a separate PDF for each report.
- If the SBA has not already planned to do this, we would also suggest that the new Florida PRIME FAQ document have a link on the home page that is easy to access.

In addition to the rebranding and new website design, the SBA also worked with Federated to create a few new pieces of marketing literature to be distributed through various venues. The pieces that have been completed and distributed include the Florida PRIME Fact Sheet, Florida PRIME Q&A (Frequently Asked Questions), Weekly Market Commentary designed to provide a brief snapshot from the portfolio manager on the current market environment, and Florida PRIME booth graphics that are utilized at conferences and meetings throughout Florida.

Communication materials that are currently in progress include a Public Funds Investing white paper that provides an in-depth look at Federated's approach to investing, credit research process, and other relevant information about Federated, and the Florida PRIME Process and Overview (a 4-page pocket folder designed to contain any specific information on Florida PRIME).

2010 Initiatives

In 2010, Federated and the SBA plan to launch a sophisticated email campaign that will focus on digital forms of participant communication and hopefully encourage participants to visit the website to obtain information and stay updated on current events related to Florida PRIME. The goal would then be to utilize a tracking tool that will allow the SBA and Federated to track how participants are using the digital communication and website, which will in turn help to develop more targeted communication materials that correspond to how participants are spending their time and what they are interested in.

In addition to the email initiative, Federated also plans to continue to be present at Florida conferences and utilize direct mail for target audiences within the participant base.

Conclusion

Overall, the level of communication between Federated, the SBA, and the pool participants has greatly improved over the past two years. Federated continues to provide a high level of marketing support and works closely with the SBA to ensure that the communication materials are successful and in the best interest of the participants. Federated continues to bring new ideas and initiatives to the table that will enhance and improve the overall level of communication that the SBA has with the participants.

At the time of our 2009 Best Practices Review, the SBA had in place an Investment Oversight Group that met on a monthly basis and was composed of the following individuals: Deputy Executive Director, Senior Investment Officer for Fixed Income, Fixed Income Compliance Officer, and Manager of Enterprise Risk Management & Compliance.

Since June 2009, the SBA has restructured the organization to include a separate Risk Management and Compliance department. This department is headed by a Chief Risk and Compliance Officer who reports directly to the Executive Director and Chief Investment Officer. In addition, the Fixed Income Investment Oversight Group (IOG) was formally established in Executive Director Policy #10-064 "Senior Investment Group" and effective 1/2/10 is comprised of the following individuals: Deputy Executive Director, Chief Risk and Compliance Officer, Director of Fixed Income Compliance, Senior Investment Officer of Fixed Income, and the Director of Investment Risk Management.

The fiscal year 2009 Financial Audit of the Local Government Surplus Funds Trust Fund recommended that the SBA "finalize and implement a documented, risk-based investment compliance monitoring program for the LGIP." In its written response to this recommendation, the SBA mentioned its organizational restructuring to create a separate and distinct compliance department and the new configuration of the Fixed Income IOG. The risk-based compliance monitoring program for the Florida PRIME was implemented for the May 2010 month-end. The risk-based compliance methodology was approved by the IOG at their meeting on 3/18/10, and final written procedures were developed by Risk Management and Compliance and distributed effective 5/14/10 to relevant SBA staff.

We are in favor of the actions taken by the SBA to improve the compliance and risk procedures that support the management and administration of the Florida PRIME. A dedicated risk and compliance department with a Chief Risk and Compliance Officer is an optimal structure for a large investment organization and we are also in support of clear, documented compliance and risk procedures. We feel that the SBA has taken the appropriate steps to respond to the financial audit recommendations and to improve the risk assessment and compliance oversight for the Florida PRIME.

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We also completed a review of the operational aspect of managing the pool, which includes reconciliation of positions and transactions between Federated, BNY Mellon, and the SBA, cash wires, and trade settlement activity. In March there was one instance that resulted in a missed trade and two instances in April where there was miscommunication regarding the available cash position in the portfolio. In all instances, there was no loss to pool participants; however, this does highlight the operational complexities that are involved in managing the Florida PRIME, and has raised some concerns among the various parties. We describe the events briefly below and the responses to these occurrences.

We also address the current process in place to execute wire transfers for the Florida PRIME and assess whether this process is in-line with industry standards.

March Event

On March 31, 2010, Federated's trading operations area sent a late notification to the SBA, around 4:30PM, of a time deposit purchase that had occurred earlier that morning that required a wire out of approximately $250 million. However, BNY Mellon, the pool's custodian, had already swept the portfolio's cash into a Dreyfus money market fund, consistent with existing procedures. Three options were considered in order to resolve the situation including a reversal of a portion of the Dreyfus purchase, allocating the trade to another Federated portfolio, and as a last resort, overdrawing the pool. Ultimately the SBA declined to overdraw the pool given the additional complexities and fees associated with that potential action and reversing the Dreyfus trade was not option. Therefore, the final outcome was that Federated reallocated the trade to another portfolio.

This was a human error on the part of Federated that did not result in any losses to participants. We do note that if the cash had been invested in the time deposit as originally intended, the interest earned overnight on the $250 million would have been $800 higher than that which was earned in the Dreyfus money market fund. Federated recognizes the error and has enhanced and automated their internal procedures to ensure that a similar event does not occur in the future. While this is an unfortunate occurrence, it did not result in any overdraft for the Florida PRIME and we believe that Federated is taking the necessary steps to minimize the probability and severity of any similar events in the future.

April Events

There is currently a process in place whereby Federated, BNY Mellon, and the SBA communicate on the available cash position in the pool on a daily basis. The process begins with a cash report delivered from BNY Mellon to both Federated and the SBA at the beginning of each day. The SBA reconciles this cash report with their system and then at 1PM provides Federated with another cash report that not only includes income and maturity payments (reconciled with BNY Mellon), but also includes participant contributions and withdrawals. The participant information is not provided by BNY Mellon because the SBA is responsible for all recordkeeping activities under the current pool structure. This cash report is then used by Federated to make any remaining investments in the afternoon to ensure the pool is completely invested through the afternoon and overnight.

In April there were two instances where the trades Federated initiated after receiving the 1PM cash report added up to more than the available cash in the pool. During this particular time in April, Federated was making enhancements to their system given the new 2a-7 rules, most of which go into effect on May 30, 2010. It appears that given these enhancements there was a system error that caused a disconnect between the amount of cash Federated thought they had available and the actual amount of cash available to invest. In both instances, the error was caught early in the afternoon by SBA staff and did not cause any losses in the pool.

EnnisKnupp, SBA staff, and Federated conducted a review of the current procedures to determine whether a new process could be adopted that was more sound and efficient than the current process in place today. After multiple discussions between the various parties, we determined that the current process is not flawed and that communication between Federated, SBA staff, and BNY Mellon (custodian) is similar to the process Federated has with other clients. While this is true, the process is slightly more automated with Federated's other products; however, the difference is not significant and the current process has worked well over the past two years without any disruptions. The two incidents described above appear to have been isolated incidents that stemmed from a system interruption at Federated. Therefore, we do not recommend a change to the current process.

Cash Wires

The process currently in place with regards to cash wires associated with the Florida PRIME is that the SBA staff initiates, approves, and releases all wires including those associated with investment activity. This includes wires associated with Federated's trading of tri-party repurchase agreements and time deposits.

Based on conversations with other large local government investment pools and feedback from other investment managers that manage assets for other local government investment pools, EnnisKnupp learned that this practice is fairly uncommon in the industry. Common practice for local government investment pools that utilize outside investment managers is to approve the process for wiring cash and then allow the investment manager to complete that function as a part of their overall fiduciary duty to oversee and invest the assets.

Based on this initial evaluation, we recommend the SBA revisit these procedures and consider allowing Federated to initiate and approve wire transfers, after a thorough review and approval of Federated's process and compliance procedures related to wire transfer activity.

OTHER TOPICS

In addition to reviewing the actions taken by the SBA in response to our recommendations from 2009, the changes being made and addressed due to the new SEC Rule 2a-7 reforms, Federated's full service model relative to the SBA's recordkeeping and participant service model, the continued communication efforts, the new compliance procedures, and the pool's operations, we have also been asked to address one additional topics related to Florida PRIME: diversification among cash investments for local government entities. Our response on this issue is included below.

Cash Investments Diversification

It appears that recent actions have been taken on the part of the local governments in Florida to restrict the amount of cash that may be allocated to one particular pool or money market fund through revisions to the local governments' investment policy guidelines. Our opinion is that having more than one cash-like investment fund does not provide the investor with much greater diversification, given that most short-term fixed income and cash managers are investing in similar securities and will often have significant overlap among their portfolios. Having more than one cash manager can provide some organizational diversification. We believe that if a local government should be investing in cash that one local government investment pool, and especially the Florida PRIME for Florida participants, is an appropriate investment vehicle.

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MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Mike McCauley

Subject: Agenda Item for the June 8, 2010 Cabinet Meeting: Proposed Amendments to Rules 19-7.010, 19-7.011, 19-7.012, 19-7.013 19-7.015, 19-7.016 and 19-7.017- Request Approval to File the Rules for Notice

Date: May 12, 2010

ACTION REQUESTED:

The staff of the State Board of Administration requests that the Trustees approve filing of the following amended rules for notice:

Rule 19-7.010 (Pooled Investment Accounts)

Amended to provide correct reference to the Local Government Surplus Funds Trust Fund.

Rule 19-7.011 (Rate of Return Calculation)

Amended to provide that the rate of return calculation for the Local Government Surplus Funds Trust Fund will be calculated in accordance with the yield methodology set forth by the Securities and Exchange Commission (SEC) Rule 2a-7 (17 CFR §270.2a-7) under the Investment Company Act of 1940 for money market funds; and to indicate how a copy of the SEC Rule can be obtained.

Rule 19-7.012 (Pool Participation)

Rule deleted as being unnecessary, as all rule provisions are now covered by statute.

Rule 19-7.013 (Reporting Procedures)

Amended to delete investment services charges, which no longer are imposed.

Rule 19-7.015 (Allocation of Earnings)

Amended to delete the investment service charge which no longer is imposed; amended to indicate that if the end of the month account balance of any participant falls below $1,000, the account may be closed by the SBA and the residual balance will be returned to the participant.

Rule 19-7.016 (Close of Business)

Amended to provide that any requests for funds to be returned or notification of funds to be wired for investment after 1:00 p.m. EST (formerly, 11:00 a.m.), may be included in the following day's business.

Rule 19-7.017 (Pooled Investment Account Reserve Fund)

Rule deleted as being unnecessary, as all rule provisions are now covered by statute.

A rule development workshop was offered on April 26, 2010, but it was not held as it was not requested.

If the Trustees give permission to file the amended rules for notice, a rule hearing will be held on July 12, 2010, if requested.

Attachments

Proposed Amended Rules 19-7.010, 19-7.011, 19-7.012, 19-7.013, 19-7.015, 19-7.016 and 19-7.017

19-7.010 Pooled Investment Accounts.

Rules 19-7.001 ~~19-7.010~~ through 19-7.016, F.A.C., are developed for the Local Government Surplus Funds Trust Fund ~~Pooled Investment Account~~ pursuant to Section 218.409, Florida Statutes.

Rulemaking ~~Specific~~ Authority 218.405, 218.412 FS. Law Implemented Ch. 218, Part IV FS. History–New 8-24-82, Formerly 19-7.10, Amended 3-26-02, _____.

19-7.011 Rate of Return Calculation.

The Rate of Return for the Local Government Surplus Funds Trust Fund shall be calculated in accordance with the yield methodology set forth by the Securities and Exchange Commission (SEC) Rule 2a-7 (17 CFR §270.2a-7) under the Investment Company Act of 1940 for money market funds. Rule 2a-7 can be obtained by accessing the SEC website at sec.gov and clicking on the Laws & Regulations section. For the purposes of comparing the yield of the Local Government Surplus Funds Trust Fund to that of a performance benchmark for participant reporting, a net-of-fees methodology will be utilized for all reporting periods for both the Local Government Surplus Funds Trust Fund and the performance benchmark.

~~The Rate of Return Calculation for the Pooled Investment Account shall be as follows:~~

~~(1) Daily Rate of Return:~~

$$\cancel{DRR} = \frac{\cancel{DAE \times 360}}{\cancel{IB}}$$

~~DRR = Daily Rate of Return (stated as a decimal fraction)~~

~~DAE = Daily Accrued Earnings~~

~~IB = Investment Balance at Cost (End of Day)~~

~~(2) Moving 30 Day Average Rate of Return:~~

$$\cancel{MRR} = \frac{\cancel{MAE \times (360/30)}}{\cancel{AIB}}$$

~~MRR = Monthly Average Rate of Return (stated as a decimal fraction)~~
~~MAE = 30 Previous Day's Cumulative DAE~~
~~AIB = Average Daily Investment Balance at Cost of the 30 previous days~~

~~(3) Definitions:~~
~~(a) Daily Accrued Earnings:~~
~~1. Accrued coupon income;~~
~~2. Accretion/Amortization on securities; and~~
~~3. Realized gains/losses on security sales.~~
~~All computations for the components of Daily Accrued Earnings are in conformance with the "Standard Securities Calculation Methods" published by the Securities Industry Association.~~
~~(b) Investment Balance at Cost (end of day) is the total of all investments held in inventory for the Pooled Investment Account totaled on a cost basis.~~
~~(c) Average Daily Investments Balance at Cost is the average of the daily investment balance at cost for each day of the time period cited.~~

Rulemaking ~~Specific~~ Authority 218.405, 218.412 FS. Law Implemented 218.409(4) FS. History–New 8-24-82, Formerly 19-7.11, Amended 4-8-92, 3-26-02, _____.

~~19-7.012 Pool Participation.~~

~~All units of Local Government that qualify to be participants in the Local Government Surplus Funds Trust Fund after January 1, 1982, will normally have surplus funds deposited into the Pooled Investment Account. During the pendency of a major market disruption which causes a suspension of trading or liquidity is impaired, the Executive Director shall limit contributions to the fund or withdrawals from the fund to ensure that the Board can invest the monies entrusted to it exercising its fiduciary responsibility as trustee. Funds designated by a unit of Local Government for the purpose of investment~~

~~management by a private investment asset manager shall not be deposited into the Pooled Investment Account nor into any separate account established within the Local Government Surplus Funds Trust Fund.~~

~~*Rulemaking Specific Authority 218.405, 218.412 FS. Law Implemented 218.407(2), 218.409(1), (3) FS. History–New 8-24-82, Formerly 19-7.12, Amended 12-20-87, 2-16-92, 3-26-02.*~~

19-7.013 Reporting Procedures.

The State Board of Administration shall generate for ~~forward to~~ each Pool participant a monthly statement containing each account's activity including deposits, withdrawals, balances, and earnings ~~and investment services charges~~. If no errors are reported to the Board within 14 days, the statement will be considered correct. ~~A semi-annual portfolio activity statement will be forwarded to each participant.~~

Specific Authority 218.405, 218.412 FS. Law Implemented 218.409(6) FS. History–New 8-24-82, Formerly 19-7.13, Amended 12-18-88, 11-7-99, 3-26-02, _____.

19-7.015 Allocation of Earnings.

The Local Government Surplus Funds Trust Fund System is used to keep current account balance information for individual accounts participating in the ~~P~~pooled ~~I~~investment ~~A~~account and to apportion the pooled investment earnings back to each account. At the end of each month, pool month-to-date accrued earnings minus accrued expenses are apportioned to the participants directly proportionate to the respective net amounts

deposited in the Fund and the length of time such amounts remain therein. The resulting proportionate amount is credited to each account at that time. ~~An investment service charge is then deducted from the account. If the investment service charge is less than one dollar, a minimum charge of one dollar or the account ending balance, whichever is less, will be deducted as satisfaction of the investment service charge for that month.~~ If the end of the month account balance falls below $1,000.00 ~~is less than $1.00~~, the State Board of Administration may choose to close the account ~~may be closed upon satisfaction of the investment service charge~~ and return the residual balance to the participant.

Rulemaking ~~Specific~~ Authority 218.405, 218.412 FS. Law Implemented ~~215.515,~~ 218.409(4), (5), FS. History–New 8-24-82, Formerly 19-7.15, Amended 6-26-95, 3-26-02, _____.

19-7.016 Close of Business.

Any requests for funds to be returned or notification of funds to be wired for investment after 1:00 p.m. EST ~~11:00 a.m.~~ may be included in the following day's business. In the event that the Board is informed by 1:00 p.m. EST ~~11:00 a.m.~~ of a deposit for investment that day, and the funds are not transmitted to the Board's bank account by the close of business that day, which results in a shortfall, a fee shall be charged to the participant for each day until the shortfall is corrected. The fee will be based on the current overdraft fee charged by the bank on the amount of the shortfall.

Rulemaking ~~Specific~~ Authority 218.405, 218.412 FS. Law Implemented 215.515 ~~218.409(2)~~ FS. History–New 8-24-82, Formerly 19-7.16, Amended 6-26-95, 3-26-02, _____.

~~**19-7.017 Pooled Investment Account Reserve Fund.**~~

~~A Pooled Investment Account Reserve Fund shall be established in order to protect the Pooled Investment Account in accordance with Section 218.409(3), F.S. The funds required to establish said Reserve Fund shall be deducted from "pooled investment earnings" as the term is used in Rule 19-7.015, F.A.C. If the size of the Reserve Fund is reduced, then the excess moneys in the Reserve Fund shall be distributed in accordance with the formula set forth in Rule 19-7.015, F.A.C., at the end of the month during which the Reserve Fund was reduced~~.

~~*Specific Authority 218.405, 218.412 FS. Law Implemented 218.409(3) FS. History–New 8-17-92, Amended 3-26-02*~~

Investment Policy Statement
Local Government Surplus Funds Trust Fund (Non-Qualified)
Effective July 1, 2010

I. Purpose and Scope

The purpose of this Investment Policy Statement ("Policy") is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Local Government Surplus Funds Trust Fund ("Florida Prime"). The Policy also describes the risks associated with an investment in Florida PRIME. This Policy does not relate to Fund B as defined at Section 218.421, Florida Statutes.

II. Overview of Florida PRIME

The Local Government Surplus Funds Trust Fund was created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes). The State Board of Administration ("SBA") is charged with the powers and duties to administer and invest Florida PRIME, in accordance with the statutory fiduciary standards of care as contained in Section 215.47(9), Florida Statutes. The SBA has contracted with Federated Investment Counseling (the "Investment Manager") to provide investment advisory services for Florida PRIME.

Florida PRIME is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law").

III. Roles and Responsibilities

The Board of Trustees of the SBA ("Trustees") consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Florida PRIME is in compliance with the requirements of Chapter 218, Florida Statutes, and that the management of Florida PRIME is in accord with best investment practices.

The Trustees delegate the administrative and investment authority to manage Florida PRIME to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint an Investment Advisory Council and a Participant Local Government Advisory Council. Both Councils will at least annually review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties set forth in Applicable Florida Law.

IV. Amortized Cost Accounting

In March 1997, the Governmental Accounting Standards Board ("GASB") issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to Florida PRIME.

GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). GASB 31 describes a "2a-7 like" pool as an "external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act")." Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of $1.00 per share, provided that such funds meet certain conditions.

Florida PRIME will operate in a manner consistent with the diversification, credit quality and maturity conditions of Rule 2a-7. Accordingly, it qualifies for "2a-7 like" status under GASB 31, and is thereby permitted to use the amortized cost method to maintain a stable NAV of $1.00 per share.

V. Investment Objective

The primary investment objectives for Florida PRIME, in priority order, are safety, liquidity, and competitive returns with minimization of risks. Investment performance of Florida PRIME will be evaluated on a monthly basis against the Standard & Poor's U.S. AAA & AA Rated GIP All 30 Day Net Yield Index. While there is no assurance that Florida PRIME will achieve its investment objectives, it endeavors to do so by following the investment strategies described in this Policy.

VI. Investment Strategies & Specific Limitations

The Investment Manager will invest Florida PRIME's assets in 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 nationally recognized statistical rating organizations ("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 also may enter into special transactions for Florida PRIME, like repurchase agreements. Certain of the fixed-income securities in which Florida PRIME invests pay interest at a rate that is periodically adjusted ("Adjustable Rate Securities").

The Investment Manager will manage credit risk by purchasing only high quality securities. 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's portfolio securities on an ongoing basis by reviewing periodic financial data, issuer news and developments, and ratings of certain nationally recognized statistical rating organizations (after December 31, 2010 nationally recognized statistical rating organizations that have been designated by the Investment Manager ("Designated NRSROs")). The Investment Manager will utilize a "new products" or similar committee to review and approve new security structures prior to an investment of Florida PRIME's assets in such securities. The Investment Manager will periodically consider and follow best practices in connection with minimal credit risk determinations (e.g., such as those described in Appendix I of the Investment Company Institute's 2009, *Report of the Money Market Working Group)*.

The Investment Manager will manage interest rate risk by purchasing only short-term fixed income securities. The Investment Manager will target a dollar-weighted average maturity 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 dollar-weighted average maturity when it expects interest rates to rise and extend Florida PRIME's dollar-weighted average maturity when it expects interest rates to fall. The remaining maturity of securities purchased by the Investment Manager shall not exceed 762 days for government floating rate notes/variable rate notes and will not exceed 397 days for other securities.

Florida PRIME will maintain a dollar weighted average maturity ("DWAM") of 60 days or less. After June 30, 2010, in order to comply with recent amendments to Rule 2a-7, Florida PRIME also will maintain a weighted average life (WAL) of 120 days or less. For purposes of calculating DWAM, the maturity of an Adjustable Rate Security generally will be the period remaining until its next interest rate adjustment. For purposes of calculating WAL, the maturity of an Adjustable Rate Security will be its stated final maturity, without regard to interest rate adjustments; accordingly, the 120-day WAL limitation could serve to limit Florida PRIME's ability to invest in Adjustable Rate Securities.

The Investment Manager will exercise reasonable care to limit exposure to not more than 25% of Florida PRIME's assets in a single industry sector, except that the Investment Manager may invest more than 25% in the financial services industry sector, which includes banks, broker-dealers, and finance companies. This higher limit is in recognition of the large outstanding value of money fund instruments issued by financial services firms. Government securities are not considered to be an industry.

Florida PRIME will exercise reasonable care to not acquire a security, other than (i) a Daily Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 10% of its total assets in Daily Liquid Assets; (ii) a Weekly Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 30% of its total assets in Weekly Liquid Assets. Daily Liquid Assets include cash, direct obligations of the U.S. government; and securities that convert to cash in one business day. Weekly Liquid Assets include cash, direct obligations of the U.S. government, certain government securities with remaining maturities of 60 business days or less, and securities that convert to cash in five business days.

Florida PRIME will exercise reasonable care to not acquire securities that cannot be sold or disposed of in the ordinary course of business within seven days at approximately the value ascribed to them by Florida PRIME if, immediately after the acquisition, Florida PRIME would have invested more than 5% of its total assets in such securities.

In buying and selling portfolio securities for Florida PRIME, the Investment Manager will comply with the diversification, maturity and credit quality conditions imposed by Rule 2a-7 under the 1940 Act; with the requirements imposed by any 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.

The Investment Manager generally will comply with the following diversification limitations that are additional to those set forth in Rule 2a-7. First, at least 50% 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. The Investment Manager will document each instance in which a security is deemed to be of comparable credit quality and its basis for such a determination. Second, exposure to any single non-governmental issuer will not exceed 5% and exposure to any single money market mutual fund will not exceed 10% of Florida PRIME assets.

VII. Portfolio Securities and Special Transactions

The Investment Manager will purchase only fixed income securities for Florida PRIME, and may engage in special transactions, for any purpose that is consistent with Florida PRIME's investment objective.

Fixed income securities are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Florida PRIME may invest include corporate debt securities, bank instruments, asset backed securities, U.S. Treasury securities, U.S. government agency securities, insurance contracts, municipal securities, foreign securities, mortgage backed securities, and shares of money market mutual funds. However, Florida PRIME is not permitted to buy such fixed income securities to the extent that they require Florida PRIME to be a qualified institutional buyer.

Special transactions are transactions into which Florida PRIME may enter, including repurchase agreements and delayed delivery transactions.

For a more detailed description of Florida PRIME's portfolio securities and special transactions, please see "Additional Information Regarding Florida PRIME's Principal Securities" at Appendix A.

VIII. Risks Associated with Florida PRIME

An investment in Florida PRIME is subject to certain risks. Any investor in Florida PRIME should specifically consider, among other things, the following principal risks before making a decision to purchase shares of Florida PRIME.

Risk that Florida PRIME will not Maintain a Stable Net Asset Value

Although the Investment Manager attempts to manage Florida PRIME such that it maintains a stable NAV of $1.00 per share, there is no guarantee that it will be able to do so. Florida PRIME is not registered under the 1940 Act or regulated by the SEC.

Interest Rate Risks

The prices of the fixed income securities in which Florida PRIME will invest rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities.

Credit Risks

Credit risk is the possibility that an issuer of a fixed income security held by Florida PRIME will default on the security by failing to pay interest or principal when due. If an issuer defaults, Florida PRIME will lose money.

Liquidity Risks

Trading opportunities are more limited for fixed income securities that are not widely held. These features make it more difficult to sell or buy securities at a favorable price or time. Consequently, Florida PRIME may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on Florida PRIME's performance.

Concentration Risks

A substantial part of Florida PRIME may be comprised of securities issued by companies in the financial services industry or companies with similar characteristics; or securities credit enhanced by banks or companies with similar characteristics. As a result, Florida PRIME may be more susceptible to any economic, business, political or other developments that generally affect finance companies. Developments affecting companies in the financial services industry or companies with similar characteristics might include changes in interest rates, changes in the economic cycle affecting credit losses and regulatory changes.

Risks of Foreign Investing

Foreign securities pose additional risks because foreign economic or political conditions may be less favorable than those of the United States. Securities in foreign markets also may be subject to taxation policies that reduce returns for U.S. investors.

Call Risks

If a fixed income security is called, Florida PRIME may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks, or other less favorable characteristics.

Prepayment Risks

Unlike traditional fixed income securities, which pay a fixed rate of interest until maturity (when the entire principal amount is due), payments on asset-backed securities include both interest and a partial payment of principal. Partial payment of principal may be comprised of scheduled principal payments as well as unscheduled payments from voluntary prepayment, refinancing, or foreclosure of the underlying loans. If Florida PRIME receives unscheduled prepayments, it may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks or other less favorable characteristics.

Risks Associated with Amortized Cost Method of Valuation

Florida PRIME will use the amortized cost method to determine the value of its portfolio securities. Under this method, portfolio securities are valued at the acquisition cost as adjusted for amortization of premium or accumulation of discount rather than at current market value. Accordingly, neither the amount of daily income nor the NAV is affected by any unrealized appreciation or depreciation of the portfolio. In periods of declining interest rates, the indicated daily yield on shares computed by dividing the annualized daily income on Florida PRIME's portfolio by the NAV as computed above may tend to be higher than a similar computation made by using a method of valuation based on market prices and estimates. In periods of rising interest rates, the opposite may be true.

Changing Distribution Levels Risk

There is no guarantee that Florida PRIME will provide a certain level of income or that any such income will exceed the rate of inflation. Further, Florida PRIME's yield will vary. A low interest rate environment may prevent Florida PRIME from providing a positive yield or paying expenses out of current income.

Throughout this section, it shall be understood that actions described as being taken by Florida PRIME refer to actions taken by the Investment Manager on behalf of Florida PRIME.

For additional information regarding Florida PRIME's principal securities and associated risks, please see Appendix A.

IX. Controls and Escalation Procedures

Section 218.409(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Florida PRIME that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Florida PRIME. The Custodian will mark to market the portfolio holdings of Florida PRIME on a daily basis and will daily

communicate both amortized cost price and mark to market price, so that the SBA and the Investment Manager can monitor the deviations between the amortized cost price and market price. By contractual agreement, the Investment Manager will reconcile accounting and performance measurement reports with the Custodian on a regular basis, under the supervision of the SBA.

The NRSRO that rates Florida PRIME will perform regular independent surveillance of Florida PRIME. The SBA and an independent investment consultant will regularly monitor the Investment Manager with respect to performance and organizational factors according to SBA manager monitoring policies.

The SBA and third parties used to materially implement Florida PRIME will maintain internal control, fraud and ethics policies and procedures designed to prevent the loss of public funds.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Florida PRIME. Minutes of the Investment Oversight Group's meetings and a listing of meeting participants shall be timely posted on the Florida PRIME website.

The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. The SBA and the Investment Manager have an affirmative duty to immediately disclose any material impact on Florida PRIME to the participants.

1. When the deviation between the market value and amortized cost of Florida PRIME exceeds 0.25%, according to pricing information provided by the Custodian, the Investment Manager will establish a formal action plan. The Investment Oversight Group will review the formal action plan and prepare a recommendation for the Executive Director's consideration.
2. When the deviation between the market value and amortized cost of Florida PRIME exceeds 0.50%, according to pricing information provided by the Custodian, the Executive Director will promptly consider what action, if any, will be initiated. Where the Executive Director believes the extent of any deviation from Florida PRIME's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, he will cause Florida PRIME to take such action as he deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.
3. The Investment Manager will perform daily compliance monitoring to ensure that investment practices comply with the requirements of this Policy, according to documented compliance procedures. The Investment Manager will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. Additionally, the Investment Oversight Group will periodically conduct independent compliance reviews.
4. 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; provided however that the Investment Manager will not be required to make such reassessments if Florida PRIME disposes of the security (or the security matures) within five business days of the Downgrade.

5. 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 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.

6. The Investment Manager will periodically stress test Florida PRIME and at least quarterly report the results of the stress tests to the Investment Oversight Group. Stress tests must be conducted for at least the following events, or combinations of events (i) a change in short-term interest rates; (ii) an increase in net shareholder redemptions; (iii) downgrades or defaults; and (iv) changes between a benchmark overnight interest rate and the interest rates on securities held by Florida PRIME.

The Investment Manager will at least annually provide the Investment Oversight Group with: (i) their documented compliance procedures; (ii) an assessment of Florida PRIME's ability to withstand events reasonably likely to occur in the coming year and (iii) their list of Designated NRSROs.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on Florida PRIME, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under applicable law, regulation or rule.

Pursuant to Florida law, the Auditor General will conduct an annual financial audit of Florida PRIME, which will include testing for compliance with this Policy.

X. Deposits and Withdrawals

Investors should refer to the separate Florida PRIME Operating Procedures for detailed descriptions regarding how to make deposits in and withdrawals from Florida PRIME, including (1) any fees and limitations that may be imposed with respect thereto; and (2) reports provided to participants.

XI. Management Reporting

The Executive Director will be responsible for providing the formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

Appendix A

Additional Information Regarding Florida PRIME's Principal Securities

Throughout this appendix it shall be understood that actions described as being taken by Florida PRIME refer to actions taken by the Investment Manager on behalf of Florida PRIME.

FIXED INCOME SECURITIES

Corporate Debt Securities

Corporate debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Florida PRIME also may purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial paper is an issuer's obligation with a maturity of less than nine months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Florida PRIME treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

Bank Instruments

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, time deposits, certificates of deposit and banker's 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.

Florida PRIME will not invest in instruments of domestic and foreign banks and savings and loans unless they have capital, surplus, and undivided profits of over $100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund or the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation. These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Euro-dollar Time Deposits.

Asset Backed Securities

Asset backed securities are payable from pools of obligations, most of which involve consumer or commercial debts. However, almost any type of fixed income assets (including other fixed

income securities) may be used to create an asset backed security. Asset backed securities may take the form of commercial paper, notes or pass-through certificates.

Government Securities

Government security means 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.

U.S. Treasury Securities

U.S. Treasury securities are direct obligations of the federal government of the United States. U.S. Treasury securities are generally regarded as having the lowest credit risks.

Agency Securities

Agency securities are issued or guaranteed by a federal agency or other government sponsored entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Farm Credit System Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans or other benefits. For example, the U.S. Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Investors regard agency securities as having low credit risks, but not as low as Treasury securities. Florida PRIME treats mortgage-backed securities guaranteed by a GSE as if issued or guaranteed by a federal agency. Although such a guarantee protects against credit risks, it does not reduce market risks.

Insurance Contracts

Insurance contracts include guaranteed investment contracts, funding agreements and annuities. Florida PRIME treats these contracts as fixed income securities.

Municipal Securities

Municipal securities are issued by states, counties, cities and other political subdivisions and authorities.

Foreign Securities

Foreign securities are U.S. dollar-denominated securities of issuers based outside the United States. Florida PRIME considers an issuer to be based outside the United States if:

- it is organized under the laws of, or has a principal office located in, another country;
- the principal trading market for its securities is in another country; or
- it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue or profit from goods produced, services performed or sales made in another country.

Mortgage Backed Securities

Mortgage backed securities represent interests in pools of mortgages. The mortgages that comprise a pool normally have similar interest rates, maturities and other terms. Mortgages may have fixed or adjustable interest rates. Interests in pools of adjustable rate mortgages are known as ARMs.

Zero Coupon Securities

Certain of the fixed income securities in which Florida PRIME invests are zero coupon securities. Zero coupon securities do not pay interest or principal until final maturity unlike debt securities that provide periodic payments of interest (referred to as a "coupon payment"). Investors buy zero coupon securities at a price below the amount payable at maturity. The difference between the purchase price and the amount paid at maturity represents interest on the zero coupon security. Investors must wait until maturity to receive interest and principal, which increases the interest rate and credit risks of a zero coupon security.

Callable Securities

Certain of the fixed income securities in which Florida PRIME invests are callable at the option of the issuer. Callable securities are subject to reinvestment risks.

144A 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 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.

Money Market Mutual Funds

Florida PRIME may invest in shares of registered investment companies that are money market mutual funds, including those that are affiliated with the Investment Manager, as an efficient

means of implementing its investment strategies and/or managing its uninvested cash. These other money market mutual funds are managed independently of Florida PRIME and incur additional fees and/or expenses that would, therefore, be borne indirectly by Florida PRIME in connection with such investment. However, the Investment Manager believes that the benefits and efficiencies of this approach should outweigh the potential additional fees and/or expenses. The Investment Manager must obtain prior written consent of the SBA to invest Florida PRIME in money market mutual funds that are "affiliated persons" of the Investment Manager.

SPECIAL TRANSACTIONS

The Investment Manager on behalf of Florida PRIME may engage in the following special transactions.

Repurchase Agreements

Repurchase agreements involve 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. The repurchase price exceeds the sale price, reflecting Florida PRIME's return on the transaction. This return is unrelated to the interest rate on the underlying security. Florida PRIME will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Investment Manager.

Florida PRIME's custodian or subcustodian will take possession of the securities subject to repurchase agreements. The Investment Manager or subcustodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

Delayed Delivery Transactions

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. During the period between purchase and settlement, no payment is made by Florida PRIME to the issuer and no interest accrues to Florida PRIME. Florida PRIME records the transaction when it agrees to buy the securities and reflects their value in determining the price of its units. Settlement dates may not be more than seven business days after entering into these transactions; nonetheless, the market values of the securities bought may vary from the purchase prices. Therefore, delayed delivery transactions create interest rate risks for Florida PRIME. Delayed delivery transactions also involve credit risks in the event of a counterparty default.

Asset Coverage

In order to secure its obligations in connection with derivative contracts or special transactions, Florida PRIME will either own the underlying assets, enter into an offsetting transaction or set aside readily marketable securities with a value that equals or exceeds Florida PRIME's obligations. Unless Florida PRIME has other readily marketable assets to set aside, it cannot trade assets used to secure such obligations without terminating a special transaction. This may cause Florida PRIME to miss favorable trading opportunities or to realize losses on special transactions.

Investment Policy ~~Guidelines~~ Statement
Local Government ~~Investment Pool~~Surplus Funds Trust Fund (Non-Qualified)
Effective July 1, ~~2009~~ 2010

I. Purpose and Scope

The purpose of ~~these~~this Investment Policy ~~Guidelines~~Statement ("Policy") is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Local Government Surplus Funds Trust Fund ("~~Local Government Investment Pool" or "LGIP").~~Florida Prime"). The Policy also describes the risks associated with an investment in ~~the LGIP~~Florida PRIME. This Policy does not relate to Fund B as defined at Section 218.421, Florida Statutes.

II. Overview of ~~the LGIP~~ Florida PRIME

The Local Government Surplus Funds Trust Fund was created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes). The State Board of Administration ("SBA") is charged with the powers and duties to administer and invest ~~the LGIP~~Florida PRIME, in accordance with the statutory fiduciary standards of care as contained in Section 215.47(9), Florida Statutes. The SBA has contracted with Federated Investment Counseling (the "Investment Manager") to provide investment advisory services for ~~the LGIP. The LGIP~~Florida PRIME.

Florida PRIME is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law").

III. Roles and Responsibilities

The Board of Trustees of the SBA ("Trustees") consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that ~~the LGIP~~Florida PRIME is in compliance with the requirements of Chapter 218, Florida Statutes, and that the management of ~~the LGIP~~Florida PRIME is in accord with best investment practices.

The Trustees delegate the administrative and investment authority to manage ~~the LGIP~~Florida PRIME to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint ~~a six member~~an Investment Advisory Council and a~~ six member~~ Participant Local Government Advisory Council. Both Councils will at least annually review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties set forth in Applicable Florida Law.

IV. Amortized Cost Accounting

In March 1997, the Governmental Accounting Standards Board ("GASB") issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to ~~the LGIP.~~ Florida PRIME.

GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). GASB 31 describes a "2a-7 like" pool as an "external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act")." Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of $1.00 per share, provided that such funds meet certain conditions. ~~The LGIP~~

Florida PRIME will operate in a manner consistent with the diversification, credit quality and maturity conditions of Rule 2a-7. Accordingly, it qualifies for "2a-7 like" status under GASB 31, and is thereby permitted to use the amortized cost method to maintain a stable NAV of $1.00 per share.

V. Investment Objective

The primary investment objectives for ~~the LGIP~~Florida PRIME, in priority order, are safety, liquidity, and competitive returns with minimization of risks. Investment performance of ~~the LGIP~~Florida PRIME will be evaluated on a monthly basis against the Standard & Poor's U.S. AAA & AA Rated GIP All 30 Day Net Yield Index. While there is no assurance that ~~the LGIP~~Florida PRIME will achieve its investment objectives, it endeavors to do so by following the investment strategies described in this Policy.

VI. Investment Strategies & Specific Limitations

The Investment Manager will invest ~~the LGIP's~~Florida PRIME's assets in 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 nationally recognized statistical rating organizations ("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 also may enter into special transactions for ~~LGIP~~Florida PRIME, like repurchase agreements. Certain of the fixed-income securities in which Florida PRIME invests pay interest at a rate that is periodically adjusted ("Adjustable Rate Securities").

The Investment Manager will manage credit risk by purchasing only high quality securities. The Investment Manager will perform a credit analysis to develop a database of issuers and securities that meet the Investment Manager's standard for minimal credit risk. The Investment Manager ~~will monitor~~monitors the credit risks of all ~~the LGIP's~~Florida PRIME's portfolio securities on an ongoing basis by ~~regularly~~ reviewing ~~the~~periodic financial data, issuer news and developments, and ratings of certain nationally recognized statistical rating organizations (after December 31, 2010 nationally recognized statistical rating organizations that have been designated by the Investment Manager ("Designated NRSROs~~.~~")). The Investment Manager will utilize a "new products" or similar committee to review and approve new security structures prior to an investment of ~~LGIP~~Florida PRIME's assets in such securities. The Investment Manager will periodically consider and follow best practices in connection with minimal credit risk determinations~~.~~ (e.g., such as those described in Appendix I of the Investment Company Institute's 2009, *Report of the Money Market Working Group).*

The Investment Manager will manage interest rate risk by purchasing only short-term fixed income securities. The Investment Manager will target a dollar-weighted average maturity range for ~~the LGIP~~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 ~~the LGIP's~~Florida PRIME's dollar-weighted average maturity when it expects interest rates to rise and extend ~~the LGIP's~~Florida PRIME's dollar-weighted average maturity when it expects interest rates to fall.~~ The Investment Manager will exercise reasonable care to maintain a dollar-weighted average maturity of 60 days or less and a spread WAM of 120 days or less for the LGIP. A spread WAM is a calculation that does not permit the use of interest rate reset dates and instead only uses a security's stated (legal) final maturity date or Demand Feature to measure the WAM (Weighted Average Maturity).~~ The remaining maturity of securities purchased by the Investment Manager shall not exceed 762 days for government floating rate notes/variable rate notes and will not exceed 397 days for other securities.

Florida PRIME will maintain a dollar weighted average maturity ("DWAM") of 60 days or less. After June 30, 2010, in order to comply with recent amendments to Rule 2a-7, Florida PRIME also will maintain a weighted average life (WAL) of 120 days or less. For purposes of calculating DWAM, the maturity of an Adjustable Rate Security generally will be the period remaining until its next interest rate adjustment. For purposes of calculating WAL, the maturity of an Adjustable Rate Security will be its stated final maturity, without regard to interest rate adjustments; accordingly, the 120-day WAL limitation could serve to limit Florida PRIME's ability to invest in Adjustable Rate Securities.

The Investment Manager will exercise reasonable care to limit exposure to not more than 25% of ~~the LGIP's~~Florida PRIME's assets in a single industry sector, except that the Investment Manager may invest more than 25% in the financial services industry sector, which includes banks, broker-dealers, and finance companies. This higher limit is in recognition of the large outstanding value of money fund instruments issued by financial services firms. Government securities are not considered to be an industry. ~~The Investment Manager~~

Florida PRIME will exercise reasonable care to ~~maintain at least 5% of~~ not acquire a security, other than (i) a Daily Liquid Asset, if immediately after the ~~LGIP~~acquisition Florida PRIME would have invested less than 10% of its total assets in ~~securities accessible within one day and at least 20~~Daily Liquid Assets; (ii) a Weekly Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 30% of ~~the LGIP~~its total assets in Weekly Liquid Assets. Daily Liquid Assets include cash, direct obligations of the U.S. government; and securities that convert to cash in one business day. Weekly Liquid Assets include cash, direct obligations of the U.S. government, certain government securities ~~accessible~~with remaining maturities of 60 business days or less, and securities that convert to cash in five business days.

Florida PRIME will exercise reasonable care to not acquire securities that cannot be sold or disposed of in the ordinary course of business within seven days~~. The Investment Manager may invest up to 10% of the LGIP~~ at approximately the value ascribed to them by Florida PRIME if, immediately after the acquisition, Florida PRIME would have invested more than 5% of its

total assets in ~~securities that are illiquid or of limited liquidity, as defined by the NRSRO that rates the LGIP.~~ such securities.

In buying and selling portfolio securities for ~~the LGIP~~Florida PRIME, the Investment Manager will comply with the diversification, maturity and credit quality conditions imposed by Rule 2a-7 under the 1940 Act; with the requirements imposed by any NRSRO that rates ~~the LGIP~~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.

The Investment Manager generally will comply with the following diversification limitations that are additional to those set forth in Rule 2a-7. First, at least 50% of ~~the LGIP~~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. The Investment Manager ~~shall~~will document each instance in which a security is deemed to be of comparable credit quality and its basis for such a determination. Second, exposure to any single non-governmental issuer will not exceed 5% and exposure to any single money market mutual fund will not exceed 10% of ~~the LGIP assets.~~ ~~***VII. Portfolio Securities and Special Transactions*** The Investment Manager will purchase only fixed income securities for the LGIP, and may engage in special transactions, for any purpose that is consistent with the LGIP's investment objective.~~ Florida PRIME assets.

VII. Portfolio Securities and Special Transactions

The Investment Manager will purchase only fixed income securities for Florida PRIME, and may engage in special transactions, for any purpose that is consistent with Florida PRIME's investment objective.

Fixed income securities are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which ~~the LGIP~~Florida PRIME may invest include corporate debt securities, bank instruments, asset backed securities, U.S. Treasury securities, U.S. government agency securities, insurance contracts, municipal securities, foreign securities, mortgage backed securities, and shares of money market mutual funds. However, ~~the LGIP~~Florida PRIME is not permitted to buy such fixed income securities to the extent that they require ~~the LGIP~~Florida PRIME to be a qualified institutional buyer.

Special transactions are transactions into which ~~the LGIP~~Florida PRIME may enter, including repurchase agreements and delayed delivery transactions.

For a more detailed description of ~~the LGIP's~~Florida PRIME's portfolio securities and special transactions, please see "Additional Information Regarding ~~the LGIP's~~Florida PRIME's Principal Securities" at Appendix A.

VIII. Risks Associated with ~~the LGIP~~ Florida PRIME

An investment in ~~the LGIP~~Florida PRIME is subject to certain risks. Any investor in ~~the LGIP~~Florida PRIME should specifically consider, among other things, the following principal risks before making a decision to purchase shares of ~~the LGIP.~~ Florida PRIME.

Risk that ~~the LGIP~~Florida PRIME will not Maintain a Stable Net Asset Value

Although the Investment Manager attempts to manage ~~the LGIP~~Florida PRIME such that it maintains a stable NAV of $1.00 per share, there is no guarantee that it will be able to do so. ~~The LGIP~~Florida PRIME is not registered under the 1940 Act or regulated by the SEC.

Interest Rate Risks

The prices of the fixed income securities in which ~~the LGIP~~Florida PRIME will invest rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities.

Credit Risks

Credit risk is the possibility that an issuer of a fixed income security held by ~~the LGIP~~Florida PRIME will default on the security by failing to pay interest or principal when due. If an issuer defaults, ~~the LGIP~~Florida PRIME will lose money.

Liquidity Risks

Trading opportunities are more limited for fixed income securities that are not widely held. These features make it more difficult to sell or buy securities at a favorable price or time. Consequently, ~~the LGIP~~Florida PRIME may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on ~~the LGIP's~~Florida PRIME's performance.

Concentration Risks

A substantial part of ~~the LGIP~~Florida PRIME may be comprised of securities issued by companies in the financial services industry or companies with similar characteristics; or securities credit enhanced by banks or companies with similar characteristics. As a result, ~~the LGIP~~Florida PRIME may be more susceptible to any economic, business, political or other developments that generally affect finance companies. Developments affecting companies in the financial services industry or companies with similar characteristics might include changes in interest rates, changes in the economic cycle affecting credit losses and regulatory changes.

Risks of Foreign Investing

Foreign securities pose additional risks because foreign economic or political conditions may be less favorable than those of the United States. Securities in foreign markets also may be subject to taxation policies that reduce returns for U.S. investors.

Call Risks

If a fixed income security is called, ~~the LGIP~~Florida PRIME may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks, or other less favorable characteristics.

Prepayment Risks

Unlike traditional fixed income securities, which pay a fixed rate of interest until maturity (when the entire principal amount is due), payments on asset-backed securities include both interest and a partial payment of principal. Partial payment of principal may be comprised of scheduled principal payments as well as unscheduled payments from voluntary prepayment, refinancing, or foreclosure of the underlying loans. If ~~the LGIP~~Florida PRIME receives unscheduled prepayments, it may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks or other less favorable characteristics.

Risks Associated with Amortized Cost Method of Valuation ~~The LGIP~~

Florida PRIME will use the amortized cost method to determine the value of its portfolio securities. Under this method, portfolio securities are valued at the acquisition cost as adjusted for amortization of premium or accumulation of discount rather than at current market value. Accordingly, neither the amount of daily income nor the NAV is affected by any unrealized appreciation or depreciation of the portfolio. In periods of declining interest rates, the indicated daily yield on shares computed by dividing the annualized daily income on ~~the LGIP's~~Florida PRIME's portfolio by the NAV as computed above may tend to be higher than a similar computation made by using a method of valuation based on market prices and estimates. In periods of rising interest rates, the opposite may be true. ~~Throughout this section, it shall be understood that actions described as being taken by the LGIP refer to actions taken by the Investment Manager on behalf of the LGIP. For additional information regarding the LGIP's principal securities and associated risks, please see Appendix A.~~
~~*Stress Testing* To assist in managing~~
Changing Distribution Levels Risk

There is no guarantee that Florida PRIME will provide a certain level of income or that any such income will exceed the ~~risks~~rate of inflation. Further, Florida PRIME's yield will vary. A low interest rate environment may prevent Florida PRIME from providing a positive yield or paying expenses out of current income.

Throughout this section, it shall be understood that actions described ~~above,~~as being taken by Florida PRIME refer to actions taken by the Investment Manager ~~will regularly stress-test the LGIP to assess the portfolio's ability to meet levels of credit risk, shareholder redemptions~~on behalf of Florida PRIME.

For additional information regarding Florida PRIME's principal securities and ~~interest rate changes. *Client Concentration Risk Disclosure* The SBA shall post at least monthly on its website a disclosure of client concentration levels by type of client.~~ associated risks, please see Appendix A.

IX. Controls and Escalation Procedures

Section 218.409(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on ~~the LGIP~~Florida PRIME that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to ~~the LGIP.~~Florida PRIME. The Custodian will mark to market the portfolio holdings of ~~the LGIP~~Florida PRIME on a daily basis and will daily communicate both amortized cost price and mark to market price, so that the SBA and the Investment Manager can monitor the deviations between the amortized cost price and market price. By contractual agreement, the Investment Manager will reconcile accounting and performance measurement reports with the Custodian on a regular basis, under the supervision of the SBA.

The NRSRO that rates ~~the LGIP~~Florida PRIME will perform regular independent surveillance of ~~the LGIP.~~Florida PRIME. The SBA and an independent investment consultant will regularly monitor the Investment Manager with respect to performance and organizational factors according to SBA manager monitoring policies.

The SBA and third parties used to materially implement ~~the LGIP~~Florida PRIME will maintain internal control, fraud and ethics policies and procedures designed to prevent the loss of public funds.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on ~~the LGIP.~~Florida PRIME. Minutes of the Investment Oversight Group's meetings and a listing of meeting participants shall be timely posted on the ~~LGIP~~Florida PRIME website.

The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. The SBA and the Investment Manager have an affirmative duty to immediately disclose any material impact on ~~the LGIP~~Florida PRIME to the participants.

1. When the deviation between the market value and amortized cost of ~~the LGIP~~Florida PRIME exceeds 0.25%, according to pricing information provided by the Custodian, the Investment Manager will establish a formal action plan. The Investment Oversight Group will review the formal action plan and prepare a recommendation for the Executive Director's consideration.
2. When the deviation between the market value and amortized cost of ~~the LGIP~~Florida PRIME exceeds 0.50%, according to pricing information provided by the Custodian, the Executive Director will promptly consider what action, if any, will be initiated. Where the Executive Director believes the extent of any deviation from ~~the LGIP's~~Florida PRIME's amortized cost price per share may result in material

dilution or other unfair results to investors or existing shareholders, he will cause ~~the LGIP~~Florida PRIME to take such action as he deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

3. The Investment Manager will perform daily compliance monitoring to ensure that investment practices comply with the requirements of this Policy, according to documented compliance procedures~~ approved by the SBA.~~. The Investment Manager will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. Additionally, the Investment Oversight Group will periodically conduct independent compliance reviews. ~~4.~~

4. 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; provided however that the Investment Manager will not be required to make such reassessments if Florida PRIME disposes of the security (or the security matures) within five business days of the Downgrade.

5. 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 ~~rating downgrade~~risks, or other material event ("Affected Security"), the Investment Manager must ~~either~~ dispose of the security ~~within five business days or present a justification for the retention~~as soon as practical consistent with achieving an orderly disposition of the security~~ to the Investment Oversight Group within three business days. If an Affected Security matures within 5 business days, no further action is required.~~, by sale, exercise of a demand feature or otherwise. An Affected Security may be held~~ after five days~~ 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 ~~the LGIP~~Florida PRIME to dispose of the security taking into account market conditions that may affect an orderly disposition.

6. The Investment Manager will periodically stress test Florida PRIME and at least quarterly report the results of the stress tests to the Investment Oversight Group. Stress tests must be conducted for at least the following events, or combinations of events (i) a change in short-term interest rates; (ii) an increase in net shareholder redemptions; (iii) downgrades or defaults; and (iv) changes between a benchmark overnight interest rate and the interest rates on securities held by Florida PRIME.

The Investment Manager will at least annually provide the Investment Oversight Group with: (i) their documented compliance procedures; (ii) an assessment of Florida PRIME's ability to withstand events reasonably likely to occur in the coming year and (iii) their list of Designated NRSROs.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on ~~the~~

~~LGIP~~Florida PRIME, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under applicable law, regulation or rule.

Pursuant to Florida law, the Auditor General will conduct an annual financial audit of ~~the LGIP~~Florida PRIME, which will include testing for compliance with this Policy.

X. Deposits and Withdrawals

Investors should refer to the separate ~~LGIP~~Florida PRIME Operating Procedures for detailed descriptions regarding how to make deposits in and withdrawals from ~~the LGIP~~Florida PRIME, including (1) any fees and limitations that may be imposed with respect thereto; and (2) reports provided to participants.

XI. Management Reporting

The Executive Director will be responsible for providing the formal periodic reports to the Trustees, legislative committees and other entities:~~ 1. An annual report on the SBA and its investment portfolios, including that of the LGIP. 2. A monthly report on performance and investment actions taken. 3. Special reports pursuant to Chapter 218, Florida Statutes.~~

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

Appendix A

Additional Information Regarding ~~LGIP's~~Florida PRIME's Principal Securities

Throughout this appendix it shall be understood that actions described as being taken by ~~the LGIP~~Florida PRIME refer to actions taken by the Investment Manager on behalf of ~~the LGIP.~~ Florida PRIME.

FIXED INCOME SECURITIES

Corporate Debt Securities

Corporate debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. ~~The LGIP~~Florida PRIME also may purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial paper is an issuer's obligation with a maturity of less than nine months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. ~~The LGIP~~Florida PRIME treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

Bank Instruments

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, time deposits, certificates of deposit and banker's 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. ~~The LGIP~~

Florida PRIME will not invest in instruments of domestic and foreign banks and savings and loans unless they have capital, surplus, and undivided profits of over $100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund or the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation. These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Euro-dollar Time Deposits.

Asset Backed Securities

Asset backed securities are payable from pools of obligations, most of which involve consumer or commercial debts. However, almost any type of fixed income assets (including other fixed

income securities) may be used to create an asset backed security. Asset backed securities may take the form of commercial paper, notes or pass-through certificates.

Government Securities

Government security means 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.

U.S. Treasury Securities

U.S. Treasury securities are direct obligations of the federal government of the United States. U.S. Treasury securities are generally regarded as having the lowest credit risks.

Agency Securities

Agency securities are issued or guaranteed by a federal agency or other government sponsored entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Farm Credit System Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans or other benefits. For example, the U.S. Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Investors regard agency securities as having low credit risks, but not as low as Treasury securities. ~~The LGIP~~ Florida PRIME treats mortgage-backed securities guaranteed by a GSE as if issued or guaranteed by a federal agency. Although such a guarantee protects against credit risks, it does not reduce market risks.

Insurance Contracts

Insurance contracts include guaranteed investment contracts, funding agreements and annuities. ~~The LGIP~~Florida PRIME treats these contracts as fixed income securities.

Municipal Securities

Municipal securities are issued by states, counties, cities and other political subdivisions and authorities.

Foreign Securities

Foreign securities are U.S. dollar-denominated securities of issuers based outside the United States. ~~The LGIP~~Florida PRIME considers an issuer to be based outside the United States if:

- ~~•~~ it is organized under the laws of, or has a principal office located in, another country;
- ~~•~~ the principal trading market for its securities is in another country; or
- ~~•~~ it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue or profit from goods produced, services performed or sales made in another country.

Mortgage Backed Securities

Mortgage backed securities represent interests in pools of mortgages. The mortgages that comprise a pool normally have similar interest rates, maturities and other terms. Mortgages may have fixed or adjustable interest rates. Interests in pools of adjustable rate mortgages are known as ARMs.

Zero Coupon Securities

Certain of the fixed income securities in which ~~the LGIP~~Florida PRIME invests are zero coupon securities. Zero coupon securities do not pay interest or principal until final maturity unlike debt securities that provide periodic payments of interest (referred to as a "coupon payment"). Investors buy zero coupon securities at a price below the amount payable at maturity. The difference between the purchase price and the amount paid at maturity represents interest on the zero coupon security. Investors must wait until maturity to receive interest and principal, which increases the interest rate and credit risks of a zero coupon security.

Callable Securities

Certain of the fixed income securities in which ~~the LGIP~~Florida PRIME invests are callable at the option of the issuer. Callable securities are subject to reinvestment risks.

144A Securities

The SBA has determined that ~~the LGIP~~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 ~~the LGIP~~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 1940 Act, as long as ~~the LGIP~~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. ~~The LGIP~~Florida PRIME is restricted from purchasing or acquiring securities or investments that would require ~~the LGIP~~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.

Money Market Mutual Funds ~~The LGIP~~

Florida PRIME may invest in shares of registered investment companies that are money market mutual funds, including those that are affiliated with the Investment Manager, as an efficient

means of implementing its investment strategies and/or managing its uninvested cash. These other money market mutual funds are managed independently of ~~the LGIP~~Florida PRIME and incur additional fees and/or expenses that would, therefore, be borne indirectly by ~~the LGIP~~Florida PRIME in connection with such investment. However, the Investment Manager believes that the benefits and efficiencies of this approach should outweigh the potential additional fees and/or expenses. The Investment Manager must obtain prior written consent of the SBA to invest ~~the LGIP~~Florida PRIME in money market mutual funds that are "affiliated persons" of the Investment Manager.

SPECIAL TRANSACTIONS

The Investment Manager on behalf of ~~the LGIP~~Florida PRIME may engage in the following special transactions.

Repurchase Agreements

Repurchase agreements involve transactions in which ~~the LGIP~~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. The repurchase price exceeds the sale price, reflecting ~~the LGIP's~~Florida PRIME's return on the transaction. This return is unrelated to the interest rate on the underlying security. ~~The LGIP~~Florida PRIME will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Investment Manager. ~~The LGIP's~~

Florida PRIME's custodian or subcustodian will take possession of the securities subject to repurchase agreements. The Investment Manager or subcustodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

Delayed Delivery Transactions

Delayed delivery transactions, including when-issued transactions, are arrangements in which ~~the LGIP~~Florida PRIME buys securities for a set price, with payment and delivery of the securities scheduled for a future time. During the period between purchase and settlement, no payment is made by ~~the LGIP~~Florida PRIME to the issuer and no interest accrues to ~~the LGIP. The LGIP~~Florida PRIME. Florida PRIME records the transaction when it agrees to buy the securities and reflects their value in determining the price of its units. Settlement dates may not be more than seven business days after entering into these transactions; nonetheless, the market values of the securities bought may vary from the purchase prices. Therefore, delayed delivery transactions create interest rate risks for ~~the LGIP.~~Florida PRIME. Delayed delivery transactions also involve credit risks in the event of a counterparty default.

Asset Coverage

In order to secure its obligations in connection with derivative contracts or special transactions, ~~the LGIP~~Florida PRIME will either own the underlying assets, enter into an offsetting transaction or set aside readily marketable securities with a value that equals or exceeds ~~the LGIP's~~Florida PRIME's obligations. Unless ~~the LGIP~~Florida PRIME has other readily marketable assets to set

aside, it cannot trade assets used to secure such obligations without terminating a special transaction. This may cause ~~the LGIP~~Florida PRIME to miss favorable trading opportunities or to realize losses on special transactions. ~~.~~

Investment Policy Statement
Fund B Surplus Funds Trust Fund
(Non-Qualified)
Effective July 1, 2010

I. Purpose and Scope

The purpose of these Investment Policy Statement ("Policy") is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Fund B Surplus Funds Trust Fund ("Fund B"). This Policy does not relate to the Local Government Surplus Funds Trust Fund ("Florida PRIME") created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes).

II. Overview of Fund B

Fund B was created by an Act of the Florida Legislature effective June 1, 2008 (Section 218.421, Florida Statutes). The State Board of Administration ("SBA") is charged with the powers and duties to administer and invest Fund B. The SBA has contracted with Federated Investment Counseling (the "Investment Manager") to provide investment advisory services to Fund B.

Fund B is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law").

III. Roles and Responsibilities

The Board of Trustees of the SBA ("Trustees") consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Fund B is in compliance with the requirements of Florida law.

The Trustees delegate the administrative and investment authority to manage Fund B to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint an Investment Advisory Council and a Participant Local Government Advisory Council. Both Councils will at least annually review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties as set forth in Applicable Florida Law.

IV. Fluctuating Net Asset Value Accounting

In March 1997, the Governmental Accounting Standards Board ("GASB") issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). Fund B will be accounted for as a fluctuating NAV pool.

V. Investment Objective

Fund B's primary objective is to maximize the present value of distributions from Fund B. Fund B principally consists of Segregated Securities, which are securities originally purchased for Florida PRIME that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization ("NRSRO") that provides Florida PRIME's AAAm rating.

In pursuing Fund B's investment objective, the Investment Manager may, in its sole discretion, sell, exchange, or otherwise dispose of, or agree to the extension, workout or restructuring of, Segregated Securities; provided that the Investment Manager determines, in its sole discretion, that such sale, exchange, disposition, extension, workout or restructuring is in the best interest of participants.

The Investment Manager may invest proceeds received from any sale, exchange or other disposition of Segregated Securities in securities that are eligible under this Policy for Florida PRIME. The Investment Manager, as part of a restructuring, workout, or exchange, also may accept securities that are not eligible under the Policy for Florida PRIME, in its sole discretion.

Past performance is no guarantee of future performance. An investment in the Fund B is not a bank deposit and is not insured or guaranteed by the FDIC or any other government entity. Investors may lose money investing in Fund B, and returns may not keep pace with inflation.

VI. Controls and Escalation Procedures

Section 218.421(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Fund B that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Fund B. The Custodian will mark to market the portfolio holdings of the Fund B on a monthly basis. The Investment Manager will reconcile accounting and performance measurement reports with the Custodian on a regular basis, under the supervision of the SBA, in accordance with documented operational procedures.

The SBA and third parties used to materially implement Fund B will maintain internal control, fraud and ethics policies and procedures.

The Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Fund B. The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. The SBA and the

Investment Manager have an affirmative duty to immediately disclose any material impact on Fund B to the participants.

The Investment Manager will perform daily compliance monitoring to ensure that investment practices comply with the requirements of this Policy, according to documented compliance procedures at least annually provided to the SBA. The Investment Manager will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. Additionally, the Investment Oversight Group will periodically conduct independent compliance reviews.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on Fund B, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under law, regulation or rule. The Trustees will also review progress in returning the principal in Fund B to the participants at each meeting of the Trustees until Fund B self-liquidates or is terminated by law.

VII. Distributions

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sale of securities, collateral liquidation, or other restructure and workout activities undertaken.

To effect the distribution, the Investment Manager will transfer cash or securities to Florida PRIME for the benefit of Fund B shareholders. Such transfers will be consistent with the pro rata allocation of Fund B shareholders of record as of the initial partition of Segregated Securities within Florida PRIME.

VIII. Deposits and Withdrawals

Participants cannot make additional deposits into, or any withdrawals from, Fund B.

XI. Management Reporting

The Executive Director will be responsible for providing formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME and Fund B.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

Draft Changes for Consideration by Investment Advisory Council and Participant Local Government Advisory Council on June 7, 2010

Investment Policy ~~Guidelines~~Statement
Fund B Surplus Funds Trust Fund
(Non-Qualified)
Effective ~~June~~July 1, ~~2008~~2010

I. Purpose and Scope

The purpose of these Investment Policy ~~Guidelines~~Statement ("Policy") is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Fund B Surplus Funds Trust Fund ("Fund B"). This Policy does not relate to the Local Government Surplus Funds Trust Fund ("~~LGIP~~Florida PRIME") created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes).

II. Overview of Fund B

Fund B was created by an Act of the Florida Legislature effective June 1, 2008 (Section 218.421, Florida Statutes). The State Board of Administration ("SBA") is charged with the powers and duties to administer and invest Fund B. The SBA has contracted with Federated Investment Counseling (the "Investment Manager") to provide investment advisory services to Fund B.

Fund B is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law").

III. Roles and Responsibilities

The Board of Trustees of the SBA ("Trustees") consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Fund B is in compliance with the requirements of Florida law.

The Trustees delegate the administrative and investment authority to manage Fund B to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint ~~a six-member~~an Investment Advisory Council and a ~~six member~~ Participant Local Government Advisory Council. Both Councils will at least annually review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties as set forth in Applicable Florida Law.

IV. Fluctuating Net Asset Value Accounting

In March 1997, the Governmental Accounting Standards Board ("GASB") issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). Fund B will be accounted for as a fluctuating NAV pool.

V. Investment Objective

Fund B's primary objective is to maximize the present value of distributions from Fund B. Fund B principally consists of Segregated Securities, which are securities originally purchased for ~~the LGIP~~Florida PRIME that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization ("NRSRO") that provides ~~the LGIP's~~Florida PRIME's AAAm rating.

In pursuing Fund B's investment objective, the Investment Manager may, in its sole discretion, sell, exchange, or otherwise dispose of, or agree to the extension, workout or restructuring of, Segregated Securities; provided that the Investment Manager determines, in its sole discretion, that such sale, exchange, disposition, extension, workout or restructuring is in the best interest of participants.

The Investment Manager may invest proceeds received from any sale, exchange or other disposition of Segregated Securities in securities that are eligible under this Policy for ~~the LGIP.~~Florida PRIME. The Investment Manager, as part of a restructuring, workout, or exchange, also may accept securities that are not eligible under the Policy for ~~the LGIP~~Florida PRIME, in its sole discretion.

Past performance is no guarantee of future performance. An investment in the Fund B is not a bank deposit and is not insured or guaranteed by the FDIC or any other government entity. Investors may lose money investing in Fund B, and returns may not keep pace with inflation.

VI. Controls and Escalation Procedures

Section 218.421(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Fund B that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Fund B. The Custodian will mark to market the portfolio holdings of the Fund B on a monthly basis. The Investment Manager will reconcile accounting and performance measurement reports with the Custodian on a regular basis, under the supervision of the SBA, in accordance with documented operational procedures.

The SBA and third parties used to materially implement Fund B will maintain internal control, fraud and ethics policies and procedures.

The Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Fund B. The Investment Oversight Group will meet and report monthly to the

Executive Director, except upon the occurrence of a material event. The SBA and the Investment Manager have an affirmative duty to immediately disclose any material impact on Fund B to the participants.

The Investment Manager will perform daily compliance monitoring to ensure that investment practices comply with the requirements of this Policy, according to documented compliance procedures ~~approved by~~at least annually provided to the SBA. The Investment Manager will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. Additionally, the Investment Oversight Group will periodically conduct independent compliance reviews.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on Fund B, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under law, regulation or rule. The Trustees will also review progress in returning the principal in Fund B to the participants at each meeting of the Trustees until Fund B self-liquidates or is terminated by law.

VII. Distributions

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sale of securities, collateral liquidation, or other restructure and workout activities undertaken.

To effect the distribution, the Investment Manager will transfer cash or securities to ~~the LGIP~~Florida PRIME for the benefit of Fund B shareholders. Such transfers will be consistent with the pro rata allocation of Fund B shareholders of record as of the initial partition of Segregated Securities within ~~the LGIP~~Florida PRIME.

VIII. Deposits and Withdrawals

Participants cannot make additional deposits into, or any withdrawals from, Fund B.

XI. Management Reporting

The Executive Director will be responsible for providing formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of ~~the LGIP~~Florida PRIME and Fund B.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $167,200,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY BONDS, 2007 SERIES (TO BE DETERMINED)

WHEREAS, the State Board of Education of Florida proposes to issue an amount not exceeding $167,200,000 Public Education Capital Outlay Bonds, 2007 Series (to be determined) (the "Bonds") for the purpose of financing capital outlay projects for the State System of Public Education in Florida authorized by the 2007 Legislature and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended; and,

WHEREAS, the Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992; the Forty-second Supplemental Authorizing Resolution and a sale resolution, both of which were adopted by the State Board of Education on August 14, 2007; and,

WHEREAS, the proposed Bonds shall be secured by a lien upon the Gross Receipts Taxes which are required to be deposited in the Public Education Capital Outlay and Debt Service Trust Fund administered by the State Board of Education of Florida (the "Gross Receipts Taxes"), and the Bonds are additionally secured by a pledge of the full faith and credit of the State of Florida; and,

WHEREAS, the State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2009 Series F; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which $239,225,000 remains unissued; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $265,000,000 Public Education Capital Outlay Refunding Bonds, Series (to be determined) (the "2010 Series Refunding Bonds") at its May 11, 2010, meeting; and,

WHEREAS, the proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 1989-A, as to lien on and source and security for payment from the Gross Receipts Taxes; and,

WHEREAS, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1993 Series A through 2009 Series F and if and when issued, the remaining portion of the 2009 Series Refunding Bonds and the 2010 Series Refunding Bonds; and,

WHEREAS, the Division of Bond Finance has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, that the proposal of the State Board of Education of Florida to issue an amount not exceeding $167,200,000 Public Education Capital Outlay Bonds, 2007 Series (to be determined), is hereby approved as to fiscal sufficiency.

ADOPTED June 8, 2010

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 25, 2010

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $167,200,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY BONDS, 2007 SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State Board of Education, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $167,200,000 Public Education Capital Outlay Bonds, 2007 Series (to be determined) (the "Bonds") for the purpose of financing capital outlay projects for the State System of Public Education in Florida authorized by the 2007 Legislature and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended. The Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992; the Forty-second Supplemental Authorizing Resolution and a sale resolution, both of which were adopted by the State Board of Education on August 14, 2007.

The State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2009 Series F. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the “2009 Series Refunding Bonds”) at its September 15, 2009, meeting, of which $239,225,000 remains unissued. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $265,000,000 Public Education Capital Outlay Refunding Bonds, Series (to be determined) (the “2010 Series Refunding Bonds”) at its May 11, 2010, meeting. The proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds Series 1985 through 1989-A, as to lien on and source and security for payment from the Gross Receipts Taxes. The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1993 Series A through 2009 Series F, and if and when issued, the remaining portion of the 2009 Series Refunding Bonds and the 2010 Series Refunding Bonds.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 25, 2010

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $19,100,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA STATE UNIVERSITY DORMITORY REVENUE BONDS, SERIES 2010A:

The Division of Bond Finance of the State Board of Administration (the "Division") has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $19,100,000 State of Florida, Board of Governors, Florida State University Dormitory Revenue Bonds, Series 2010A (the "Bonds"), for the purpose of financing the construction of a dormitory on the main campus of the Florida State University, funding a reserve account and paying costs associated with the issuance and sale of the Bonds.

The Bonds will be issued pursuant to the Original Resolution adopted by the Governor and Cabinet on November 17, 1992, as subsequently amended on July 25, 2000 and October 28, 2003, and the Tenth Supplemental Resolution which is anticipated to be adopted by the Governor and Cabinet on June 8, 2010 (collectively, the “Resolution”). The principal of and interest due on the Bonds shall be secured by revenues of the housing system (the “Pledged Revenues”), as described in the Resolution.

T he Division has heretofore issued Florida State University Housing Facility Revenue Bonds, Series 1993 through 2005A (the “Previous Bonds”). The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Pledged Revenues with the Previous Bonds.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $19,100,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA STATE UNIVERSITY DORMITORY REVENUE BONDS, SERIES 2010A

WHEREAS, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding $19,100,000 State of Florida, Board of Governors, Florida State University Dormitory Revenue Bonds, Series 2010A (the "Bonds"), for the purpose of financing the construction of a dormitory on the main campus of the Florida State University, funding a reserve account and paying costs associated with the issuance and sale of the Bonds; and,

WHEREAS, the Division has requested the State Board of Administration to approve the fiscal sufficiency of the proposed issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Bonds will be issued pursuant to the Original Resolution adopted by the Governor and Cabinet on November 17, 1992, as subsequently amended on July 25, 2000 and October 28, 2003, and the Tenth Supplemental Resolution which is anticipated to be adopted by the Governor and Cabinet on June 8, 2010 (collectively, the “Resolution”); and,

WHEREAS, the principal of and interest due on the Bonds shall be secured by revenues of the housing system (the “Pledged Revenues”), as described in the Resolution; and,

WHEREAS, the Division has heretofore issued Florida State University Housing Facility Revenue Bonds, Series 1993 through 2005A (the “Previous Bonds”); and,

WHEREAS, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Pledged Revenues with the Previous Bonds; and,

WHEREAS, the Bonds do not constitute an obligation, either general or special, of the State of Florida or any of its units of local government and shall not be a debt of the State or of any unit of local government, and neither the State nor any unit of local government shall be liable thereon; and,

WHEREAS, the Florida State University shall not have the power to pledge the credit, the revenues, or the taxing power of the State or of any unit of local government, and neither the credit, the revenues, nor the taxing power of the State or of any unit of local government shall be deemed to be pledged to the payment of the Bonds; and,

WHEREAS, the proceeds of the Bonds shall be and constitute trust funds and shall be used and applied solely in the manner and for the purposes provided in the Resolution; and,

WHEREAS, the estimate of funds pledged to the issue indicates that in no State fiscal year will the debt service requirements of the Bonds exceed the Pledged Revenues available for payment of such debt service requirements and that in no State fiscal year will the moneys pledged for the debt service requirements be less than the required coverage amount; and,

WHEREAS, the Division, has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding $19,100,000 State of Florida, Board of Governors, Florida State University Dormitory Revenue Bonds, Series 2010A for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

ADOPTED June 8, 2010

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $15,500,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA AGRICULTURATL AND MECHANICAL UNIVERSITY DORMITORY REVENUE BONDS, SERIES (TO BE DETERMINED)

WHEREAS, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding $15,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Bonds, Series (to be determined) (the "Bonds"), for the purpose of financing the renovation of student housing facilities on the main campus of the Florida Agricultural and Mechanical University, funding a reserve account, and paying costs associated with the issuance and sale of the Bonds; and,

WHEREAS, the Division has requested the State Board of Administration to approve the fiscal sufficiency of the proposed issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Bonds will be issued pursuant to the Original Resolution adopted by the Governor and Cabinet on February 4, 1992, as amended by a resolution anticipated to be to be adopted by the Governor and Cabinet on June 8, 2010, and as supplemented by the supplemental resolution anticipated to be adopted by the Governor and Cabinet on June 8, 2010 (collectively, the "Resolution"); and,

WHEREAS, the principal of and interest due on the Bonds shall be secured by revenues of the housing system (the "Pledged Revenues"), as described in the Resolution; and,

WHEREAS, the Division has heretofore issued Florida Agricultural and Mechanical University Student Apartment Facility Revenue Bonds, Series 1992 and 1996 (the "Previous Bonds"); and,

WHEREAS, the Division has submitted for approval as to fiscal sufficiency by the State Board of Administration of an amount not exceeding $14,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Refunding Bonds, Series (to be determined) (the "Proposed Refunding Bonds)" at its June 8, 2010 meeting; and,

WHEREAS, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Pledged Revenues with the Previous Bonds, and when and if approved and issued, the Proposed Refunding Bonds; and,

WHEREAS, the Bonds do not constitute an obligation, either general or special, of the State of Florida or any of its units of local government and shall not be a debt of the State or of any unit of local government, and neither the State nor any unit of local government shall be liable thereon; and,

WHEREAS, the Florida Agricultural and Mechanical University shall not have the power to pledge the credit, the revenues, or the taxing power of the State or of any unit of local government, and neither the credit, the revenues, nor the taxing power of the State or of any unit of local government shall be deemed to be pledged to the payment of the Bonds; and,

WHEREAS, the proceeds of the Bonds shall be and constitute trust funds and shall be used and applied solely in the manner and for the purposes provided in the Resolution; and,

WHEREAS, the estimate of funds pledged to the issue indicates that in no State fiscal year will the debt service requirements of the Bonds exceed the Pledged Revenues available for payment of such debt service requirements and that in no State fiscal year will the moneys pledged for the debt service requirements be less than the required coverage amount; and,

WHEREAS, the Division, has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding $15,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Bonds, Series (to be determined) for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

ADOPTED June 8, 2010

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 25, 2010

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $15,500,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY DORMITORY REVENUE BONDS, SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division") has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $15,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Bonds, Series (to be determined) (the "Bonds"), for the purpose of financing the renovation of student housing facilities on the main campus of the Florida Agricultural and Mechanical University, funding a reserve account, and paying costs associated with the issuance and sale of the Bonds.

The Bonds will be issued pursuant to the Original Resolution adopted by the Governor and Cabinet on February 4, 1992, as amended by a resolution anticipated to be to be adopted by the Governor and Cabinet on June 8, 2010, and as supplemented by the supplemental resolution anticipated to be adopted by the Governor and Cabinet on June 8, 2010 (collectively, the “Resolution”). The principal of and interest due on the Bonds shall be secured by revenues of the housing system (the “Pledged Revenues”), as described in the Resolution.

The Division has heretofore issued Florida Agricultural and Mechanical University Student Apartment Facility Revenue Bonds, Series 1992 and 1996 (the “Previous Bonds”). The Division has submitted for approval as to fiscal sufficiency by the State Board of Administration of an amount not exceeding $14,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Refunding Bonds, Series (to be determined) (the “Proposed Refunding Bonds)” at its June 8, 2010 meeting. The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Pledged Revenues with the Previous Bonds, and when and if approved and issued, the Proposed Refunding Bonds.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $14,500,000 STATE OF FLORIDA, FLORIDA EDUCATION SYSTEM, FLORIDA AGRICULTURATL AND MECHANICAL UNIVERSITY DORMITORY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)

WHEREAS, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding $14,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Refunding Bonds, Series (to be determined) (the "Bonds"), for the purpose of refunding all of the outstanding Florida Agricultural and Mechanical University Student Apartment Facility Revenue Bonds, Series 1992 and 1996; and,

WHEREAS, the Division has requested the State Board of Administration to approve the fiscal sufficiency of the proposed issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Bonds will be issued pursuant to the Original Resolution adopted by the Governor and Cabinet on February 4, 1992, as amended by a resolution anticipated to be to be adopted by the Governor and Cabinet on June 8, 2010, and as supplemented by the supplemental resolution anticipated to be adopted by the Governor and Cabinet on June 8, 2010 (collectively, the "Resolution"); and,

WHEREAS, the principal of and interest due on the Bonds shall be secured by revenues of the housing system (the "Pledged Revenues"), as described in the Resolution; and,

WHEREAS, the Division has heretofore issued Florida Agricultural and Mechanical University Student Apartment Facility Revenue Bonds, Series 1992 and 1996 (the "Previous Bonds"); and,

WHEREAS, the Division has submitted for approval as to fiscal sufficiency by the State Board of Administration of an amount not exceeding $15,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Bonds, Series (to be determined) (the "Proposed New Money Bonds" at its June 8, 2010 meeting; and,

WHEREAS, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Pledged Revenues with the Previous Bonds, and when and if approved and issued, the Proposed New Money Bonds; and,

WHEREAS, the Bonds do not constitute an obligation, either general or special, of the State of Florida or any of its units of local government and shall not be a debt of the State or of any unit of local government, and neither the State nor any unit of local government shall be liable thereon; and,

WHEREAS, the Florida Agricultural and Mechanical University shall not have the power to pledge the credit, the revenues, or the taxing power of the State or of any unit of local government, and neither the credit, the revenues, nor the taxing power of the State or of any unit of local government shall be deemed to be pledged to the payment of the Bonds; and,

WHEREAS, the proceeds of the Bonds shall be and constitute trust funds and shall be used and applied solely in the manner and for the purposes provided in the Resolution; and,

WHEREAS, the estimate of funds pledged to the issue indicates that in no State fiscal year will the debt service requirements of the Bonds exceed the Pledged Revenues available for payment of such debt service requirements and that in no State fiscal year will the moneys pledged for the debt service requirements be less than the required coverage amount; and,

WHEREAS, the Division, has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding $14,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Refunding Bonds, Series (to be determined) for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

ADOPTED June 8, 2010

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 25, 2010

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $14,500,000 STATE OF FLORIDA, BOARD OF GOVERNORS, FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY DORMITORY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division") has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $14,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Refunding Bonds, Series (to be determined) (the "Bonds"), for the purpose of refunding all of the outstanding Florida Agricultural and Mechanical University Student Apartment Facility Revenue Bonds, Series 1992 and 1996.

The Bonds will be issued pursuant to the Original Resolution adopted by the Governor and Cabinet on February 4, 1992, as amended by a resolution anticipated to be to be adopted by the Governor and Cabinet on June 8, 2010, and as supplemented by the supplemental resolution anticipated to be adopted by the Governor and Cabinet on June 8, 2010 (collectively, the “Resolution”). The principal of and interest due on the Bonds shall be secured by revenues of the housing system (the “Pledged Revenues”), as described in the Resolution.

The Division has heretofore issued Florida Agricultural and Mechanical University Student Apartment Facility Revenue Bonds, Series 1992 and 1996 (the “Previous Bonds”). The Division has submitted for approval as to fiscal sufficiency by the State Board of Administration of an amount not exceeding $15,500,000 State of Florida, Board of Governors, Florida Agricultural and Mechanical University Dormitory Revenue Bonds, Series (to be determined) (the “Proposed New Money Bonds”) at its June 8, 2010 meeting. The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Pledged Revenues with the Previous Bonds, and when and if approved and issued, the Proposed New Money Bonds.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

Florida Hurricane Catastrophe Fund

Memo

TO: Ashbel C. Williams, Executive Director & CIO

THRU: Jack E. Nicholson, Chief Operating Officer, FHCF

FROM: Tracy Allen, Senior Attorney, FHCF

DATE: May 25, 2010

SUBJECT: **Cabinet Agenda – June 8, 2010, Florida Hurricane Catastrophe Fund:**
Notice of Proposed Rule and Adoption for the following rules:
19-8.010, Reimbursement Contract
19-8.012, Procedures to Determine Ineligibility for Participation in the Florida Hurricane Catastrophe Fund and to Determine Exemption from Participation in the Florida Hurricane Catastrophe Fund due to Limited Exposure
19-8.013, Revenue Bonds Issued Pursuant to Section 215.555(6), F.S.
19-8.029, Insurer Reporting Requirements
19-8.030, Insurer Responsibilities

ITEM 15. – RULES

On May 11, 2010, the Board of Trustees of the SBA approved the filing of five emergency rules to implement CS/SB 1460. To implement these changes permanent rulemaking is being undertaken. CS/SB 1460 changed the dates for the FHCF Contract Year and thus impacted all the rules and the Reimbursement Contract. Also, to accommodate possible future legislative changes to the lines of business that are assessable for emergency assessments, language has been added to Rule 19-8.013 to reference Section 215.555, F.S., rather than specifically listing the lines of business that are exempt. Permission is being sought to file a Notice of Proposed Rule for the five rules listed above and, if no member of the public requests a rule hearing, to file these rules for adoption.

ACTIONS REQUESTED:
Item 15. Request approval of, and authority to file, a Notice of Proposed Rule for the five rules listed above. If no member of the public requests a rule hearing, request approval to file these rules, along with the forms incorporated therein, for adoption.

Attached are copies of:

Attachments for Item 15:
15.a. Notice of Proposed Rule
15.b. 19-8.010, Reimbursement Contract

15.c. 19-8.012, Procedures to Determine Ineligibility for Participation in the Florida Hurricane Catastrophe Fund and to Determine Exemption from Participation in the Florida Hurricane Catastrophe Fund due to Limited Exposure
15.d. 19-8.013, Revenue Bonds Issued Pursuant to Section 215.555(6), F.S.
15.e. 19-8.029, Insurer Reporting Requirements
15.f. 19-8.030, Insurer Responsibilities

Incorporated Documents:
15.g. FHCF-2010K, Reimbursement Contract
15.h. FHCF-2010K-1, Addendum No. 1
15.i. FHCF-2010K-2, Addendum No. 2

NOTICE OF PROPOSED RULE

STATE BOARD OF ADMINISTRATION
Florida Hurricane Catastrophe Fund

RULE NO.: RULE TITLE:
19-8.010: Reimbursement Contract
19-8.012: Procedures to Determine Ineligibility for Participation in the Florida Hurricane Catastrophe Fund and to Determine Exemption from Participation in the Florida Hurricane Catastrophe Fund due to Limited Exposure
19-8.013: Revenue Bonds Issued Pursuant to Section 215.555(6), F.S.
19-8.029: Insurer Reporting Requirements
19-8.030: Insurer Responsibilities

PURPOSE AND EFFECT: The State Board of Administration, Florida Hurricane Catastrophe Fund, seeks to amend the rules listed above to implement Section 215.555, Florida Statutes, including the changes made to the law during the 2010 legislative session.

SUMMARY: The rules and certain incorporated forms are being amended to reflect legislative changes to the governing act made during the 2010 legislative session, including a change in the Reimbursement Contract year date.

SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COSTS: The agency has determined that this rule will ___ or will not _X_ have an impact on small business. A SERC has ___ or has not _X_ been prepared by the agency. Any person who wishes to provide information regarding the statement of estimated regulatory costs, or to provide a proposal for a lower cost regulatory alternative must do so in writing within 21 days of this notice.

RULEMAKING AUTHORITY: 215.555(3), F.S.

LAW IMPLEMENTED: 215.555(2), (3), (4), (5), (6), (7), (10), (16), (17), F.S.

____IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE HELD AT THE DATE, TIME AND PLACE SHOWN BELOW:

____IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE HELD AT THE DATE, TIME AND PLACE SHOWN BELOW (IF NOT REQUESTED, THIS HEARING WILL NOT BE HELD):

DATE AND TIME:

PLACE:
(or)

__X__IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE SCHEDULED AND ANNOUNCED IN THE FAW:

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE IS: Tracy Allen, Senior FHCF Attorney, State Board of Administration, P. O. Box 13300, Tallahassee, Florida 32317-3300; telephone (850) 413-1341; email tracy.allen@sbafla.com.

THE FULL TEXT OF THE PROPOSED RULE IS:

19-8.010 Reimbursement Contract

Paragraphs (1) through (15), No Changes.

(16) The reimbursement contract for the 2010-2011 contract year, including all Addenda, required by Section 215.555(4), F.S., which is called Form FHCF-2010K-"Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/10, as amended, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2010 through May 31, 2011 ~~December 31, 2010~~ .

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555 FS. History–New 5-31-94, Amended 8-29-95, 5-19-96, 6-19-97, 5-28-98, 5-17-99, 9-13-99, 6-19-00, 6-3-01, 6-2-02, 11-12-02, 5-13-03, 5-19-04, 8-29-04, 5-29-05, 11-13-05, 5-10-06, 9-5-06, 5-8-07, 8-13-07, 6-8-08, 9-2-08, 3-30-09, 8-23-09, 3-30-10, _-__-10.

19-8.012 Procedures to Determine Ineligibility for Participation in the Florida Hurricane Catastrophe Fund and to Determine Exemption from Participation in the Florida Hurricane Catastrophe Fund due to Limited Exposure

Paragraphs (1) through (3)(d)1., No Changes.

(3)(d)2. If the Board determines that the insurer has an aggregate exposure of less than $10 million for covered policies, as defined in Section 215.555(2)(c), F.S., and in Article V of the reimbursement contract, as adopted and incorporated by reference in Rule 19-8.010, F.A.C., and that granting the exemption will not adversely affect the actuarial soundness of the Fund, the Board will notify the insurer that its request has been approved and note that the insurer must immediately notify the Board if its exposure becomes $10 million or more in the aggregate. If this occurs, the insurer will be treated as a "new participant" and will be subject to the provisions of subparagraph 19-8.028(4)(c)3., F.A.C., if its exposure becomes $10 million or more during the period from June 1 through November 30 or will be subject to the provisions of subparagraph 19-8.028(4)(c)4., F.A.C., if its exposure becomes $10 million or more during the period from December 1 through May 31 for the contract year. ~~for contract years prior to the 2010 contract year, or if its exposure becomes $10 million or more during the period from December 1 through December 31 beginning with the 2010 contract year.~~

Paragraphs (3)(e) through (g), No Changes.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2)(c), (3), (4), (5) FS. History–New 2-17-97, Amended 6-2-02, 5-13-03, 5-19-04, 5-29-05, 5-10-06, 6-8-08, 3-30-09,3-30-10, _-__-10.

19-8.013 Revenue Bonds Issued Pursuant to Section 215.555(6), F.S.

Paragraphs (1) through (2)(f), No Changes.

(2)(g) Contract Year~~, prior to June 1, 2010,~~ means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year. ~~The period of time which begins at 12:00:01 Eastern Time on June 1, 2010 and ends at 12:00 p.m. midnight on December 31, 2010 shall be considered the 2010 Contract Year. All Contract Years beginning after December 31, 2010 shall begin at 12:00:01 Eastern Time on January 1 of each calendar year and end at 12:00 p.m. midnight on December 31 of that calendar year.~~

Paragraphs (2)(h) through (5)(a)., No Changes.

(5)(b) Pursuant to the Order issued by the Office of Insurance Regulation levying the Emergency Assessment, each Assessable Insurer shall remit to the entity identified in the Order, an amount equal to the required percentage of its direct written premium for the preceding calendar quarter from all Assessable Lines, except those lines specifically exempted in Section 215.555, F.S. ~~Medical malpractice is an Assessable Line of business but only as to covered events occurring on or after June 1, 2010. In addition, policies issued as part of the National Flood Insurance Program are not subject to the Emergency Assessment.~~ The required percentage will be determined in accordance with Section 215.555(6)(b), F.S., and the procedures set out in subsection (4) of this rule.

Paragraphs (5)(c) through (5)(d)1., No Changes.

(5)(d)2. Assessable Lines. Note that the numbers below preceding the names of the lines of business do not correspond to the line numbers of the property and casualty annual statement referenced in subparagraph 1., immediately above.

a. Fire.
b. Allied Lines.
c. Multiple Peril Crop.
d. Farmowners Multiple Peril.
e. Homeowners Multiple Peril.
f. Commercial Multiple Peril (non-liability).
g. Commercial Multiple Peril (liability).
h. Mortgage Guaranty.
i. Ocean Marine.
j. Inland Marine.
k. Financial Guaranty.
l. Medical Malpractice (Medical Malpractice insurance premiums are subject to certain time limited exemptions, refer to Section 215.555, F.S., for those limitations).~~are not subject to Emergency Assessments attributable to covered events occurring prior to the Contract Year that begins on June 1, 2010).~~
m. Earthquake.
n. Other Liability.
o. Products Liability.
p. Private Passenger Auto No-Fault.
q. Other Private Passenger Auto Liability.
r. Commercial Auto No-Fault.
s. Other Commercial Auto Liability.
t. Private Passenger Auto Physical Damage.
u. Commercial Auto Physical Damage.
v. Aircraft (all perils).
w. Fidelity.
x. Surety.
y. Burglary and Theft.
z. Boiler and Machinery.
aa. Credit.
bb. Warranty.
cc. Aggregate Write Ins for Other Lines of Business.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2), (3), (4), (5), (6), (7) FS. History–New 9-18-97, Amended 12-3-98, 9-12-00, 6-1-03, 5-19-04, 5-29-05, 5-10-06, 9-5-06, 6-8-08, 3-30-09, 3-30-10, _-__-10.

19-8.029 Insurer Reporting Requirements

Paragraphs (1) through (2)(b), No Changes.

(2)(c) Contract Year~~, prior to June 1, 2010,~~ means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year. ~~The period of time~~

~~which begins at 12:00:01 Eastern Time on June 1, 2010 and ends at 12:00 p.m. midnight on December 31, 2010 shall be considered the 2010 Contract Year. All Contract Years beginning after December 31, 2010 shall begin at 12:00:01 Eastern Time on January 1 of each calendar year and end at 12:00 p.m. midnight on December 31 of that calendar year.~~

Paragraphs (2)(d) through (4)(k), No Changes.

(4)(l) For the 2010/2011 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2010 Data Call," rev. 05/10, hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year ~~following calendar year~~, to the Administrator.

Paragraphs (5) through (7)(e), No Changes.

(7)(f) For the 2010/2011 Contract Year, the applicable Interim Loss Report is the "Contract Year 2010 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/10, which is hereby adopted and incorporated by reference into this rule. The applicable Proof of Loss Report is the "Contract Year 2010 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/10, which is hereby adopted and incorporated by reference into this rule. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

Paragraph (8), No Changes.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2), (3), (4), (5), (6), (7), (15) FS. History–New 5-17-99, Amended 6-19-00, 6-3-01, 6-2-02, 11-12-02, 5-13-03, 5-19-04, 8-29-04, 5-29-05, 5-10-06, 5-8-07, 6-8-08, 3-30-09, 8-2-09,3-30-10, _-__-10.

19-8.030 Insurer Responsibilities

Paragraphs (1) through (3)(d), No Changes.

(3)(e) Contract Year~~, prior to June 1, 2010,~~ means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year. ~~The period of time which begins at 12:00:01 Eastern Time on June 1, 2010 and ends at 12:00 p.m. midnight on December 31, 2010 shall be considered the 2010 Contract Year. All Contract Years beginning after December 31, 2010 shall begin at 12:00:01 eastern Time on January 1 of each calendar year and end at 12:00 p.m. midnight on December 31 of that calendar year.~~

Paragraphs (3)(f) through (4)(b), No Changes.

(4)(c) ~~1. For Contract Years prior to the 2010 Contract Year,~~ New Participants during the period of December 1 through May 31: Those Insurers that first begin writing Covered Policies from December 1 through May 31 of a Contract Year, along with the Insurers described in paragraph (b) immediately above, are New Participants. However, these Insurers shall not complete and submit the Data Call (Form FHCF-D1A) but shall meet all other requirements for New Participants.~~2. For Contract Years 2010 and later, New Participants during the period of December 1 through December 31: Those Insurers that first begin writing Covered Policies from December 1 through December 31 of a Contract Year, along with the Insurers described in paragraph (b) above, are New Participants. However, these Insurers shall not complete and submit the Data Call (Form FHCF-D1A) but shall meet all other requirements for New Participants.~~

Paragraphs (4)(d) through (5)(a), No Changes.

(5)(b) Current Participants: Each Insurer, with Covered Policies as of June 1 of a Contract Year must participate in the FHCF and must complete and submit the Data Call. The Data Call is incorporated into Rule 19-8.029, F.A.C., and is due, correctly completed, no later than September 1 of the Contract Year.

Paragraphs (5)(c) through (6)(a), No Changes.

(6)(b) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year must submit a payment of $1,000 on or before the date indicated on the invoice. Once a New Participant's Data Call, which is filed on or before March 1 of the Contract Year, has been reviewed by the Administrator and the company's actual Reimbursement Premium has been determined on its actual exposure, an invoice with the amount due, if any, will be sent to the Company by the Administrator. Payment, if any amounts are shown as due on the invoice, is due within 30 days from the date on the invoice. In no event will the Premium be less than the $1,000. ~~1. For Contract Years prior to the 2010 Contract Year, the New Participant's Data Call is due on or before March 1 of the Contract Year.~~
~~2. For Contract Years 2010 and later, the New Participant's Data Call is due on or before March 1 of the following calendar year.~~

(c) New Participants during the period of December 1 through May 31:

Those ~~1. For Contract Years prior to the 2010 Contract Year, those~~ Insurers that first begin writing Covered Policies from December 1 through May 31 of a Contract Year shall pay a $1,000 Premium within 30 days from the date on the invoice sent to the Insurer by the FHCF.

~~2. For Contract Years 2010 and later, those Insurers that first begin writing Covered Policies from December 1 through December 31 of a Contract Year shall pay a $1,000 Premium within 30 days from the date on the invoice sent to the Insurer by the FHCF.~~

Paragraphs (6)(d) through (7)(a)7., No Changes.

(7)(a)8. For the 2010/2011 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2010 Advance Preparation Instructions," FHCF-EAP1, rev. 05/10. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2010 Advance Preparation Instructions," FHCF-LAP1, rev. 05/10. These forms are hereby adopted and incorporated by reference into this rule. Copies of these forms may be obtained from the FHCF website, www.sbafla.com/fhcf or by contacting the State Board of Administration. The mailing address is P. O. Box 13300, Tallahassee, Florida 32317-3300. The street address is 1801 Hermitage Blvd., Tallahassee, Florida 32308.

Paragraphs (7)(b) through (8)(d), No Changes.

(8)(e) For the Contract Year 2010-2011, the applicable "Florida Hurricane Catastrophe Fund Interim Loss Report," is the FHCF-L1A rev. 05/10 and the applicable "Florida Hurricane Catastrophe Fund Proof of Loss Report," is the FHCF-L1B rev. 05/10. These forms are hereby adopted and incorporated by reference into this rule.

These forms are hereby adopted and incorporated by reference into this rule and may be obtained from the Fund's Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. Companies must submit a detailed claims listing (in a delimited ASCII format) to support the losses reported in the FHCF-L1B, Proof of Loss Report, at the same time it submits its first Proof of Loss Report for a specific Covered Event that qualifies the company for reimbursement under that Covered Event, and should be prepared to supply a detailed claims listing for any subsequent Proof of Loss Report upon request. Refer to Form FHCF-LAP1 for the required file layout. The Proof of Loss Report and the detailed claims listing are required to be sent to the FHCF Administrator, Paragon Strategic Solutions Inc., at the address listed above. If your company submits its Proof of Loss Reports electronically through the FHCF's Online Claims System at

www.sbafla.com/fhcf, the detailed claims listing may be attached to the Company's submission.

Paragraphs (9) through (12), No Changes.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555 FS. History–New 5-13-03, Amended 5-19-04, 5-29-05, 5-10-06, 5-8-07, 8-13-07, 6-8-08, 3-30-09, 3-30-10, _-__-10.

NAME OF PERSON ORIGINATING PROPOSED RULE: Jack E. Nicholson, FHCF Chief Operating Officer, State Board of Administration.

NAME OF AGENCY HEAD WHO APPROVED THE PROPOSED RULE: The Trustees of the State Board of Administration of Florida.

DATE PROPOSED RULE APPROVED BY AGENCY HEAD: 6/8/10

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAW: 5/28/10

19-8.010 Reimbursement Contract.

(1) The reimbursement contract for the 1995-1996 contract year required by Section 215.555(4), F.S., which is called Form FHCF-1995K – "Reimbursement Agreement ("Agreement") between (name of insurer) (the "Company")/NAIC # ( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("Fund"), rev. 07/95, is hereby adopted and incorporated by reference into this rule.

(2) The reimbursement contract for the 1996-1997 contract year required by Section 215.555(4), F.S., which is called Form FHCF-1996K – "Reimbursement Agreement ("Agreement") between (name of insurer) (the "Company")/NAIC # ( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("Fund"), rev. 05/96, is hereby adopted and incorporated by reference into this rule.

(3) The reimbursement contract for the 1997-1998 contract year required by Section 215.555(4), F.S., which is called Form FHCF-1997K – "Reimbursement Contract ("Contract") between (name of insurer) (the "Company")/NAIC # ( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("Fund"), rev. 05/97, is hereby adopted and incorporated by reference into this rule.

(4) The reimbursement contract for the 1998-1999 contract year required by Section 215.555(4), F.S., which is called Form FHCF-1998K – "Reimbursement Contract ("Contract") between (name of insurer) (the "Company")/NAIC # ( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("Fund"), rev. 05/98, is hereby adopted and incorporated by reference into this rule.

(5) The reimbursement contract for the 1999-2000 contract year required by Section 215.555(4), F.S., which is called Form FHCF-1999K – "Reimbursement Contract ("Contract") between (name of insurer) (the "Company")/NAIC#( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/99, is hereby adopted and incorporated by reference into this rule. Addendum No. 1 to the 1999-2000 reimbursement contract, which is called Form FHCF-1999K-1, – "Reimbursement Contract ("Contract") between (name of insurer) (the "Company")/NAIC # ( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 08/99, is hereby adopted and incorporated by reference into this rule.

(6) The reimbursement contract for the 2000-2001 contract year required by Section 215.555(4), F.S., which is called Form FHCF-2000K – "Reimbursement Contract ("Contract") between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/00, is hereby adopted and incorporated by reference into this rule.

(7) The reimbursement contract for the 2001-2002 contract year required by Section 215.555(4), F.S., which is called Form FHCF-2001K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/01, is hereby adopted and incorporated by reference into this rule.

(8) The amended reimbursement contract for the 2002-2003 contract year required by Section 215.555(4), F.S., which is called Form FHCF-2002K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/02, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2002 through May 31, 2003.

(9) The reimbursement contract for the 2003-2004 contract year required by Section 215.555(4), F.S., which is called Form FHCF-2003K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/03, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2003 through May 31, 2004.

(10) The amended reimbursement contract for the 2004-2005 contract year required by Section 215.555(4), F.S., which is called Form FHCF-2004K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/04, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2004 through May 31, 2005.

(11) The reimbursement contract for the 2005-2006 contract year required by Section 215.555(4), F.S., which is called Form FHCF-2005K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and the State

Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/05, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2005 through May 31, 2006. Addendum No. 1 to the 2005-2006 Reimbursement Contract, which is called Form FHCF-2005K-1, "Reimbursement Contract (Contract) between (name of insurer) (the Company)/NAIC # ( ) and the State Board of Administration of the State of Florida (SBA) which administers the Florida Hurricane Catastrophe Fund (FHCF)", rev. 06/05, is hereby adopted and incorporated by reference into this rule.

(12) The reimbursement contract for the 2006-2007 contract year, as amended by Addendums 1., 2., and 3., required by Section 215.555(4), F.S., which is called Form FHCF-2006K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and the State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/06, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2006 through May 31, 2007.

(13) The reimbursement contract for the 2007-2008 contract year, including Addendum required by Section 215.555(4), F.S., which is called Form FHCF-2007K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and the State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/07, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2007 through May 31, 2008.

(14) The reimbursement contract for the 2008-2009 contract year, including all Addenda, required by Section 215.555(4), F.S., which is called Form FHCF-2008K – "Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/08, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2008 through May 31, 2009.

(15) The reimbursement contract for the 2009-2010 contract year, including all Addenda, required by Section 215.555(4), F.S., which is called Form FHCF-2009K-"Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/09, as amended, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2009 through May 31, 2010.

(16) The reimbursement contract for the 2010-2011 contract year, including all Addenda, required by Section 215.555(4), F.S., which is called Form FHCF-2010K-"Reimbursement Contract" or "Contract" between (name of insurer) (the "Company")/NAIC #( ) and The State Board of Administration of the State of Florida ("SBA") which administers the Florida Hurricane Catastrophe Fund ("FHCF"), rev. 05/10, as amended, is hereby adopted and incorporated by reference into this rule. This contract is effective from June 1, 2010 through May 31, 2011 ~~December 31, 2010~~.

(17) Copies of the reimbursement contract may be obtained from the FHCF website, www.sbafla.com/fhcf or by contacting the State Board of Administration. The mailing address is P.O. Box 13300, Tallahassee, Florida 32317-3300. The street address is 1801 Hermitage Blvd., Tallahassee, Florida 32308 and the telephone number is (850) 413-1341.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555 FS. History–New 5-31-94, Amended 8-29-95, 5-19-96, 6-19-97, 5-28-98, 5-17-99, 9-13-99, 6-19-00, 6-3-01, 6-2-02, 11-12-02, 5-13-03, 5-19-04, 8-29-04, 5-29-05, 11-13-05, 5-10-06, 9-5-06, 5-8-07, 8-13-07, 6-8-08, 9-2-08, 3-30-09, 8-23-09, 3-30-10, _-__-10.

19-8.012 Procedures to Determine Ineligibility for Participation in the Florida Hurricane Catastrophe Fund and to Determine Exemption from Participation in the Florida Hurricane Catastrophe Fund due to Limited Exposure.

(1) Purpose. The purpose of this rule is to establish procedures to determine ineligibility for participation in the Florida Hurricane Catastrophe Fund ("the Fund") and to establish procedures to determine whether an insurer may be exempted from subsections (4) and (5) of Section 215.555, F.S., because it has less than $10 million in aggregate exposure for covered policies.

(2) Procedures to Determine Ineligibility for Participation in the Fund.

(a) An insurer must apply for ineligibility from participation in the Fund if it has surrendered its certificate of authority to write insurance in Florida. To apply, the insurer shall submit a written request for ineligibility stating that it will have no covered policies, as that term is defined in Section 215.555(2)(c), F.S., after May 31 of the year for which the ineligibility is sought and provide a copy of the Office of Insurance Regulation Order, if any, revoking the insurer's authority to write insurance in Florida. The request shall be sent to the Fund's Administrator, Paragon Strategic Solutions Inc., at 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, MN 55437.

(b) An insurer which is not surrendering its certificate to write insurance in Florida must apply for ineligibility from participation in the Fund if it no longer has any covered policies in force, as that term is defined in Section 215.555(2)(c), F.S. To apply, the insurer shall submit a written request for a determination regarding its ineligibility for participation. The request shall be sent, no later than September 1 of the current contract year, to the Fund's Administrator, Paragon Strategic Solutions Inc., at 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, MN 55437, and shall contain the following information:

1. A detailed explanation of any premium appearing on the insurer's Florida Exhibit of Premiums and Losses of the National Association of Insurance Commissioners annual statement for lines of business which may contain covered policies. These lines are: Fire, Allied Lines, Homeowners Multiple Peril, Commercial Multiple Peril (non-liability portion), Inland Marine, Farmowners Multiple Peril.

2. A copy of the insurer's Exhibit of Premiums and Losses of the annual statement, required by Section 624.424, F.S., and any rules adopted thereunder, for the State of Florida for the applicable year.

3. Form FHCF-E1, "Statement related to Covered Policies as defined in Section 215.555(2)(c), F.S.," rev. 05/08, signed by two executive officers attesting to the fact that the insurer writes no covered policies. Form FHCF-E1 is hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund's Administrator at the address stated in this paragraph.

(c) The State Board of Administration of Florida ("Board") shall review the information received pursuant to paragraph (a) or (b) above.

1. If the Board determines that the insurer writes covered policies, as defined in Section 215.555(2)(c), F.S., and in Article V of the reimbursement contract, as adopted and incorporated by reference in Rule 19-8.010, F.A.C., and must therefore participate in the Fund as required by Section 215.555(4)(a), F.S., the Board will notify the insurer that its request has been denied. All insurers determined to be participants in the Fund will be required to enter into a reimbursement contract with the Board and will be subject to all premium payments and interest thereon, as well as fees for inadequate exposure data.

2. If the Board determines that the insurer does not write covered policies, as defined in Section 215.555(2)(c), F.S., and in Article V of the reimbursement contract, as adopted and incorporated by reference in Rule 19-8.010, F.A.C., the Board will notify the insurer that its request has been approved. This ineligibility continues until the insurer once again begins writing covered policies. The insurer must immediately notify the Board if it begins writing covered policies.

(d) Any Company granted ineligibility status which fails to execute and return the reimbursement contract to the Fund within thirty days of writing its first covered policy following the grant of ineligibility status shall not be eligible for reimbursement for any covered losses from a covered event occurring prior to the receipt by the Fund of the executed reimbursement contract.

(3) Procedures to Determine Exemption from the Fund Due to Limited Exposure.

(a) A current participant requesting exemption from participation in the Fund because its exposure for covered policies, as defined in Section 215.555(2)(c), F.S., and in Article V of the reimbursement contract, as adopted and incorporated by reference in Rule 19-8.010, F.A.C., is less than $10 million in the aggregate shall submit a written request for a determination regarding such an exemption no later than September 1 of the current contract year.

(b) If requested within thirty days of writing its first covered policy, a new participant, as defined in Article V of the reimbursement contract, may request exemption if its exposure is less than $10 million in the aggregate and is expected to remain less than $10 million in the aggregate for the remainder of the contract year.

(c) The request shall be sent to the Fund's Administrator, Paragon Strategic Solutions Inc., at 8200 Tower, 5600 West 83rd

Street, Suite 1100, Minneapolis, MN 55437. The insurer shall submit the following information no later than September 1 of the current contract year:

1. A detailed explanation of any premium appearing on the insurer's Florida Exhibit of Premiums and Losses of the National Association of Insurance Commissioners annual statement for lines of business which may contain covered policies. These lines are: Fire, Allied Lines, Homeowners Multiple Peril, Commercial Multiple Peril (non-liability portion), Inland Marine, Farmowners Multiple Peril.

2. A copy of the insurer's Exhibit of Premiums and Losses of the annual statement, required by Section 624.424, F.S., and any rules adopted thereunder, for the State of Florida for the applicable year.

3. Form FHCF-E2, "Information regarding De Minimis FHCF Covered Policies In-force at June 30, ____," rev. 05/09. Form FHCF-E2 is hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund's Administrator at the address stated in this paragraph.

4. Form FHCF-E3, "Statement related to De Minimis Aggregate Exposure for Covered Policies as defined in Section 215.555(2)(c), F.S., on behalf of _____," rev. 05/08, signed by two executive officers attesting to the fact that the insurer writes no covered policies with an aggregate exposure of $10 million or more. Form FHCF-E3 rev. 05/08, is hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund's Administrator at the address stated in this paragraph.

(d) The Board shall review the information received pursuant to paragraph (c) above.

1. If the Board determines that the insurer has an aggregate exposure of $10 million or more for covered policies, as defined in Section 215.555(2)(c), F.S., and in Article V of the reimbursement contract, as adopted and incorporated by reference in Rule 19-8.010, F.A.C., and must therefore participate in the Fund as required by Section 215.555(4)(a), F.S., because it does not qualify for the exemption permitted by Section 215.555(3), F.S., the Board will notify the insurer that its request has been denied. All insurers determined to be participants in the Fund will be required to enter into a reimbursement contract with the Board and will be subject to all premium payments and interest thereon, as well as fees for inadequate exposure data.

2. If the Board determines that the insurer has an aggregate exposure of less than $10 million for covered policies, as defined in Section 215.555(2)(c), F.S., and in Article V of the reimbursement contract, as adopted and incorporated by reference in Rule 19-8.010, F.A.C., and that granting the exemption will not adversely affect the actuarial soundness of the Fund, the Board will notify the insurer that its request has been approved and note that the insurer must immediately notify the Board if its exposure becomes $10 million or more in the aggregate. If this occurs, the insurer will be treated as a "new participant" and will be subject to the provisions of subparagraph 19-8.028(4)(c)3., F.A.C., if its exposure becomes $10 million or more during the period from June 1 through November 30 or will be subject to the provisions of subparagraph 19-8.028(4)(c)4., F.A.C., if its exposure becomes $10 million or more during the period from December 1 through May 31 of the contract year. ~~for contract years prior to the 2010 contract year, or if its exposure becomes $10 million or more during the period from December 1 through December 31 beginning with the 2010 contract year.~~

(e) The exemption for minimal exposure permitted by Section 215.555(3), F.S., is optional for the insurer but, once the exemption is requested, cannot be withdrawn by the insurer. An insurer with less than $10 million in aggregate exposure for covered policies is not required to ask for an exemption from the Fund. Such an insurer may continue to participate in the Fund if it so desires. An insurer which has been granted an exemption from the Fund may request to be reinstated in the Fund as a participating member. However, such a request must be made prior to June 1 of a contract year. No insurer which has been granted an exemption under this subsection shall be reinstated during the Atlantic Hurricane Season, which begins June 1 and ends November 30 of each year, so long as its aggregate exposure remains below $10 million.

(f) The exemptions for minimal exposure permitted by Section 215.555(3), F.S., shall not be granted by the Board if the aggregate number of anticipated exemptions adversely affects the actuarial soundness of the Fund.

(g) Any Company granted de minimis exempt status which fails to execute and return the reimbursement contract to the Fund within thirty days of writing a covered policy that results in the insurers aggregate covered exposure exceeding $10 million dollars shall not be eligible for reimbursement for any covered losses occurring from a covered event prior to the receipt by the Fund of the executed reimbursement contract.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2)(c), (3), (4), (5) FS. History–New 2-17-97, Amended 6-2-02, 5-13-03, 5-19-04, 5-29-05, 5-10-06, 6-8-08, 3-30-09,3-30-10, _-__-10.

19-8.013 Revenue Bonds Issued Pursuant to Section 215.555(6), F.S.

(1) Purpose. This rule establishes the Board's policy regarding the issuance of revenue bonds pursuant to Section 215.555(6), F.S. The rule provides definitions; interprets certain terms in Section 215.555, F.S.; establishes factors for determining when to issue revenue bonds, the amount of any such revenue bonds, and the source for repayment of any such revenue bonds; and establishes procedures for levying Emergency Assessments pursuant to Section 215.555(6)(b), F.S.

(2) Definitions. The terms defined below will be capitalized in this rule.

(a) Assessable Insurer means Authorized Insurers writing property and casualty business in this state and any entity created pursuant to Section 627.351, F.S. Surplus lines insurers are not Assessable Insurers. Reinsurers are not Assessable Insurers.

(b) Assessable Insured means each insured procuring property and casualty coverage from surplus lines insurers regulated under Part VIII of Chapter 626, F.S.

(c) Assessable Lines are those lines of property and casualty business subject to assessment under Section 215.555(6)(b)1., F.S., and as more fully described in subsection (5), below.

(d) Authorized Insurer means an insurer as defined in Section 624.09(1), F.S. For purposes of this rule, Authorized Insurer includes Citizens Property Insurance Corporation and any joint underwriting association or similar entity created pursuant to Section 627.351, F.S.

(e) Balance of the Fund and Fund Balance have the same meaning given to Balance of the Fund as of December 31 in Article V of the Reimbursement Contract adopted and incorporated by reference into Rule 19-8.010, F.A.C.

(f) Board means the State Board of Administration of Florida.

(g) Contract Year~~, prior to June 1, 2010,~~ means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year.~~ The period of time which begins at 12:00:01 Eastern Time on June 1, 2010 and ends at 12:00 p.m. midnight on December 31, 2010 shall be considered the 2010 Contract Year. All Contract Years beginning after December 31, 2010 shall begin at 12:00:01 Eastern Time on January 1 of each calendar year and end at 12:00 p.m. midnight on December 31 of that calendar year.~~

(h) Corporation means the Florida Hurricane Catastrophe Fund Finance Corporation created by Section 215.555(6)(d), F.S.

(i) Covered Event means a hurricane as defined in Section 215.555(2)(b), F.S., and in Article V of the Reimbursement Contract adopted and incorporated by reference in Rule 19-8.010, F.A.C.

(j) Covered Policies means an insurance policy covering residential property, as defined in Section 215.555(2)(c), F.S., and in Article V of the Reimbursement Contract adopted and incorporated by reference in Rule 19-8.010, F.A.C.

(k) Department means the Florida Department of Financial Services, which was created pursuant to Section 20.121, F.S., and which is charged with regulating the Florida insurance market and administering the Florida Insurance Code.

(l) Emergency Assessment means the assessment levied by the Office of Insurance Regulation at the direction of the Board on direct written premiums for all Assessable Lines pursuant to and subject to the exceptions in Section 215.555(6)(b), F.S., and as more fully described in subsection (5) of this rule.

(m) FHCF or Fund means the Florida Hurricane Catastrophe Fund.

(n) Office of Insurance Regulation means that office within the Department which was created in Section 20.121(3), F.S.

(o) Participating Insurer means an insurer which writes Covered Policies in this state and which has entered into a Reimbursement Contract with the Board, pursuant to Section 215.555(4)(a), F.S.

(p) Reimbursement Contract means the annual contract required pursuant to Section 215.555(4)(a), F.S., which provides coverage to Participating Insurers for losses to covered property during a Covered Event.

(q) Reimbursement Premium means the premium determined by multiplying each $1,000 of insured value reported by the Participating Insurer in accordance with Section 215.555(5), F.S., by the rate as derived from the premium formula as described in Rule 19-8.028, F.A.C.

(3) Limitations on the Fund's Liability. The Fund's liability under the Reimbursement Contracts for Covered Events in a Contract Year is determined pursuant to Sections 215.555(4)(c)1., 215.555(16)(e)4., (g) and 215.555(17)(g), (h), F.S.

(4) Determinations Regarding Bond Issuance.

(a) General Factors for Use in Determining Whether to Issue Bonds. Based on the requirements of Section 215.555, F.S., on all rules adopted pursuant thereto, and on the foregoing interpretations, the Board determines that the Legislature intended the Fund to be a sustainable, permanent, and continuing trust fund established within the meaning of Article III, s. 19 of the Florida Constitution which is available to pay reimbursable losses for Covered Events in more than one year. The Board further determines that the

Legislature deliberately and purposefully limited the Fund's liability as to Covered Events in any one Contract Year in order to provide for an on-going Fund. The Board determines that in its fiduciary capacity regarding the Fund, it is prudent to adopt the interpretations set out in this rule and to conform all its other policies, rules, and methods of operation to those fiduciary responsibilities and interpretations.

(b) Quality of Bonds to be Issued. The Board finds that in order to fulfill its fiduciary responsibilities to maintain and enhance the on-going viability and credibility of the Fund and to operate in the most cost-efficient manner, all revenue bonds issued to pay reimbursable losses shall be investment grade bonds, except to the extent that revenue bonds other than investment grade are needed to pay a small amount of legitimate but unexpected reimbursable losses. Upon the occurrence of such an exception, any revenue bonds issued will be issued only after a determination by the Board that the issuance of such bonds is fiscally responsible, in light of the Board's fiduciary responsibilities.

(c) Emergency Assessments.

1. If the Board determines that the amount of revenue produced under Section 215.555(5), F.S., is insufficient to fund the obligations, costs, and expenses of the Fund and the Corporation, including repayment of revenue bonds and that portion of debt service coverage not met by Reimbursement Premiums, the Board shall direct the Office of Insurance Regulation to levy an Emergency Assessment on direct written premiums for all Assessable Lines. In making this determination, the Board may consider the projected Balance of the Fund; anticipated additional Fund revenues; the meteorological severity and geographical area impacted by each Covered Event; estimates of losses from the insurance industry, from individual insurers, from federal, state, and local emergency response entities, from loss reports submitted to the Board by Participating Insurers, from reviews of loss reports by the Fund's Administrator, from information provided by modeling companies, from claims development patterns derived from known historical events, from an analysis of market shares of Participating Insurers in the impacted area, and any other credible sources of loss information; and any other information determined by the Board to be relevant.

2. Except as required by Section 215.555(7)(c), F.S., or as described in the following two sentences, Reimbursement Premiums, together with earnings thereon, received in a given Contract Year will be used only to pay for losses attributable to Covered Events occurring in that Contract Year or for losses attributable to Covered Events in subsequent Contract Years and will not be used to pay for past losses or for debt service on tax-exempt post-event revenue bonds. Amounts collected during the Contract Year 2006/2007 as part of the premium that are attributable to the required 25% rapid cash buildup factor, pursuant to by Section 215.555(5)(b), F.S., may be used to pay for losses attributable to prior Contract Years. Pursuant to Section 215.555(6)(a)1., F.S., Reimbursement Premiums, and earnings thereon may be used for payments relating to tax-exempt post-event revenue bonds in the event Emergency Assessments are insufficient. If Reimbursement Premiums are used for debt service on tax-exempt post-event revenue bonds, then the amount of the Reimbursement Premiums, or earnings thereon so used shall be returned, without interest, to the Fund when Emergency Assessments or other legally available funds remain available after making payments relating to such revenue bonds and any other purposes for which Emergency Assessments were levied.

(d) Specific Procedures Regarding Issuance of Bonds, Notes, Debentures or Other Evidences of Financial Indebtedness on a Pre-Event Basis. In making a determination to authorize the issuance of revenue bonds on a Pre-event basis ("in the absence of a hurricane"), pursuant to Section 215.555(6)(a), F.S., the Board shall consider the following factors: the projected Fund Balance; reserves for mitigation appropriations; estimated amounts needed for administration of the Fund; projected amounts of future Reimbursement Premiums; projected amounts of earnings on collected Reimbursement Premiums; the projected frequency and magnitude of future Covered Events; current and projected interest rates on revenue bonds; current and projected market conditions for the sale of revenue bonds; projected credit ratings for the Fund and for revenue bonds issued on behalf of the Fund; current and projected availability of bond insurance or other credit enhancement for revenue bonds; the costs of issuance of revenue bonds; the debt service requirements of the revenue bonds; the estimated value, both monetary and non-monetary, of the issuance of Pre-event bonds on the costs of Post-event bonds in terms of benchmark pricing, secondary market trading, investor education, confidence of insurers and reinsurers in the Fund's ability to issue revenue bonds Post-event, market education, and document preparation; and any other factors relevant to the determination at the time such determination is made.

(e) Specific Procedures for Issuance of Revenue Bonds on a Post-Covered Event Basis. Upon the occurrence of a Covered Event for which the Board determines that moneys in the Fund are or will be insufficient to pay reimbursement at the levels promised in the Reimbursement Contracts:

1. The Board will determine the projected reimbursable losses of Participating Insurers, whether or not the Fund has or will have sufficient funds to reimburse Participating Insurers for their reimbursable losses, and the estimated shortfall which shall be

covered by the issuance of revenue bonds or through incurrence of other indebtedness.

2. Based on the amount of the shortfall determined in accordance with subparagraph 1., above, the Board will determine the needed percentage of direct premium written for Assessable Lines. The Emergency Assessment percentage will be determined as follows:

a. The Board will review available information, from the Office of Insurance Regulation, the Florida Surplus Lines Service Office and the National Association of Insurance Commissioners, regarding direct premiums written for Assessable Lines in Florida, reportable pursuant to Section 624.424, F.S., or pursuant to Part VIII of Chapter 626, F.S.

b. The Board will review and assess existing market conditions regarding the issuance and sale of bonds or the incurrence of other indebtedness to determine the amount of revenues which will be required to pay debt service on any bonds issued or other indebtedness incurred.

c. Based on the specific information described above and on any other information determined by the Board to be relevant, the Board will determine the Emergency Assessment percentage necessary to fund the obligations, costs, and expenses of the Fund and the Corporation including repayment of revenue bonds and that portion of the debt service coverage not met by Reimbursement Premiums, and shall adopt a resolution directing the Office of Insurance Regulation to levy the Emergency Assessment on all Assessable Lines.

3. The Emergency Assessment is subject to interest on delinquent remittances at the average rate earned by the Board for the FHCF for the first four months of the Contract Year for which such information is available plus 5%. The Emergency Assessment is also subject to annual adjustments by the Board in order to meet debt obligations.

(5) Procedures regarding Levying Emergency Assessments Pursuant to Section 215.555(6)(b), F.S.

(a) If the Board directs the Office of Insurance Regulation to levy Emergency Assessments, then the Office of Insurance Regulation shall issue Orders to the Florida Surplus Lines Service Office and to each Assessable Insurer levying an Emergency Assessment for the Assessable Lines set out in paragraph (d), below.

(b) Pursuant to the Order issued by the Office of Insurance Regulation levying the Emergency Assessment, each Assessable Insurer shall remit to the entity identified in the Order, an amount equal to the required percentage of its direct written premium for the preceding calendar quarter from all Assessable Lines, except those lines specifically exempted in Section 215.555, F.S. ~~Medical malpractice is an Assessable Line of business but only as to covered events occurring on or after June 1, 2010. In addition, policies issued as part of the National Flood Insurance Program are not subject to the Emergency Assessment.~~ The required percentage will be determined in accordance with Section 215.555(6)(b), F.S., and the procedures set out in subsection (4) of this rule.

(c) Pursuant to the Order issued by the Office of Insurance Regulation levying the Emergency Assessment, each Assessable Insured shall remit and each surplus lines agent shall collect an amount equal to the required percentage of its direct written premium from all Assessable Lines. Surplus lines agents shall collect the Emergency Assessment at the same time as the surplus lines agent collects the surplus lines tax required by Section 626.932, F.S., and remit to the Florida Surplus Lines Service Office at the same time as the agent remits the surplus lines tax to that Office. The Emergency Assessment on each insured procuring coverage and filing under Section 626.938, F.S., shall be an amount equal to the required percentage of its direct written premium from all Assessable Lines and shall be remitted by the insured to the Florida Surplus Lines Service Office at the time the insured pays the surplus lines tax to that Office. The Florida Surplus Lines Service Office shall remit the Emergency Assessments received as directed by the Office of Insurance Regulation.

(d) Lines of Business Subject to Assessment.

1. The lines of business described in subparagraph 2., below, are the lines of business subject to the Emergency Assessment under Section 215.555(6)(b)1., F.S. For ease of reference, the lines of business are written and listed as they appear on the Exhibit of Premiums and Losses in the property and casualty annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S., whether or not the insurer is required to file such exhibit.

2. Assessable Lines. Note that the numbers below preceding the names of the lines of business do not correspond to the line numbers of the property and casualty annual statement referenced in subparagraph 1., immediately above.

a. Fire.

b. Allied Lines.

c. Multiple Peril Crop.

d. Farmowners Multiple Peril.

e. Homeowners Multiple Peril.
f. Commercial Multiple Peril (non-liability).
g. Commercial Multiple Peril (liability).
h. Mortgage Guaranty.
i. Ocean Marine.
j. Inland Marine.
k. Financial Guaranty.
l. Medical Malpractice (Medical Malpractice insurance premiums are subject to certain time limited exemptions, refer to Section 215.555, F.S., for those limitations).~~are not subject to Emergency Assessments attributable to covered events occurring prior to the Contract Year that begins on June 1, 2010).~~
m. Earthquake.
n. Other Liability.
o. Products Liability.
p. Private Passenger Auto No-Fault.
q. Other Private Passenger Auto Liability.
r. Commercial Auto No-Fault.
s. Other Commercial Auto Liability.
t. Private Passenger Auto Physical Damage.
u. Commercial Auto Physical Damage.
v. Aircraft (all perils).
w. Fidelity.
x. Surety.
y. Burglary and Theft.
z. Boiler and Machinery.
aa. Credit.
bb. Warranty.
cc. Aggregate Write Ins for Other Lines of Business.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2), (3), (4), (5), (6), (7) FS. History–New 9-18-97, Amended 12-3-98, 9-12-00, 6-1-03, 5-19-04, 5-29-05, 5-10-06, 9-5-06, 6-8-08, 3-30-09, 3-30-10, _-__-10.

19-8.029 Insurer Reporting Requirements.

(1) Purpose. The purpose of this rule is to incorporate and adopt the annual reporting of insured values and the Loss Reporting Forms, to provide the time and place for submission of this required information and to address confidentiality of information provided to the Florida Hurricane Catastrophe Fund (FHCF or Fund).

(2) Definitions. The terms defined below will be capitalized in this rule.

(a) Citizens Property Insurance Corporation or Citizens means the entity formed under Section 627.351(6), F.S., and includes both the High Risk Account and the Personal Lines and Commercial Lines Accounts.

(b) Commutation means that period of time which is not less than 36 months or more than 60 months after the end of the Contract Year during which the loss occurrence took place. The Reimbursement Contract, adopted and incorporated into Rule 19-8.010, F.A.C., may provide for voluntary commutation earlier than the 36 month period under certain circumstances.

(c) Contract Year~~, prior to June 1, 2010,~~ means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year.~~ The period of time which begins at 12:00:01 Eastern Time on June 1, 2010 and ends at 12:00 p.m. midnight on December 31, 2010 shall be considered the 2010 Contract Year. All Contract Years beginning after December 31, 2010 shall begin at 12:00:01 Eastern Time on January 1 of each calendar year and end at 12:00 p.m. midnight on December 31 of that calendar year.~~

(d) Covered Policy is defined in Section 215.555(2)(c), F.S., and the Reimbursement Contract adopted by and incorporated into Rule 19-8.010, F.A.C.

(e) Data Call means the annual reporting of insured values forms. These forms are the FHCF-D1A for Contract Years after the 2002/2003 year and the FHCF-D1A and FHCF- D1B for the Contract Year 2002/2003 and all prior years.

(f) FHCF or Fund means the Florida Hurricane Catastrophe Fund.

(g) Independent Consultant means the independent individual, firm, or organization with which the State Board of Administration of Florida (Board) contracts to prepare the premium formula and any other actuarial services for the FHCF, as determined under the contract with the consultant.

(h) Loss Reporting Forms mean the FHCF-L1A and FHCF-L1B for Contract Years after the 2002/2003 Contract Year and means the FHCF-L1A, FHCF-L1B and FHCF-L1C for the Contract Years 2002/2003 and all prior years.

(i) Office of Insurance Regulation means that office within the Department of Financial Services and which was created in Section 20.121(3), F.S.

(3) Reporting of Insurer Exposure Data.

(a) No later than September 1 of each Contract Year, authorized insurers and Citizens pursuant to Sections 215.555(5) and 627.351(6), F.S., shall report insured values reflecting wind exposure under Covered Policies by zip code and other relevant factors required to reflect each insurer's relative exposure to hurricane loss, valued as of June 30 of the current Contract Year. Such other relevant factors shall be determined by the Independent Consultant consistent with principles of actuarial science and in conjunction with the development of the premium formula.

(b) Confidentiality of reports containing insured values under Covered Policies. Section 215.557, F.S., enacted for the express purpose of protecting trade secret and proprietary information submitted to the FHCF by participating insurers, protects the confidentiality of information of the type submitted in the Data Call (FHCF-D1A), examination workpapers, examination reports, or loss reports (FHCF-L1A, FHCF-L1B) and such information is not subject to the provisions of Section 119.07(1), F.S., or Section 24(a), Article I of the Florida State Constitution.

(c) Reporting Regarding Insurers Withdrawing from the State or Discontinuing the Writing of All Kinds of Insurance Prior to June 30 of Each Year. Insurers which discontinue writing insurance in Florida and have no remaining Covered Policy exposure as of June 30 of each Contract Year are required to petition for exemption from the Fund pursuant to Rule 19-8.012, F.A.C. Insurers which withdraw from the Florida insurance market prior to June 30 and have no remaining Covered Policy exposure as of that date shall not participate in the Fund. The affected insurer shall provide written evidence obtained from the Office of Insurance Regulation that it has surrendered its certificate of authority and currently has no outstanding Covered Policies in force. Nothing in this rule shall be construed to conflict with the requirements of Section 624.430(1), F.S.

(d) The requirement that the report is due by September 1 means that the report shall be in the physical possession of the Fund's Administrator in Minneapolis no later than 5:00 p.m., Central Time, on September 1. If September 1 is a Saturday, Sunday or legal holiday, then the applicable due date will be the day immediately following September 1 which is not a Saturday, Sunday or legal holiday. For purposes of the timeliness of the submission, neither the United States Postal Service postmark nor a postage meter date

is in any way determinative. Reports sent to the Board in Tallahassee, Florida, will be returned to the sender. Reports not in the physical possession of the Fund's Administrator by 5:00 p.m., Central Time, on the applicable due date are late.

(4)(a) For the 1999/2000 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 1999 Data Call," rev. 05/99; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 5.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(b) For the 2000/2001 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2000 Data Call," rev. 05/00; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 6.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference. For new companies, the company shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator on Form FHCF-D1B, "Florida Hurricane Catastrophe Fund 2000 Data Call for Newly Licensed Companies," rev. 05/00; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 6.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(c) For the 2001/2002 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2001 Data Call," rev. 05/01; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 7.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference. For new companies, the company shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator on Form FHCF-D1B, "Florida Hurricane Catastrophe Fund 2001 Data Call for Newly Licensed Companies," rev. 05/01; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 7.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(d) For the 2002/2003 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Amended Florida Hurricane Catastrophe Fund 2002 Data Call," rev. 05/02 and Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 3/27/01. The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. For new companies, the company shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator on Form FHCF-D1B, "Amended Florida Hurricane Catastrophe Fund 2002 Data Call for Newly Licensed Companies," rev. 05/02; and Form FHCF-MOD "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 3/27/01. The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(e) For the 2003/2004 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2003 Data Call," rev. 05/03 and UNICEDE®/PX Data Exchange Format, Version 4.0.0." The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. A new participant shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator. NOTE: Form FHCF-D1B, "Amended Florida Hurricane Catastrophe Fund 2002 Data Call for Newly Licensed Companies," rev. 05/02 used in past years by new participants is no longer being used. The information new participants must submit is now incorporated into Form FHCF-D1A.

(f) For the 2004/2005 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Amended Florida Hurricane Catastrophe Fund 2004 Data Call," rev. 05/11/04 and UNICEDE®/PX Data Exchange Format, Version 4.0.0." The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. A new participant shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(g) For the 2005/2006 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2005 Data Call," rev. 05/05 and "UNICEDE®/PX Data Exchange Format, Version 4.0.0." The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(h) For the 2006/2007 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2006 Data Call," rev. 05/06, hereby adopted and incorporated by reference. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(i) For the 2007/2008 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2007 Data Call," rev. 05/07, hereby adopted and incorporated by reference. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(j) For the 2008/2009 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2008 Data Call," rev. 05/08, hereby adopted and incorporated by reference. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(k) For the 2009/2010 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2009 Data Call," rev. 05/09, hereby adopted and incorporated by reference. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(l) For the 2010/2011 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2010 Data Call," rev. 05/10, hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year ~~following calendar year~~, to the Administrator.

(5) Loss Reimbursement Reporting Requirements.

(a) As directed by the Board, after a covered event occurs, insurers shall report all their estimated ultimate net losses (as defined in the Reimbursement Contract, adopted and incorporated into Rule 19-8.010, F.A.C.) for Covered Policies on the Form FHCF-L1A, "Florida Hurricane Catastrophe Fund Interim Loss Report," for the applicable Contract Year, as specified in subsection (7) herein, in no less than fourteen days from the date of the notice from the Board that such a report is required. The Board may request subsequent Interim Loss Reports. To obtain copies of this form, see subsection (6), below. Prompt reporting in the format requested will aid the Board in determining whether to seek additional sources of funds to pay for reimbursable losses. The losses reported on the Interim Loss Report are expected to result from a good faith effort, using best business practices for the insurance industry, on the part of the insurer to report as accurately as possible. Preliminary reports will not be binding. Reimbursements by the Fund will be made on the basis of the Proof of Loss Report, adopted in subsection (b) below.

(b) Insurers shall report their ultimate net losses (as defined in the Reimbursement Contract, adopted and incorporated into Rule 19-8.010, F.A.C.) for each loss occurrence on the Form FHCF-L1B, "Florida Hurricane Catastrophe Fund Proof of Loss Report," for the applicable Contract Year, as specified in subsection (7) herein. To obtain copies of this form, see subsection (6), below. To qualify for reimbursement, the Proof of Loss Report must have the original signatures of two executive officers authorized by the Company to sign the report. Proof of Loss Reports may be faxed only if the Company does not qualify for a reimbursement. While a Company may submit a Proof of Loss Report requesting reimbursement at any time following a loss occurrence, all Companies shall submit a mandatory Proof of Loss Report for each loss occurrence no earlier than December 1 and no later than December 31 of the Contract Year during which the Covered Event(s) occurs using the most current data available, regardless of the amount of Ultimate

Net Loss or the amount of loss reimbursements or advances already received. After the mandatory December Proof of Loss Report, quarterly Proof of Loss Reports are required. For purposes of this rule, quarterly Proof of Loss Reports shall be those reports submitted at each quarter end date after December 31 of the Contract Year in which the loss occurrence occurs and continuing until all claims and losses resulting from loss occurrences commencing during the Contract Year are fully discharged, including any adjustments to such losses due to salvage or other recoveries, in accordance with the reporting requirements in this paragraph. "Fully Discharged" means the earlier of the date on which the insurer has paid its policyholders in full or the commutation clause, in Article X of the Reimbursement Contract, adopted in Rule 19-8.010, F.A.C., takes effect. For the quarterly report due on March 31, any insurer whose losses exceed 50% of its FHCF retention for a specific loss occurrence shall submit a Proof of Loss Report for that loss occurrence. For the quarterly report due on June 30, any insurer whose losses exceed 75% of its FHCF retention for a specific loss occurrence shall submit a Proof of Loss Report for that loss occurrence. For the quarterly reports due on September 30 and thereafter, any insurer which anticipates that its losses will exceed its FHCF retention for a specific loss occurrence shall submit quarterly Proof of Loss Reports until all its losses are paid to its policyholders and the insurer has received reimbursement from the Fund. Annually, all Companies shall submit a mandatory year-end Proof of Loss Report for each loss occurrence, using the most current data available. This Proof of Loss Report shall be filed no earlier than December 1 and no later than December 31 of each year and shall continue until the earlier of the expiration of the commutation period or until all claims and losses resulting from the loss occurrence are fully discharged including any adjustments to such losses due to salvage or other recoveries.

(c) As a result of reports submitted on Form FHCF-L1B, reimbursements to insurers shall be adjusted in accordance with Section 215.555(4)(d)1., F.S., which requires the Fund to pay additional amounts to insurers and insurers to return overpayments to the Fund, based on the most recent calculation of losses.

(6) All the forms adopted and incorporated by reference in this rule may be obtained from: Administrator, Florida Hurricane Catastrophe Fund, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, MN 55437.

(7)(a) For the 2005/2006 and earlier Contract Years the applicable Interim Loss Report is that form that was in effect for the Contract Year as reflected by the revision date on the form. For example, the applicable Interim Loss Report for the Contract Year 2004-2005 is the FHCF-L1A, with the revision date of 05/05.

(b) For the 2006/2007 Contract Year, the applicable Interim Loss Report is the "Contract Year 2006 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/06, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2006 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/06, which is hereby adopted and incorporated by reference.

(c) For the 2007/2008 Contract Year, the applicable Interim Loss Report is the "Contract Year 2007 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/07, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2007 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev.05/07, which is hereby adopted and incorporated by reference.

(d) For the 2008/2009 Contract Year, the applicable Interim Loss Report is the "Contract Year 2008 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/08, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2008 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/08, which is hereby adopted and incorporated by reference. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

(e) For the 2009/2010 Contract Year, the applicable Interim Loss Report is the "Contract Year 2009 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/09, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2009 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/09, which is hereby adopted and incorporated by reference. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

(f) For the 2010/2011 Contract Year, the applicable Interim Loss Report is the "Contract Year 2010 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/10, which is hereby adopted and incorporated by reference into this rule. The applicable Proof of Loss Report is the "Contract Year 2010 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/10, which is hereby adopted and incorporated by reference into this rule. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

(8) Company Contact Information: Companies must submit Form FHCF C-1, Company Contact Information, rev. 05/10, by June 1 of each Contract Year. This form must be updated by the Company as the information provided thereon changes. The FHCF shall have the right to rely upon the information provided by the Company to the FHCF on this form until receipt by the FHCF of a new properly completed and notarized FHCF C-1 from the Company. The form may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2), (3), (4), (5), (6), (7), (15) FS. History–New 5-17-99, Amended 6-19-00, 6-3-01, 6-2-02, 11-12-02, 5-13-03, 5-19-04, 8-29-04, 5-29-05, 5-10-06, 5-8-07, 6-8-08, 3-30-09, 8-2-09,3-30-10, _-__-10.

19-8.030 Insurer Responsibilities.

(1) Section 215.555(10), F.S., provides that any violation of any provision of Section 215.555, F.S., or of any rule adopted under Section 215.555, F.S., constitutes a violation of the Florida Insurance Code.

(2) Purpose. The purpose of this rule is to clearly establish certain deadlines and other requirements for insurers required to participate in the Florida Hurricane Catastrophe Fund (Fund or FHCF). It is not the intent or purpose of this rule to address every requirement of Participating Insurers which could result in a referral to the Florida Department of Financial Services.

(3) Definitions. The terms defined below will be capitalized in this rule.

(a) Authorized Insurer means an insurer as defined in Section 624.09(1), F.S. and includes Citizens Property Insurance Corporation and any joint underwriting association or similar entity created pursuant to Section 627.351, F.S.

(b) Board or SBA means the State Board of Administration of Florida.

(c) Fund or FHCF means the Florida Hurricane Catastrophe Fund established pursuant to Section 215.555, F.S.

(d) Citizens Property Insurance Corporation or Citizens means the entity formed under Section 627.351(6), F.S., and includes both the High Risk Account and the Personal Lines and Commercial Lines Accounts.

(e) Contract Year~~, prior to June 1, 2010,~~ means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year.~~ The period of time which begins at 12:00:01 Eastern Time on June 1, 2010 and ends at 12:00 p.m. midnight on December 31, 2010 shall be considered the 2010 Contract Year. All Contract Years beginning after December 31, 2010 shall begin at 12:00:01 eastern Time on January 1 of each calendar year and end at 12:00 p.m. midnight on December 31 of that calendar year.~~

(f) A Covered Event or Event is a hurricane as defined in Section 215.555(2)(b), F.S., and in Article V of the Reimbursement Contract adopted and incorporated by reference in Rule 19-8.010, F.A.C.

(g) Covered Policy. This term is defined in Section 215.555(2)(c), F.S., and the Reimbursement Contract adopted by and incorporated into Rule 19-8.010, F.A.C.

(h) Department means the Florida Department of Financial Services.

(i) Data Call means the annual reporting of insured values forms. These forms, as adopted and incorporated into Rule 19-8.029, F.A.C., are the FHCF-D1A for Contract Years after the 2002/2003 year and the FHCF-D1A and FHCF-D1B for Contract Year 2002/2003 and prior years.

(j) Office of Insurance Regulation means that office within the Department of Financial Services and which was created in Section 20.121(3), F.S.

(k) Participating Insurer, Insurer or Company means an insurer which writes Covered Policies in this state and which has entered into a Reimbursement Contract with the Board, pursuant to Section 215.555(4)(a), F.S.

(l) Reimbursement Contract or Contract means the statutorily required annual contract which provides coverage to Participating Insurers for losses to covered property during a Covered Event.

(m) Reimbursement Premium or Premium means the premium determined by multiplying each $1,000 of insured value reported by the Company in accordance with Section 215.555(5), F.S., by the rate as derived from the premium formula as described in Rule 19-8.028, F.A.C.

(n) Quota Share Primary Insurance Arrangement is defined in Section 627.351(6)(c)2.a.(I), F.S.

(4) Reimbursement Contract.

(a) Current Participants: The Reimbursement Contracts are annual contracts. Each Insurer required to participate in the FHCF must designate a coverage level in the annual Reimbursement Contract, make any required selections therein and execute the Reimbursement Contract and applicable Addenda so that the Contract, including the schedules and applicable Addenda, have been received by June 1 of each Contract Year.

(b) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year are “New Participants.” New Participants must designate a coverage level in the annual Reimbursement Contract, make any required selections therein, and execute the Contract and applicable Addenda simultaneously with issuing the first Covered Policy. The completed and executed Reimbursement Contract, including all required selections, schedules and applicable Addenda, must be returned no later than 30 days after the effective date of the first Covered Policy.

(c) ~~1. For Contract Years prior to the 2010 Contract Year,~~ New Participants during the period of December 1 through May 31: Those Insurers that first begin writing Covered Policies from December 1 through May 31 of a Contract Year, along with the

Insurers described in paragraph (b) immediately above, are New Participants. However, these Insurers shall not complete and submit the Data Call (Form FHCF-D1A) but shall meet all other requirements for New Participants.~~2. For Contract Years 2010 and later, New Participants during the period of December 1 through December 31: Those Insurers that first begin writing Covered Policies from December 1 through December 31 of a Contract Year, along with the Insurers described in paragraph (b) above, are New Participants. However, these Insurers shall not complete and submit the Data Call (Form FHCF-D1A) but shall meet all other requirements for New Participants.~~

(d) Optional coverages authorized by law must be chosen by current participants by executing and returning the applicable Addenda to the Reimbursement Contract by June 1 of the relevant Contract Year. New Participants choosing optional coverage must execute and return the applicable Addenda to the Reimbursement Contract for the relevant Contract Year prior to the time in which a covered loss occurs and within 30 days of writing its first covered policy. Any current or New Participant failing to meet these deadlines shall not be eligible for such optional coverage.

(5) Exposure Reporting Requirements.

(a) Quota Share Primary Insurance: Citizens and Authorized Insurers may enter into Quota Share Primary Insurance Arrangements with respect to the High Risk Account policies. The statute also provides, in Section 627.351(6)(c)2.a.(II), F.S., that Citizens shall be responsible for the annual reporting of insured values to the FHCF for both Citizens and the Insurer participating with Citizens in the Quota Share Arrangement. Citizens shall report the insured values covered by the Quota Share Primary Insurance Arrangements in the same manner that all other current participants, as described in paragraph (b) below, report their insured values. Please note that both Citizens and the Quota Share Primary Insurer must keep complete and accurate records, including copies of policy declaration pages and supporting claims documents, for the purpose of exposure and loss reimbursement examinations by the FHCF.

(b) Current Participants: Each Insurer, with Covered Policies as of June 1 of a Contract Year must participate in the FHCF and must complete and submit the Data Call. The Data Call is incorporated into Rule 19-8.029, F.A.C., and is due, correctly completed, no later than September 1 of the Contract Year.

(c) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year must complete and submit the Data Call. The Data Call is incorporated into Rule 19-8.029, F.A.C., and is due, correctly completed, by March 1 of the Contract Year.

(d) Resubmissions of Data: With one exception noted below, any Insurer which submits a Data Call, Form FHCF-D1A, with incorrect data, incomplete data, or data in the wrong format and is required to resubmit will be given 30 days from the date on the letter from the FHCF notifying the Insurer of the need to resubmit. An extension of 30 days will be granted if the Insurer can show that the need for the additional time is due to circumstances beyond the reasonable control of the participant. Exception: If the Insurer, at the time it receives notice of the need to resubmit, has already been issued a notice of examinations, the usual 30 day time limitation (measured from the date of the letter giving notice of the need to resubmit) does not apply. In this situation, the time period in which the Insurer must resubmit is measured by counting backwards 30 days from the date that the examinations are scheduled to begin as reflected on the notice of examinations letter. The FHCF needs the information prior to the examinations; thus, no extensions can be granted.

(6) Premiums.

(a) Current Participants: Premium installments for Current Participants are due on August 1, October 1, and December 1. Premium adjustments are due as indicated on the invoice sent to the Insurer. Premiums paid to the FHCF with reference to property covered by Quota Share Primary Insurance Arrangements, as authorized and defined in Section 627.351(6)(c)2.a.(I), F.S., will be allocated by the FHCF between the Insurer and Citizens in accordance with the percentages specified in the Quota Share Primary Insurance Arrangement.

(b) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year must submit a payment of $1,000 on or before the date indicated on the invoice. Once a New Participant's Data Call, which is filed on or before March 1 of the Contract Year, has been reviewed by the Administrator and the company's actual Reimbursement Premium has been determined on its actual exposure, an invoice with the amount due, if any, will be sent to the Company by the Administrator. Payment, if any amounts are shown as due on the invoice, is due within 30 days from the date on the invoice. In no event will the Premium be less than the $1,000.~~1. For Contract Years prior to the 2010 Contract Year, the New Participant's Data Call is due on or before March 1 of the Contract Year.~~

~~2. For Contract Years 2010 and later, the New Participant's Data Call is due on or before March 1 of the following calendar~~

~~year.~~

(c) New Participants during the period of December 1 through May 31:

Those ~~1. For Contract Years prior to the 2010 Contract Year, those~~ Insurers that first begin writing Covered Policies from December 1 through May 31 of a Contract Year shall pay a $1,000 Premium within 30 days from the date on the invoice sent to the Insurer by the FHCF.

~~2. For Contract Years 2010 and later, those Insurers that first begin writing Covered Policies from December 1 through December 31 of a Contract Year shall pay a $1,000 Premium within 30 days from the date on the invoice sent to the Insurer by the FHCF.~~

(d) With respect to any Company where control of the Company has been transferred through any legal or regulatory proceeding to a state regulator or court appointed receiver or rehabilitator, or the Company has been placed under regulatory supervision, prior to December 1 of the Contract Year, the full annual provisional Reimbursement Premium as billed and any outstanding balances will be due on August 1, or the date that control is transferred if after August 1.

(7) Examination Requirements. A Company is required to prepare and retain an examination file in accordance with the specifications outlined in the Data Call instructions and a detailed claims listing to support losses reported on the Proof of Loss Report. Such records must be retained until the FHCF has completed its examination of a Company's exposure submission and any loss reports applicable to the Data Call Contract Year. The records provided for examination must be from the examination file as originally prepared unless a subsequent resubmission was sent to the FHCF. Note that both Citizens and Insurers participating in Quota Share Primary Insurance Arrangements must keep complete and accurate records, including copies of policy declaration pages and supporting claims documents, for the purpose of exposure and loss reimbursement examinations by the FHCF.

(a) Advance Examination Record Requirements: Within 30 days from the date on the letter from the FHCF, Companies are required to provide the FHCF with the records indicated in the applicable Contract Year's "Exposure Examination Advance Preparation Instructions" or in the applicable Contract Year's "Loss Reimbursement Examination Advance Preparation Instructions". An extension of 30 days may be granted if the Insurer can show that the need for the additional time is due to circumstances beyond the reasonable control of the participant.

1. For Contract Years prior to the 2003/2004 Contract Year, Form FHCF-AP1 as revised for each Contract Year, is the applicable Exposure Examination Advance Preparation Instructions form to use.

2. For the 2004/2005 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Audit – Contract Year 2004 Advance Preparation Instructions," FHCF-AP1, rev. 5/04. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2004 Advance Preparation Instructions," FHCF-LAP1, rev. 05/06.

3. For the 2005/2006 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2005 Advance Preparation Instructions," FHCF-AP1, rev. 5/05. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2005 Advance Preparation Instructions," FHCF-LAP1, rev. 05/07.

4. For the 2006/2007 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2006 Advance Preparation Instructions," FHCF-EAP1, rev. 5/06. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, new 05/06.

5. For the 2007/2008 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2007 Advance Preparation Instructions," FHCF-EAP1, rev. 05/07. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, rev. 05/07.

6. For the 2008/2009 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2008 Advance Preparation Instructions," FHCF-EAP1, rev. 05/08. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, rev. 05/08.

7. For the 2009/2010 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2009 Advance Preparation Instructions," FHCF-EAP1, rev. 05/09. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement

Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, rev. 05/09.

8. For the 2010/2011 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2010 Advance Preparation Instructions," FHCF-EAP1, rev. 05/10. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2010 Advance Preparation Instructions," FHCF-LAP1, rev. 05/10.

These forms are hereby adopted and incorporated by reference into this rule. Copies of these forms may be obtained from the FHCF website, www.sbafla.com/fhcf or by contacting the State Board of Administration. The mailing address is P. O. Box 13300, Tallahassee, Florida 32317-3300. The street address is 1801 Hermitage Blvd., Tallahassee, Florida 32308.

(b) On-site Examination Record Requirements: The FHCF-EAP1, "Exposure Examination Advance Preparation Instructions" form and the FHCF-LAP1, "Loss Reimbursement Examination Advance Preparation Instructions" form each contain a list of the information that the Companies must have available, on-site, on the date the exposure or loss examination is to begin. These records must be made available to the FHCF examiner upon request.

(c) Response to the FHCF Examination Report: Within 30 days from the date of the letter accompanying the examination report, a Company must provide a written response to the FHCF. The response must indicate whether the Company agrees with the recommendation of the examination report. If the Company disagrees with the examination findings, the reason for the disagreement will be outlined in the response and the Company will provide supporting information to support its objection. An extension of 30 days will be granted if the Company can show that the need for additional time is due to circumstances beyond the reasonable control of the Company.

(d) Resubmissions as a Result of a Completed Examination: A Company required to resubmit exposure data as a result of the examination must do so within 30 days of the date on the letter from the FHCF notifying the Company of the need to resubmit. An extension of 30 days will be granted if the Company can show that the need for additional time is due to circumstances beyond the reasonable control of the Company.

(8) Loss Reporting. Participating Insurers are required to file the following two types of loss reports at the times prescribed in Rule 19-8.029, F.A.C. Form FHCF-L1A, "Florida Hurricane Catastrophe Fund Interim Loss Report," for the applicable Contract Year and Form FHCF-L1B, "Florida Hurricane Catastrophe Fund Proof of Loss Report," for the applicable Contract Year.

(a) For the Contract Year 2006-2007, the applicable "Florida Hurricane Catastrophe Fund Interim Loss Report," is the FHCF-L1A rev. 05/06 and the applicable "Florida Hurricane Catastrophe Fund Proof of Loss Report," is the FHCF-L1B rev. 05/06.

(b) For the Contract Year 2007-2008, the applicable "Florida Hurricane Catastrophe Fund Interim Loss Report," is the FHCF-L1A rev. 05/07 and the applicable "Florida Hurricane Catastrophe Fund Proof of Loss Report," is the FHCF-L1B rev. 05/07.

(c) For the Contract Year 2008-2009, the applicable "Florida Hurricane Catastrophe Fund Interim Loss Report," is the FHCF-L1A rev. 05/08 and the applicable "Florida Hurricane Catastrophe Fund Proof of Loss Report," is the FHCF-L1B rev. 05/08.

(d) For the Contract Year 2009-2010, the applicable "Florida Hurricane Catastrophe Fund Interim Loss Report," is the FHCF-L1A rev. 05/09 and the applicable "Florida Hurricane Catastrophe Fund Proof of Loss Report," is the FHCF-L1B rev. 05/09. These forms are hereby adopted and incorporated by reference into this rule.

(e) For the Contract Year 2010-2011, the applicable "Florida Hurricane Catastrophe Fund Interim Loss Report," is the FHCF-L1A rev. 05/10 and the applicable "Florida Hurricane Catastrophe Fund Proof of Loss Report," is the FHCF-L1B rev. 05/10. These forms are hereby adopted and incorporated by reference into this rule.

These forms are hereby adopted and incorporated by reference into this rule and may be obtained from the Fund's Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. Companies must submit a detailed claims listing (in a delimited ASCII format) to support the losses reported in the FHCF-L1B, Proof of Loss Report, at the same time it submits its first Proof of Loss Report for a specific Covered Event that qualifies the company for reimbursement under that Covered Event, and should be prepared to supply a detailed claims listing for any subsequent Proof of Loss Report upon request. Refer to Form FHCF-LAP1 for the required file layout. The Proof of Loss Report and the detailed claims listing are required to be sent to the FHCF Administrator, Paragon Strategic Solutions Inc., at the address listed above. If your company submits its Proof of Loss Reports electronically through the FHCF's Online Claims System at www.sbafla.com/fhcf, the detailed claims listing may be attached to the Company's submission.

(9) Penalties and Additional Charges. The Participating Insurers' responsibilities outlined in this rule are not an exhaustive list

and Section 215.555, F.S., and other rules promulgated under that section may outline additional responsibilities or deadlines. The failure by a Participating Insurer to meet any of the deadlines or responsibilities outlined in this rule, Section 215.555, F.S., or any other rule applicable to the FHCF constitute a violation of the Florida Insurance Code. In the event of a violation, in addition to the consequences outlined below, the FHCF may notify the Office of Insurance Regulation of the violation. The Office of Insurance Regulation may take whatever action it deems appropriate in addressing the violation.

(a) Resubmissions of Data: A $1,000 resubmission fee (for resubmissions that are not the result of an examination by the SBA) will be invoiced by the FHCF for each submission. If a resubmission is necessary as a result of an examination report issued by the SBA, the resubmission fee will be $2,000. If a company's examination-required resubmission is inadequate and the SBA requires an additional resubmission(s), the resubmission fee for each subsequent resubmission shall be $2,000.

(b) Premiums and Other Payments: All late payments of Premium, including Premium adjustments, due to the FHCF from an Insurer are subject to interest.

(c) Consequences for Failure to meet the requirements contained in the FHCF-EAP1, "Exposure Examination Advance Preparation Instructions," the FHCF-LAP1, "Loss Reimbursement Examination Advance Preparation Instructions," or the on-site examination record requirements in a timely manner: In addition to other penalties or consequences, the FHCF has the authority, pursuant to Section 215.555(4)(f), F.S., to require that the Insurer pay for the following services under the circumstances outlined below:

1. If an examination is delayed, cannot be conducted as scheduled or cannot be completed and the insurer is responsible for such, the Insurer shall be required to reimburse the FHCF for all the usual and customary expenses connected to such delay, cancellation or incompletion.

2. If the FHCF finds any Insurer's records or other necessary information to be inadequate or inadequately posted, recorded, or maintained, the FHCF may employ experts to reconstruct, rewrite, record, post, or maintain such records or information, at the expense of the Insurer being examined.

3. An Insurer required to reimburse the FHCF for costs as outlined in subparagraphs 1. and 2. immediately above, will owe interest on the amount owed to the FHCF from the date the FHCF pays such expenses until the date payment from the Insurer is received. The applicable interest rate will be the average rate earned by the SBA for the FHCF for the first five months of the current Contract Year plus 5%. Also, the payment of reimbursements or refunds by the FHCF to any Insurer will be offset by any amounts owed by that Insurer to the FHCF.

(10) Time Deadlines: If any deadline provided for herein falls on a Saturday, Sunday or on a legal holiday, then the applicable due date will be the first business day immediately following the Saturday, Sunday or legal holiday.

(11) Optional Coverage Programs: Except as provided in this subsection, this rule applies to the Temporary Emergency Additional Coverage Option ("TEACO") created in Section 215.555(16), F.S., and the Temporary Increase in Coverage Limit option created in Section 215.555(17), F.S. ("TICL"). The definition of Premium in paragraph (3)(m), above, does not apply to TEACO. With respect to this Option, the word "Premium" when used in this rule shall refer to the amount payable under Section 215.555(16)(f), F.S., for this optional coverage.

(12) Company Contact Information: Companies must submit Form FHCF-C1, Company Contact Information, by June 1 of each Contract Year to the FHCF Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. This form must be updated by the Company as the information provided thereon changes. The FHCF shall have the right to rely upon the information provided by the Company to the FHCF on this form until receipt by the FHCF of a new properly completed and notarized FHCF C-1 from the Company.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555 FS. History–New 5-13-03, Amended 5-19-04, 5-29-05, 5-10-06, 5-8-07, 8-13-07, 6-8-08, 3-30-09, 3-30-10, _-__-10.

REIMBURSEMENT CONTRACT

Effective: June 1, 2010
(Contract)

between

«Legal_Name»
«Last_Line»
(Company)

NAIC # «NAIC_»

and

THE STATE BOARD OF ADMINISTRATION OF THE STATE OF FLORIDA (SBA)
WHICH ADMINISTERS THE FLORIDA HURRICANE CATASTROPHE FUND (FHCF)

PREAMBLE

The Legislature of the State of Florida has enacted Section 215.555, Florida Statutes "Statute", which directs the SBA to administer the FHCF. This Contract, consisting of the principal document entitled Reimbursement Contract, addressing the mandatory FHCF coverage, and Addenda, is subject to the Statute and to any administrative rule adopted pursuant thereto, and is not intended to be in conflict therewith. All provisions in the principle document are equally applicable to each Addenda unless specifically superseded by one of the Addenda.

In consideration of the promises set forth in this Contract, the parties agree as follows:

ARTICLE I - SCOPE OF AGREEMENT

As a condition precedent to the SBA's obligations under this Contract, the Company, an Authorized Insurer or an entity writing Covered Policies under Section 627.351, Florida Statutes, in the State of Florida, shall report to the SBA in a specified format the business it writes which is described in this Contract as Covered Policies.

The terms of this Contract shall determine the rights and obligations of the parties. This Contract provides reimbursement to the Company under certain circumstances, as described herein, and does not provide or extend insurance or reinsurance coverage to any person, firm, corporation or other entity. The SBA shall reimburse the Company for its Ultimate Net Loss on Covered Policies, which were in force and in effect at the time of the loss, in excess of the Company's Retention as a result of each Loss

Occurrence commencing during the Contract Year, to the extent funds are available, all as hereinafter defined.

ARTICLE II - PARTIES TO THE CONTRACT

This Contract is solely between the Company and the SBA which administers the FHCF. In no instance shall any insured of the Company or any claimant against an insured of the Company, or any other third party, have any rights under this Contract, except as provided in Article XIV. The SBA will only disburse funds to the Company, except as provided for in Article XIV of this Contract. The Company shall not, without the prior approval of the Office of Insurance Regulation, sell, assign, or transfer to any third party, in return for a fee or other consideration any sums the FHCF pays under this Contract or the right to receive such sums.

ARTICLE III - TERM

This Contract shall apply to Loss Occurrences which commence during the period from 12:00:01 a.m., Eastern Time, June 1, 2010, to 12:00 midnight Eastern Time, ~~December 31, 2010~~ May 31, 2011 (Contract Year).

The Company must designate a coverage level, make the required selections, and return this fully executed Contract (two originals) to the FHCF Administrator so that the Contract is received by the FHCF Administrator no later than 5 p.m., Central Time, June 1, 2010. Failure to do so may result in a referral to the Office of Insurance Regulation within the Department of Financial Services for administrative action. Furthermore, the Company's coverage level under this Contract will be deemed as follows:

(1) For Companies that are a member of a National Association of Insurance Commissioners (NAIC) group, the same coverage level selected by the other Companies of the same NAIC group shall be deemed. If executed Contracts for none of the members of an NAIC group have been received by the FHCF Administrator, the coverage level from the prior Contract Year shall be deemed.
(2) For Companies that are not a member of an NAIC group under which other Companies are active participants in the FHCF, the coverage level from the prior Contract Year shall be deemed.
(3) For New Participants, as that term is defined in Article V(21), that are a member of an NAIC group, the same coverage level selected by the other Companies of the same NAIC group shall be deemed.
(4) For New Participants that are not a member of an NAIC group under which other Companies are active participants in the FHCF, the 45%, 75% or 90% coverage levels may be selected providing that the FHCF Administrator receives executed Contracts within 30 calendar days of the effective date of the first Covered Policy, otherwise, the 45% coverage level shall be deemed.

Pursuant to the terms of this Contract, the SBA shall not be liable for Loss Occurrences which commence after the effective time and date of expiration or termination. Should this Contract expire or terminate while a Loss Occurrence covered hereunder is in progress, the SBA shall be responsible for such Loss Occurrence in progress in the same manner and to the same extent it would have been responsible had the Contract expired the day following the conclusion of the Loss Occurrence in progress.

ARTICLE IV - LIABILITY OF THE FHCF

(1) The SBA shall reimburse the Company, with respect to each Loss Occurrence commencing during the Contract Year for the "Reimbursement Percentage" elected, this percentage times the amount of Ultimate Net Loss paid by the Company in excess of the Company's Retention, as adjusted pursuant to Article V(28), plus 5% of the reimbursed losses for Loss Adjustment Expense Reimbursement.
(2) The Reimbursement Percentage will be 45% or 75% or 90%, at the Company's option as elected under Article XVIII.

(3) The aggregate liability of the FHCF with respect to all Reimbursement Contracts covering this Contract Year shall not exceed the limit set forth under Section 215.555(4)(c)1., Florida Statutes. For specifics regarding loss reimbursement calculations, see section (3)(c) of Article X herein.

(4) Upon the occurrence of a Covered Event, the SBA shall evaluate the potential losses to the FHCF and the FHCF's capacity at the time of the event. The initial Projected Payout Multiple used to reimburse the Company for its losses shall not exceed the Projected Payout Multiple as calculated based on the capacity needed to provide the FHCF's mandatory coverage and the Additional Coverage Option (up to $10 million) pursuant to Section 215.555(4)(b)4., Florida Statutes, as provided under Addendum No. 1. to this Contract. The SBA shall make adjustments to the Projected Payout Multiple in order to reimburse the optional Temporary Coverage Limit (TICL) Options coverage based on the SBA's ongoing evaluation of potential losses and capacity. If it appears that the Estimated Claims-Paying Capacity may be exceeded, the SBA shall reduce the ~~published~~ projected payout factors or multiples for determining each participating insurer's projected payout uniformly among all insurers to reflect the Estimated Claims-Paying Capacity.

(5) Reimbursement amounts shall not be reduced by reinsurance paid or payable to the Company from other sources.

(6) After the end of the calendar year, the SBA shall notify insurers of the estimated Borrowing Capacity and the Balance of the Fund as of December 31. In May and October of each year, the SBA shall publish in the *Florida Administrative Weekly* a statement of the FHCF's estimated Borrowing Capacity, estimated Claims-Paying Capacity, and the projected Balance of the Fund as of December 31.

(7) The obligation of the SBA with respect to all Contracts covering a particular Contract Year shall not exceed the Balance of the Fund as of December 31 of that Contract Year, together with the maximum amount the SBA is able to raise through the issuance of revenue bonds or through other means available to the SBA under Section 215.555, Florida Statutes, up to the limit in accordance with Section 215.555(4)(c)1., Florida Statutes. The obligations and the liability of the SBA are more fully described in Rule 19-8.013, Florida Administrative Code (F.A.C.).

ARTICLE V - DEFINITIONS

(1) **Actual Claims-Paying Capacity of the FHCF**
This term means the sum of the Balance of the Fund as of December 31 of a Contract Year, plus any reinsurance purchased by the FHCF, plus the amount the SBA is able to raise through the issuance of revenue bonds, or through other means available by law to the SBA, up to the limit in accordance with Section 215.555(4)(c)1. and (6), Florida Statutes.

(2) **Actuarially Indicated**
This term means, with respect to Premiums paid by Companies for reimbursement provided by the FHCF, an amount determined in accordance with the definition provided in Section 215.555(2)(a), Florida Statutes.

(3) **Additional Living Expense (ALE)**
ALE losses covered by the FHCF are not to exceed 40 percent of the insured value of a Residential Structure or its contents based on the coverage provided in the policy. Fair rental value, loss of rents, or business interruption losses are not covered by the FHCF.

(4) **Administrator**
This term means the entity with which the SBA contracts to perform administrative tasks associated with the operations of the FHCF. The Administrator is Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. The telephone number is (800) 689-3863, and the facsimile number is (800) 264-0492.

(5) **Authorized Insurer**
This term is defined in Section 624.09(1), Florida Statutes.

(6) **Borrowing Capacity**
This term means the amount of funds which are able to be raised by the issuance of revenue bonds or through other financing mechanisms, less bond issuance expenses and reserves.

(7) **Citizens Property Insurance Corporation (Citizens)**
This term means the entity formed under Section 627.351(6), Florida Statutes and refers to both Citizens Property Insurance Corporation High Risk Account and Citizens Property Insurance Corporation Personal Lines and Commercial Lines Accounts.

(8) **Contract**
This term means this Reimbursement Contract for the current Contract Year.

(9) **Covered Event**
This term means any one storm declared to be a hurricane by the National Hurricane Center which causes insured losses in Florida. A Covered Event begins when a hurricane causes damage in Florida while it is a hurricane and continues throughout any subsequent downgrades in storm status by the National Hurricane Center regardless of whether the hurricane makes landfall. Any storm, including a tropical storm, which does not become a hurricane is not a Covered Event.

(10) **Covered Policy or Covered Policies**

(a) Covered Policy, as defined in Section 215.555(2)(c), Florida Statutes, is further clarified to mean only that portion of a binder, policy or contract of insurance that insures real or personal property located in the State of Florida to the extent such policy insures a Residential Structure, as defined in definition (27) herein, or the contents of a Residential Structure, located in the State of Florida.

(b) Due to the specialized nature of the definition of Covered Policies, Covered Policies are not limited to only one line of business in the Company's annual statement required to be filed by Section 624.424, Florida Statutes. Instead, Covered Policies are found in several lines of business on the Company's annual statement. Covered Policies will at a minimum be reported in the Company's statutory annual statement as:

1. Fire
2. Allied Lines
3. Farmowners Multiple Peril
4. Homeowners Multiple Peril
5. Commercial Multiple Peril (non liability portion, covering condominiums and apartments)
6. Inland Marine

Note that where particular insurance exposures, e.g. mobile homes, are reported on an annual statement is not dispositive of whether or not the exposure is a Covered Policy.

(c) This definition applies only to the first-party property section of a policy pertaining strictly to the structure, its contents, appurtenant structures, or ALE coverage.

(d) Covered Policy also includes any collateral protection insurance policy covering personal residences which protects both the borrower's and the lender's financial interest, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy, if such policy can be accurately reported as required in Section 215.555(5), Florida Statutes. A Company will be deemed to be able to accurately report data if the required data, as specified in the Premium Formula adopted in Section 215.555(5), Florida Statutes, is available.

(e) See Article VI of this Contract for specific exclusions.

(11) **Deductible Buy-Back Policies**
This term means a specific policy that provides coverage to a policyholder for some portion of the policyholder's deductible under a policy issued by another insurer.

(12) **Estimated Claims-Paying Capacity of the FHCF**
This term means the sum of the projected Balance of the Fund as of December 31 of a Contract Year, plus any reinsurance purchased by the FHCF, plus the most recent estimate of the Borrowing Capacity of the FHCF, determined pursuant to Section 215.555(4)(c), Florida Statutes.

(13) **Excess Policies**
This term, for the purposes of this Contract, means a policy that provides insurance protection for large commercial property risks that provides a layer of coverage above a primary layer (which is insured by a different insurer) that acts much the same as a very large deductible.

(14) **Florida Department of Financial Services (Department)**
This term means the Florida regulatory agency, created pursuant to Section 20.121, Florida Statutes, which is charged with regulating the Florida insurance market and administering the Florida Insurance Code.

(15) **Florida Insurance Code**
This term means those chapters identified in Section 624.01, Florida Statutes, which are designated as the Florida Insurance Code.

(16) **Formula or the Premium Formula**
This term means the Formula approved by the SBA for the purpose of determining the Actuarially Indicated Premium to be paid to the FHCF. The Premium Formula is defined as an approach or methodology which leads to the creation of premium rates. The resulting rates are therefore incorporated as part of the Premium Formula. The formula, shall, pursuant to Section 215.555(5)(b), Florida Statutes, include a cash build-up factor in the amount specified therein.

(17) **Fund Balance or Balance of the Fund as of December 31**
These terms mean the amount of assets available to pay claims, not including any bonding proceeds, resulting from Covered Events which occurred during the Contract Year.

(18) **Insurer Group**
For purposes of the coverage option election in Section 215.555(4)(b), Florida Statutes, Insurer Group means the group designation assigned by the National Association of Insurance Commissioners (NAIC) for purposes of filing consolidated financial statements. A Company is a member of a group as designated by the NAIC until such Company is assigned another group designation or is no longer a member of a group recognized by the NAIC.

(19) **Loss Occurrence**
This term means the sum of individual insured losses incurred under Covered Policies resulting from the same Covered Event. "Losses" means direct incurred losses under Covered Policies and excludes Loss Adjustment Expenses.

(20) **Loss Adjustment Expense Reimbursement**
(a) Loss Adjustment Expense Reimbursement shall be 5% of the reimbursed losses under this Contract as provided in Article IV, pursuant to Section 215.555(4)(b)1., Florida Statutes.
(b) To the extent that loss reimbursements are limited to the Payout Multiple applied to each Company, the 5% Loss Adjustment Expense is included in the total Payout Multiple applied to each Company.

(21) **New Participant(s)**
This term means all Companies which begin writing Covered Policies on or after the beginning of the Contract Year. A Company that removes exposure from either Citizens entity, as that term is defined in (7) above, pursuant to an assumption agreement effective on or after June 1 and had written no other Covered Policies before June 1 is also considered a New Participant.

(22) **Office of Insurance Regulation**
This term means that office within the Department of Financial Services and which was created in Section 20.121(3), Florida Statutes.

(23) **Payout Multiple**
This term means the multiple as calculated in accordance with Section 215.555(4)(c), Florida Statutes, which is derived by dividing the single season Claims-Paying Capacity of the FHCF by

the total aggregate industry Reimbursement Premium for the FHCF for the Contract Year billed as of December 31 of the Contract Year. The final Payout Multiple is determined once Reimbursement Premiums have been billed as of December 31 and the amount of bond proceeds has been determined.

(24) **Premium**

This term means the same as Reimbursement Premium.

(25) **Projected Payout Multiple**

The Projected Payout Multiple is used to calculate a Company's projected payout pursuant to Section 215.555(4)(d)2., Florida Statutes. The Projected Payout Multiple is derived by dividing the estimated single season Claims-Paying Capacity of the FHCF by the estimated total aggregate industry Reimbursement Premium for the FHCF for the Contract Year. The Company's Reimbursement Premium as paid to the SBA for the Contract Year is multiplied by the Projected Payout Multiple to estimate the Company's coverage from the FHCF for the Contract Year.

(26) **Reimbursement Premium**

This term means the Premium determined by multiplying each $1,000 of insured value reported by the Company in accordance with Section 215.555(5)(b), Florida Statutes, by the rate as derived from the Premium Formula, as described in Rule 19-8.028, F.A.C.

(27) **Residential Structures**

This term means dwelling units, including the primary structure and appurtenant structures insured under the same policy and any other structures covered under endorsements associated with a policy covering a residential structure. ***Covered Residential Structures do not include*** any structures listed under Article VI herein or structures used solely for non-residential purposes.

(28) **Retention**

The Company's Retention means the amount of hurricane losses under Covered Policies which must be incurred by the Company before it is eligible for reimbursement from the FHCF.

(a) When the Company experiences covered losses from one or two Covered Events during the Contract Year, the Company's full Retention shall be applied to each of the Covered Events.

(b) When the Company experiences covered losses from more than two Covered Events during the Contract Year, the Company's full Retention shall be applied to each of the two Covered Events causing the largest covered losses for the Company. For each other Covered Event resulting in covered losses, the Company's Retention shall be reduced to one-third of its full Retention and applied to all other Covered Events.

1. All reimbursement of covered losses for each Covered Event shall be based on the Company's full Retention until December 31 of the Contract Year. Adjustments to reflect a reduction to one-third of the full Retention shall be made on or after December 31 of the Contract Year provided the Company reports its losses as specified in this Contract.
2. Adjustments to the Company's Retention shall be based upon its paid and outstanding losses as reported on the Company's Proof of Loss Reports but shall not include incurred but not reported losses. The Company's Proof of Loss Reports shall be used to determine which Covered Events constitute the Company's two largest Covered Events, and the reduction to one-third of the full Retention shall be applied to all other Covered Events for the Contract Year. After this initial determination, any subsequent adjustments shall be made by the SBA only if the quarterly loss reports reveal that loss development patterns have resulted in a change in the order of Covered Events entitled to the reduction to one-third of the full Retention.

(c) The Company's full Retention is established in accordance with the provisions of Section 215.555(2)(e), Florida Statutes, and shall be determined by multiplying the Retention Multiple by the Company's Reimbursement Premium for the Contract Year.

(d) Once the Company's limit of coverage has been exhausted, the Company will not be entitled to further reimbursements.

(29) **Retention Multiple**

(a) The Retention Multiple is applied to the Company's Reimbursement Premium to determine the Company's Retention. The Retention Multiple for the 2010/2011 Contract Year shall be equal to $4.5 billion, adjusted based upon the reported exposure for the ~~2009/2010~~ 2008/2009 Contract Year to reflect the percentage growth in exposure to the FHCF since 2004, divided by the estimated total industry Reimbursement Premium at the 90% reimbursement percentage level for the Contract Year as determined by the SBA.

(b) The Retention Multiple as determined under (29)(a) above shall be adjusted to reflect the reimbursement percentage elected by the Company under this Contract as follows:

1. If the Company elects a 90% reimbursement percentage, the adjusted Retention Multiple is 100% of the amount determined under (29)(a) above;
2. If the Company elects a 75% reimbursement percentage, the adjusted Retention Multiple is 120% of the amount determined under (29)(a) above; or
3. If the Company elects a 45% reimbursement percentage, the adjusted Retention Multiple is 200% of the amount determined under (29)(a) above.

(30) **Ultimate Net Loss**

(a) This term means all losses of the Company under Covered Policies in force at the time of a Covered Event, as defined under (9) above, prior to the application of the Company's FHCF Retention, as defined under (28) above, and reimbursement percentage, and excluding loss adjustment expense, arising from each Loss Occurrence during the Contract Year, provided, however, that the Company's loss shall be determined in accordance with the deductible level written under the policy sustaining the loss.

(b) Salvages and all other recoveries, excluding reinsurance recoveries, shall be first deducted from such loss to arrive at the amount of liability attaching hereunder.

(c) All salvages, recoveries or payments recovered or received subsequent to a loss settlement under this Contract shall be applied as if recovered or received prior to the aforesaid settlement and all necessary adjustments shall be made by the parties hereto.

(d) Nothing in this clause shall be construed to mean that losses under this Contract are not recoverable until the Company's Ultimate Net Loss has been ascertained.

(e) The SBA shall be subrogated to the rights of the Company to the extent of its reimbursement of the Company. The Company agrees to assist and cooperate with the SBA in all respects as regards such subrogation. The Company further agrees to undertake such actions as may be necessary to enforce its rights of salvage and subrogation, and its rights, if any, against other insurers as respects any claim, loss, or payment arising out of a Covered Event.

ARTICLE VI – EXCLUSIONS

This Contract does not provide reimbursement for:

(1) Any losses not defined as being within the scope of a Covered Policy.

(2) Any policy which excludes wind or hurricane coverage.

(3) Any Excess Policy or Deductible Buy-Back Policy that requires individual ratemaking.

(4) Any policy for Residential Structures, as defined in Article V(27) herein, that provides a layer of coverage underneath an Excess Policy, as defined in Article V(13) herein, issued by a different insurer.

(5) Any liability of the Company attributable to losses for fair rental value, loss of rent or rental income, or business interruption.

(6) Any collateral protection policy that does not meet the definition of Covered Policy as defined in Article V(10)(d) herein.

(7) Any reinsurance assumed by the Company.

(8) Any exposure for hotels, motels, timeshares, shelters, camps, retreats, and any other rental property used solely for commercial purposes.

(9) Any exposure for homeowner associations if no habitational structures are insured under the policy.
(10) Any exposure for homes and condominium structures or units that are non-owner occupied and rented for six (6) or more rental periods by different parties during the course of a twelve (12) month period.
(11) Commercial healthcare facilities and nursing homes; however, a nursing home which is an integral part of a retirement community consisting primarily of habitational structures that are not nursing homes will not be subject to this exclusion.
(12) Any exposure under commercial policies covering only appurtenant structures or structures that do not function as a habitational structure (e.g. a policy covering only the pool of an apartment complex).
(13) Personal contents in a commercial storage facility (including jewelry in an off-premises vault) covered under a policy that covers only those personal contents.
(14) Policies covering only Additional Living Expense.
(15) Any exposure for barns or barns with apartments.
(16) Any exposure for builders risk coverage or new residential structures still under construction.
(17) Any exposure for recreational vehicles, golf carts, or boats (including boat related equipment) requiring licensing and written on a separate policy or endorsement.
(18) Any liability of the Company for extra contractual obligations or liabilities in excess of original policy limits.
(19) Any losses paid in excess of a policy's hurricane limit in force at the time of each Covered Event, including individual coverage limits (i.e., building, appurtenant structures, contents, and additional living expense). This exclusion includes overpayments of a specific individual coverage limit even if total payments under the policy are within the aggregate policy limit.
(20) Any losses paid under a policy for Additional Living Expense, written as a time element coverage, in excess of the Additional Living Expense exposure reported for that policy under the Data Call for the applicable Contract Year (unless policy limits have changed effective after June 30th of the Contract Year).
(21) Any losses for which the Company's claims files do not adequately support. Claim file support shall be deemed adequate if in compliance with the Records Retention Requirements outlined on the Form FHCF-L1B (Proof of Loss Report) applicable to the Contract Year.
(22) Any exposure for, or losses attributable to, loss assessment coverage.
(23) Losses in excess of the sum of the Balance of the Fund as of December 31 of the Contract Year and the amount the SBA is able to raise through the issuance of revenue bonds or by the use of other financing mechanisms, up to the limit pursuant to Section 215.555(4)(c), Florida Statutes.
(24) Any liability assumed by the Company from Pools, Associations, and Syndicates. Exception: Covered Policies assumed from Citizens under the terms and conditions of an executed assumption agreement between the Authorized Insurer and Citizens are covered by this Contract.
(25) All liability of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.
(26) Any liability of the Company for loss or damage caused by or resulting from nuclear reaction, nuclear radiation, or radioactive contamination from any cause, whether direct or indirect, proximate or remote, and regardless of any other cause or event contributing concurrently or in any other sequence to the loss.

(27) The FHCF does not provide coverage for water damage which is generally excluded under property insurance contracts and has been defined to mean flood, surface water, waves, tidal water, overflow of a body of water, storm surge, or spray from any of these, whether or not driven by wind.
(28) Specialized Fine Arts Risks as defined in Rule 19-8.028(4)(d), F.A.C.

ARTICLE VII - MANAGEMENT OF CLAIMS AND LOSSES

The Company shall investigate and settle or defend all claims and losses. All payments of claims or losses by the Company within the terms and limits of the appropriate coverage parts of Covered Policies shall be binding on the SBA, subject to the terms of this Contract, including the provisions in Article XIII relating to inspection of records and examinations.

ARTICLE VIII – LOSS REIMBURSEMENT ADJUSTMENTS

(1) **Offsets**
The SBA reserves the right to offset amounts payable to the SBA from the Company, including amounts payable under previous Contract Years and the Company's full premium for the current Contract Year (regardless of installment due dates), against any reimbursement or advance amounts due and payable to the Company from the SBA as a result of the liability of the SBA.

(2) **Reimbursement Adjustments**
Section 215.555(4)(d) and (e), Florida Statutes, provides the SBA with the right to seek the return of excess loss reimbursements which have been paid to the Company along with interest thereon. Excess loss reimbursements are those payments made to the Company by the SBA that are in excess of the Company's coverage under the Contract Year. Excess loss reimbursements may result from adjustments to the Projected Payout Multiple or the Payout Multiple, incorrect exposure (Data Call) submissions or resubmissions, incorrect calculations of Reimbursement Premiums or Retentions, incorrect Proof of Loss Reports, incorrect calculation of reinsurance recoveries, or subsequent readjustment of policyholder claims, including subrogation and salvage, or any combination of the foregoing. The Company will be sent an invoice showing the due date for adjustments along with the interest due thereon through the due date. The applicable interest rate for interest credits, and for interest charges for adjustments beyond the Company's control, will be the average rate earned by the SBA for the FHCF for the first four months of the Contract Year. The applicable interest rate for interest charges on excess loss reimbursements due to adjustments resulting from incorrect exposure submissions or Proof of Loss Reports will accrue at this rate plus 5%. All interest will continue to accrue if not paid by the due date.

ARTICLE IX - REIMBURSEMENT PREMIUM

(1) The Company shall, in a timely manner, pay the SBA its Reimbursement Premium for the Contract Year. The Reimbursement Premium for the Contract Year shall be calculated in accordance with Section 215.555, Florida Statutes, with any rules promulgated thereunder, and with Article X(2).
(2) Since the calculation of the Actuarially Indicated Premium assumes that the Companies will pay their Reimbursement Premiums timely, interest charges will accrue under the following circumstances. A Company may choose to estimate its own Premium installments. However, if the Company's estimation is less than the provisional Premium billed, an interest charge will accrue on the difference between the estimated Premium and the final Premium. If a Company estimates its first installment, the Administrator shall bill that estimated Premium as the second installment as well, which will be considered as an estimate by the Company. No interest will accrue regarding any provisional Premium if paid as billed by the FHCF's Administrator, except in the case of an estimated second installment as set forth in this Article. Also, if a Company makes an estimation that is higher than the provisional Premium billed but is less than the final Premium, interest will not

accrue. If the Premium payment is not received from a Company when it is due, an interest charge will accrue on a daily basis until the payment is received. Interest will also accrue on Premiums resulting from submissions or resubmissions finalized after December 1 of the Contract Year. An interest credit will be applied for any Premium which is overpaid as either an estimate or as a provisional Premium. Interest shall not be credited past December 1 of the Contract Year. The applicable interest rate for interest credits will be the average rate earned by the SBA for the FHCF for the first four months of the Contract Year. The applicable interest rate for interest charges will accrue at this rate plus 5%.

ARTICLE X - REPORTS AND REMITTANCES

(1) **Exposures**

(a) If the Company writes Covered Policies before June 1 of the Contract Year, the Company shall report to the SBA, unless otherwise provided in Rule 19-8.029, F.A.C., no later than the statutorily required date of September 1 of the Contract Year, by ZIP Code or other limited geographical area as specified by the SBA, its insured values under Covered Policies as of June 30 of the Contract Year as outlined in the annual reporting of insured values form, FHCF-D1A (Data Call) adopted for the Contract Year under Rule 19-8.029, F.A.C., and other data or information in the format specified by the SBA.

(b) If the Company first begins writing Covered Policies on or after June 1 but prior to December 1 of the Contract Year, the Company shall report to the SBA, no later than March 1 of the ~~following~~ Contract Year, by ZIP Code or other limited geographical area as specified by the SBA, its insured values under Covered Policies as of December 31 of the Contract Year as outlined in the Supplemental Instructions for New Participants section of the Data Call adopted for the Contract Year under Rule 19-8.029, F.A.C., and other data or information in the format specified by the SBA.

(c) If the Company first begins writing Covered Policies on December 1 through and including ~~December 31~~ May 31 of the Contract Year, the Company shall not report its exposure data for the Contract Year to the SBA.

(d) The requirement that a report is due on a certain date means that the report shall be in the physical possession of the FHCF's Administrator in Minneapolis no later than 5 p.m. on the due date. If the applicable due date is a Saturday, Sunday or legal holiday, then the actual due date will be the day immediately following the applicable due date which is not a Saturday, Sunday or legal holiday. For purposes of the timeliness of the submission, neither the United States Postal Service postmark nor a postage meter date is in any way determinative. Reports sent to the SBA in Tallahassee, Florida, will be returned to the sender. Reports not in the physical possession of the FHCF's Administrator by 5 p.m., Central Time, on the applicable due date are late.

(e) Pursuant to the provisions of Section 215.557, Florida Statutes, the reports of insured values under Covered Policies by ZIP Code submitted to the SBA pursuant to Section 215.555, Florida Statutes, are confidential and exempt from the provisions of Section 119.07(1), Florida Statutes, and Section 24(a), Art. I of the State Constitution.

(2) **Reimbursement Premium**

(a) If the Company writes Covered Policies before June 1 of the Contract Year, the Company shall pay the FHCF its Reimbursement Premium in installments due on or before August 1, October 1, and December 1 of the Contract Year in amounts to be determined by the FHCF. However, if the Company's Reimbursement Premium for the prior Contract Year was less than $5,000, the Company's full provisional Reimbursement Premium, in an amount equal to the Reimbursement Premium paid in the prior year, shall be due in full on or before August 1 of the Contract Year. The Company will be invoiced for amounts due, if any, beyond the provisional Reimbursement Premium payment, on or before December 1 of the Contract Year. In addition,

if control of the Company has been transferred through any legal or regulatory proceeding to a state regulator or court appointed receiver or rehabilitator (referred to in the aggregate as "State action"), the full annual provisional Reimbursement Premium as billed and any outstanding balances will be due and payable on August 1, or the date that such State action occurs after August 1 of the Contract Year. Such acceleration will not apply when the receiver or rehabilitator provides a letter of assurance to the FHCF that the Company will have the resources to pay the premium in installments in accordance with the contractual provisions.

(b) A New Participant that first begins writing Covered Policies on or after June 1 but prior to December 1 of the Contract Year shall pay the FHCF a provisional Reimbursement Premium of $1,000 upon execution of this Contract. The Administrator shall calculate the Company's actual Reimbursement Premium for the period based on its actual exposure as of December 31 of the Contract Year, as reported on or before March 1 of the ~~following~~ Contract Year. To recognize that New Participants have limited exposure during this period, the actual Premium as determined by processing the Company's exposure data shall then be divided in half, the provisional Premium shall be credited, and the resulting amount shall be the total Premium due for the Company for the remainder of the Contract Year. However, if that amount is less than $1,000, then the Company shall pay $1,000. The Premium payment is due no later than May 1 of the ~~following~~ Contract Year. The Company's Retention and coverage will be determined based on the total Premium due as calculated above.

(c) A New Participant that first begins writing Covered Policies on or after December 1 through ~~December 31~~ and including May 31 of the Contract Year shall pay the FHCF a Reimbursement Premium of $1,000 upon execution of this Contract.

(d) The requirement that the Reimbursement Premium is due on a certain date means that the Premium shall be in the physical possession of the FHCF no later than 5 p.m., Eastern Time, on the due date applicable to the particular installment. If remitted by check to the FHCF's Post Office Box, the check shall be physically in the Post Office Box 550261, Tampa, FL 33655-0261, as set out on the invoice sent to the Company. If remitted by check by hand delivery, the check shall be physically on the premises of the FHCF's bank in Tampa, Florida, as set out on the invoice sent to the Company. If remitted electronically, the wire transfer shall have been completed to the FHCF's account at its bank in Tampa, Florida, as set out on the invoice sent to the Company. If the applicable due date is a Saturday, Sunday or legal holiday, then the actual due date will be the day immediately following the applicable due date which is not a Saturday, Sunday or legal holiday. For purposes of the timeliness of the remittance, neither the United States Postal Service postmark nor a postage meter date is in any way determinative. Premium checks sent to the SBA in Tallahassee, Florida, or to the FHCF's Administrator in Minneapolis, Minnesota, will be returned to the sender. Reimbursement Premiums not in the physical possession of the FHCF by 5 p.m., Eastern Time, on the applicable due date are late.

(e) Except as required by Section 215.555(7)(c), Florida Statutes, or as described in the following sentence, Reimbursement Premiums, together with earnings thereon, received in a given Contract Year will be used only to pay for losses attributable to Covered Events occurring in that Contract Year or for losses attributable to Covered Events in subsequent Contract Years and will not be used to pay for past losses or for debt service on revenue bonds. Pursuant to Section 215.555(6)(a)1., Florida Statutes, Reimbursement Premiums and earnings thereon may be used for payments relating to revenue bonds in the event Emergency Assessments are insufficient. If Reimbursement Premiums or earnings thereon are used for debt service on revenue bonds, then the amount of the Reimbursement Premiums or earnings thereon so used shall be returned, without interest, to the Fund when Emergency Assessments or other legally available funds remain available after making payment relating to the revenue bonds and any other purposes for which Emergency Assessments were levied.

(3) **Claims and Losses**

(a) **In General**

1. Claims and losses resulting from Loss Occurrences commencing during the Contract Year shall be reported by the Company and reimbursed by the FHCF as provided herein and in accordance with the Statute, this Contract, and any rules adopted pursuant to the Statute. For a Company participating in a quota share primary insurance agreement(s) with Citizens Property Insurance Corporation High Risk Account, Citizens and the Company shall report only their respective portion of losses under the quota share primary insurance agreement(s). Pursuant to Section 215.555(4)(c), Florida Statutes, the SBA is obligated to pay for losses not to exceed the Actual Claims-Paying Capacity of the FHCF, up to the limit in accordance with Section 215.555(4)(c)1., Florida Statutes, for any one Contract Year.
2. If the Company is in non-compliance with Section 215.555, Florida Statutes for any Contract Year, including deadlines for sending in Contracts, addendums or attachments to Contracts, Data Call submissions or resubmissions, loss reports, or in responding to SBA exam requirements, the SBA reserves the right to withhold reimbursements or advances until such time the Company becomes compliant.

(b) **Loss Reports**

1. At the direction of the SBA, the Company shall report its projected Ultimate Net Loss from each Loss Occurrence to provide information to the SBA in determining any potential liability for possible reimbursable losses under the Contract on the Interim Loss Report, Form FHCF-L1A, adopted for the Contract Year under Rule 19-8.029, F.A.C. Interim Loss Reports (including subsequent Interim Loss Reports if required by the SBA) will be due in no less than fourteen days from the date of the notice from the SBA that such a report is required.
2. FHCF loss reimbursements will be issued based on Ultimate Net Loss information reported by the Company on the Proof of Loss Report, Form FHCF-L1B, adopted for the Contract Year under Rule 19-8.029, F.A.C.
   a. To qualify for reimbursement, the Proof of Loss Report must have the <u>original</u> signatures of two executive officers authorized by the Company to sign the report.
   b. The Company must also submit a detailed claims listing (as outlined on the Proof of Loss Report) at the same time it submits its first Proof of Loss Report for a specific Covered Event that qualifies the Company for reimbursement under that Covered Event, and should be prepared to supply a detailed claims listing for any subsequent Proof of Loss Report upon request.
   c. While a Company may submit a Proof of Loss Report requesting reimbursement at any time following a Loss Occurrence, all Companies shall submit a mandatory Proof of Loss Report for each Loss Occurrence no earlier than December 1 and no later than December 31 of the Contract Year during which the Covered Event(s) occurs using the most current data available, regardless of the amount of Ultimate Net Loss or the amount of loss reimbursements or advances already received. Reports may be faxed only if the Company does not qualify for a reimbursement.
   d. For the Proof of Loss Reports due by December 31 of the Contract Year, and the required subsequent quarterly and annual reports required under subparagraphs 3. and 4. below, the Company shall submit its Proof of Loss Reports by each quarter-end or year-end using the most current data available. However, the date of such data shall not be more than sixty days prior to the applicable quarter-end or year-end date.
3. Updated Proof of Loss Reports for each Loss Occurrence are due quarterly thereafter until all claims and losses resulting from a Loss Occurrence are fully discharged including any adjustments to such losses due to salvage or other recoveries, or the Company has received its full coverage under the Contract Year in which the Loss Occurrence(s) occurred. Guidelines follow:

a. Quarterly Proof of Loss Reports are due by March 31 from an insurer whose losses exceed, or are expected to exceed, 50% of its FHCF Retention for a specific Loss Occurrence(s).
b. Quarterly Proof of Loss Reports are due by June 30 from an insurer whose losses exceed, or are expected to exceed, 75% of its FHCF Retention for a specific Loss Occurrence(s).
c. Quarterly Proof of Loss Reports are due by September 30 and quarterly thereafter from an insurer whose losses exceed, or are expected to exceed, its FHCF Retention for a specific Loss Occurrence(s).

If the Company's Retention must be recalculated as the result of an exposure resubmission, and if the recalculated Retention changes the FHCF's reimbursement obligations, then the Company shall submit additional Proof of Loss Reports for recalculation of the FHCF's obligations.

4. Annually after December 31 of the Contract Year, all Companies shall submit a mandatory year-end Proof of Loss Report for each Loss Occurrence, as applicable, using the most current data available. This Proof of Loss Report shall be filed no earlier than December 1 and no later than December 31 of each year and shall continue until the earlier of the commutation process described in (3)(d) below or until all claims and losses resulting from the Loss Occurrence are fully discharged including any adjustments to such losses due to salvage or other recoveries.
5. The SBA, except as noted below, will determine and pay, within 30 days or as soon as practicable after receiving Proof of Loss Reports, the reimbursement amount due based on losses paid by the Company to date and adjustments to this amount based on subsequent quarterly information. The adjustments to reimbursement amounts shall require the SBA to pay, or the Company to return, amounts reflecting the most recent determination of losses.
   a. The SBA shall have the right to consult with all relevant regulatory agencies to seek all relevant information, and shall consider any other factors deemed relevant, prior to the issuance of reimbursements.
   b. The SBA shall require commercial self-insurance funds established under Section 624.462, Florida Statutes, to submit contractor receipts to support paid losses reported on a Proof of Loss Report, and the SBA may hire an independent consultant to confirm losses, prior to the issuance of reimbursements.
   c. The SBA shall have the right to conduct a claims examination prior to the issuance of any advances or reimbursements submitted by Companies that have been placed under regulatory supervision by a State or where control has been transferred through any legal or regulatory proceeding to a state regulator or court appointed receiver or rehabilitator.
6. All Proof of Loss Reports received will be compared with the FHCF's exposure data to establish the facial reasonableness of the reports. The SBA may also review the results of current and prior Contract Year exposure and loss examinations to determine the reasonableness of the reported losses. Except as noted in paragraph 4. above, Companies meeting these tests for reasonableness will be scheduled for reimbursement. Companies not meeting these tests for reasonableness will be handled on a case-by-case basis and will be contacted to provide specific information regarding their individual book of business. The discovery of errors in a Company's reported exposure under the Data Call may require a resubmission of the current Contract Year Data Call which, as the Data Call impacts the Company's premium, retention, and coverage for the Contract Year, will be required before the Company's request for reimbursement or an advance will be fully processed by the Administrator.

(c) **Loss Reimbursement Calculations**

1. In general, the Company's paid Ultimate Net Losses must exceed its full FHCF Retention for a specific Covered Event before any reimbursement is payable from the FHCF for that Covered Event. As described in Article V(28)(b), Retention adjustments will be made on or after December 31 of the Contract Year. No interest is payable on additional payments to the Company due to this type of Retention adjustment. Each Company sustaining reimbursable losses will receive the amount of reimbursement due under the Contract up to the amount of the Company's payout. If more than one Covered Event occurs in any one Contract Year, any reimbursements due from the FHCF shall take into account the Company's Retention for each Covered Event. However, the Company's reimbursements from the FHCF for all Covered Events occurring during the Contract Year shall not exceed, in aggregate, the Projected Payout Multiple or Payout Multiple, as applicable, times the individual Company's Reimbursement Premium for the Contract Year.
2. In determining reimbursements under this Contract, the SBA shall reimburse each of the Companies, including entities created pursuant to Section 627.351(6), Florida Statutes, for the amount (if any) of reimbursement due under the individual Company's Contract, but not to exceed for all Loss Occurrences, an amount equal to the Projected Payout Multiple or the Payout Multiple, as applicable, times the individual Company's Reimbursement Premium for the Contract Year.
3. Reserve established. When a Covered Event occurs in a subsequent Contract Year when reimbursable losses are still being paid for a Covered Event in a previous Contract Year, the SBA will establish a reserve for the outstanding reimbursable losses for the previous Contract Year, based on the length of time the losses have been outstanding, the amount of losses already paid, the percentage of incurred losses still unpaid, and any other factors specific to the loss development of the Covered Events involved.

(d) **Commutation**

1. Not less than 36 months or more than 60 months after the end of the Contract Year, the SBA shall initiate the commutation process. While the Company may request that the SBA consider beginning the commutation process earlier, doing so shall be at the discretion of the SBA.
   a. If the Company's most recently submitted Proof of Loss Report(s) indicate that it has no losses resulting from a Loss Occurrence(s) during the Contract Year, the FHCF's obligations will end 30 days following notice by the SBA of the intent to close out the Company's loss reporting for the Contract Year. If the Company determines that it does have losses to report, the Company must submit an up-to-date Proof of Loss Report(s), along with an explanation of why the losses had not been previously reported, within 30 days following the notice by the SBA. After closure by the FHCF, the company will not be reimbursed for any losses for the Contract Year regardless of circumstances or information discovered following such closure.
   b. If the Company has submitted a Proof of Loss Report(s) indicating that it does have losses resulting from a Loss Occurrence(s) during the Contract Year, the SBA shall initiate the commutation process by requiring the Company to submit within 30 days an updated, current Proof of Loss Report(s) for each Loss Occurrence during the Contract Year. The Proof of Loss Report(s) must include all paid losses as well as all outstanding losses, including incurred but not reported, which are not finally settled and which may be reimbursable losses under this Contract, and must be accompanied by a copy of a written opinion on the present value of the outstanding losses by the Company's certifying actuary. Failure of the Company to provide an updated current Proof of Loss Report(s) and an opinion by the date requested by the SBA shall result in referral to the Office of Insurance Regulation for a violation of the Contract.
2. Determining the present value of outstanding claims and losses.

a. If the Company exceeds or expects to exceed its Retention, the Company and the SBA or their respective representatives shall attempt, by mutual agreement, to agree upon the present value of all outstanding claims and losses, both reported and incurred but not reported, resulting from Loss Occurrences during the Contract Year. Payment by the SBA of its portion of any amount or amounts so mutually agreed and certified by the Company's certifying actuary shall constitute a complete and final release of the SBA in respect of all claims and losses, both reported and unreported, under this Contract.

b. If agreement on present value cannot be reached within 60 days, the Company and the SBA may mutually appoint an actuary, adjuster, or appraiser to investigate and determine such claims or losses. If both parties then agree, the SBA shall pay its portion of the amount so determined to be the present value of such claims or losses.

c. If the parties fail to agree, then any difference shall be settled by a panel of three actuaries, one to be chosen by each party and the third by the two so chosen. If either party does not appoint an actuary within 30 days, the other party may appoint two actuaries. If the two actuaries fail to agree on the selection of a third actuary within 30 days of their appointment, each of them shall name two, of whom the other shall decline one and the decision shall be made by drawing lots. All the actuaries shall be regularly engaged in the valuation of property claims and losses and shall be members of the Casualty Actuarial Society and of the American Academy of Actuaries. None of the actuaries shall be under the control of either party to this Contract. Each party shall submit its case to its actuary within 30 days of the appointment of the third actuary. The decision in writing of any two actuaries, when filed with the parties hereto, shall be final and binding on both parties.

d. The reasonable and customary expense of the actuaries and of the commutation (as a result of b. and c. above) shall be equally divided between the two parties. Said commutation shall take place in Tallahassee, Florida, unless some other place is mutually agreed upon by the Company and the SBA.

3. If at any point during the commutation process information which indicates an increase in the Company's reimbursable losses is provided by the Company or discovered as a result of an examination by the SBA, the SBA may suspend the time frame for the commutation process. After such suspension, the SBA shall determine when it is appropriate to resume the commutation process.

(4) **Advances**

(a) In accordance with Section 215.555(4)(e), Florida Statutes, the SBA may make advances for loss reimbursements as defined herein, at market interest rates, to the Company in accordance with Section 215.555(4)(e), Florida Statutes. An advance is an early reimbursement which allows the Company to continue to pay claims in a timely manner. Advances will be made based on the Company's paid and reported outstanding losses for Covered Policies (excluding all incurred but not reported [IBNR] losses) as reported on a Proof of Loss Report, and shall include Loss Adjustment Expense Reimbursement as calculated by the FHCF. In order to be eligible for an advance, the Company must submit its exposure data for the Contract Year as required under paragraph (1) of this Article. Except as noted below, advances, if approved, will be made as soon as practicable after the SBA receives a written request, signed by two officers of the Company, for an advance of a specific amount and any other information required for the specific type of advance under subparagraphs (c) and (e) below. All reimbursements due to a Company shall be offset against any amount of outstanding advances plus the interest due thereon.

(b) For advances or excess advances, which are advances that are in excess of the amount to which the Company is entitled, the market interest rate shall be the prime rate as published in the Wall Street Journal on the first business day of the Contract Year. This rate will be adjusted annually on the first business day of each subsequent Contract Year, regardless of whether the Company

executes subsequent Contracts. In addition to the prime rate, an additional 5% interest charge will apply on excess advances. All interest charged will commence on the date the SBA issues a check for an advance and will cease on the date upon which the FHCF has received the Company's Proof of Loss Report(s) for the Covered Event(s) for which the Company qualifies for reimbursement(s). If such reimbursement(s) are less than the amount of outstanding advance(s) issued to the Company, interest will continue to accrue on the outstanding balance of the advance(s) until subsequent Proof of Loss Reports qualify the Company for reimbursement under any Covered Event equal to or exceeding the amount of any outstanding advance(s). Interest shall be billed on a periodic basis. If it is determined that the Company received funds in excess of those to which it was entitled, the interest as to those sums will not cease on the date of the receipt of the Proof of Loss Report but will continue until the Company reimburses the FHCF for the overpayment.

(c) If the Company has an outstanding advance balance as of December 31 of this or any other Contract Year, the Company is required to have an actuary certify outstanding and incurred but not reported losses as reported on the applicable December Proof of Loss Report.

(d) The specific type of advances enumerated in the Section 215.555, Florida Statutes, follow.

1. Advances to Companies to prevent insolvency, as defined under Article XIV of this Contract.
   a. Section 215.555(4)(e)1., Florida Statutes, provides that the SBA shall advance to the Company amounts necessary to maintain the solvency of the Company, up to 50 percent of the SBA's estimate of the reimbursement due to the Company.
   b. In addition to the requirements outlined in subparagraph (4)(a) above, the requirements for an advance to a Company to prevent insolvency are that the Company demonstrates it is likely to qualify for reimbursement and that the immediate receipt of moneys from the SBA is likely to prevent the Company from becoming insolvent, and the Company provides the following information:
      i. Current assets;
      ii. Current liabilities other than liabilities due to the Covered Event;
      iii. Current surplus as to policyholders;
      iv. Estimate of other expected liabilities not due to the Covered Event; and
      v. Amount of reinsurance available to pay claims for the Covered Event under other reinsurance treaties.
   c. The SBA's final decision regarding an application for an advance to prevent insolvency shall be based on whether or not, considering the totality of the circumstances, including the SBA's obligations to provide reimbursement for all Covered Events occurring during the Contract Year, granting an advance is essential to allowing the entity to continue to pay additional claims for a Covered Event in a timely manner.
2. Advances to entities created pursuant to Section 627.351(6), Florida Statutes.
   a. Section 215.555(4)(e)2., Florida Statutes, provides that the SBA may advance to an entity created pursuant to Section 627.351(6), Florida Statutes, up to 90% of the lesser of the SBA's estimate of the reimbursement due or the entity's share of the actual aggregate Reimbursement Premium for that Contract Year, multiplied by the current available liquid assets of the FHCF.
   b. In addition to the requirements outlined in subparagraph (4)(a) above, the requirements for an advance to entities created pursuant to Section 627.351(6), Florida Statutes are that the entity must demonstrate to the SBA that the advance is essential to allow the entity to pay claims for a Covered Event.
3. Advances to limited apportionment companies.
   Section 215.555(4)(e)3., Florida Statutes, provides that the SBA may advance the amount of estimated reimbursement payable to limited apportionment companies.

(e) In determining whether or not to grant an advance and the amount of an advance, the SBA:
1. Shall determine whether its assets available for the payment of obligations are sufficient and sufficiently liquid to fulfill its obligations to other Companies prior to granting an advance;
2. Shall review and consider all the information submitted by such Companies;
3. Shall review such Companies' compliance with all requirements of Section 215.555, Florida Statutes;
4. Shall consult with all relevant regulatory agencies to seek all relevant information;
5. Shall review the damage caused by the Covered Event and when that Covered Event occurred;
6. Shall consider whether the Company has substantially exhausted amounts previously advanced; and
7. Shall consider any other factors deemed relevant.
8. Shall require commercial self-insurance funds established under section 624.462, Florida Statutes, to submit a copy of written estimates of expenses in support of the amount of advance requested.

(f) Any amount advanced by the SBA shall be used by the Company only to pay claims of its policyholders for the Covered Event or Covered Events which have precipitated the immediate need to continue to pay additional claims as they become due.

(5) **Delinquent Payments**
Failure to submit a payment when due is a violation of the terms of this Contract and Section 215.555, Florida Statutes. Interest on late payments shall be due as set forth in Article VIII(2) and Article IX(2) of this Contract.

(6) **Inadequate Data Submissions**
If exposure data or other information required to be reported by the Company under the terms of this Contract is not received by the FHCF in the format specified by the FHCF or is inadequate to the extent that the FHCF requires resubmission of data, the Company will be required to pay the FHCF a resubmission fee of $1,000 for resubmissions that are not a result of an examination by the SBA. If a resubmission is necessary as a result of an examination report issued by the SBA, the first resubmission fee will be $2,000. If the Company's examination-required resubmission is inadequate and the SBA requires an additional resubmission(s), the resubmission fee for each subsequent resubmission shall be $2,000. A resubmission of exposure data may delay the processing of the Company's request for reimbursement or an advance.

(7) **Delinquent Submissions**
Failure to submit an exposure submission, resubmission, loss reports, or commutation documentation when due is a violation of the terms of this Contract and Section 215.555, Florida Statutes.

ARTICLE XI - TAXES

In consideration of the terms under which this Contract is issued, the Company agrees to make no deduction in respect of the Premium herein when making premium tax returns to the appropriate authorities. Should any taxes be levied on the Company in respect of the Premium herein, the Company agrees to make no claim upon the SBA for reimbursement in respect of such taxes.

ARTICLE XII - ERRORS AND OMISSIONS

Any inadvertent delay, omission, or error on the part of the SBA shall not be held to relieve the Company from any liability which would attach to it hereunder if such delay, omission, or error had not been made.

ARTICLE XIII - INSPECTION OF RECORDS

The Company shall allow the SBA to inspect, examine, and verify, at reasonable times, all records of the Company relating to the Covered Policies under this Contract, including Company files concerning claims, losses, or legal proceedings regarding subrogation or claims recoveries which involve this Contract, including premium, loss records and reports involving exposure data or losses under Covered Policies. This right by the SBA to inspect, examine, and verify shall survive the completion and closure of an exposure examination or loss examination file and the termination of the Contract. The Company shall have no right to re-open an exposure or loss reimbursement examination once closed and the findings have been accepted by the Company; any re-opening shall be at the sole discretion of the SBA. If the FHCF Finance Corporation has issued revenue bonds and relied upon the exposure and loss data submitted and certified by the Company as accurate to determine the amount of bonding needed, the SBA may choose not to require, or accept, a resubmission if the resubmission will result in additional reimbursements to the Company. The SBA may require any discovered errors, inadvertent omissions, and typographical errors associated with the data reporting of insured values, discovered prior to the closing of the file and acceptance of the examination findings by the Company, to be corrected to reflect the proper values. The Company shall retain its records in accordance with the requirements for records retention regarding exposure reports and claims reports outlined herein, and in any administrative rules adopted pursuant to Section 215.555, Florida Statutes. Companies writing covered collateral protection policies, as defined in definition (10)(d) of Article V herein, must be able to provide documentation that the policy covers personal residences, protects both the borrower's and lender's interest, and that the coverage is in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy.

(1) **Examination Requirements for Exposure Verification**

The Company shall retain complete and accurate records, in policy level detail, of all exposure data submitted to the SBA in any Contract Year until the SBA has completed its examination of the Company's exposure submissions. The Company shall also retain complete and accurate records of any completed exposure examination for any Contract Year in which the Company incurred losses until the completion of the loss reimbursement examination for that Contract Year. The records to be retained shall include the exam file which supports the exposure reported to the SBA and any other information which would allow for a complete examination of the Company's reported exposure data. The exam file shall be prepared according to the SBA Exam File Specifications outlined in the Data Call. The Company must also have available, at the time of the examination, a copy of its underwriting manual, a copy of its rating manual, and staff to respond to the questions of the SBA or its agents. The Company is also required to retain declarations pages and policy applications to support reported exposure. To meet the requirement that the application must be retained, the Company may retain either the actual application or may retain the actual application in an electronic format. A complete list of records to be retained is set forth in Form FHCF-EAP1, adopted for the Contract Year under Rule 19-8.030, F.A.C.

(2) **Examination Requirements for Loss Reports**

The Company shall retain complete and accurate records of all reported losses and/or advances submitted to the SBA until the SBA has completed its examination of the Company's reimbursable losses. The records to be retained are set forth as part of the Proof of Loss Report, Form FHCF-L1B, adopted for the Contract Year under Rule 19-8.029, F.A.C., and Form FHCF-LAP1, adopted for the Contract Year under Rule 19-8.030, F.A.C. The Company must also retain the required exposure exam file for the Contract Year in which the loss occurred, and must have available any other information which would allow for a complete examination of the Company's losses.

(3) **Examination Procedures**

(a) The FHCF will send an examination notice to the Company providing the commencement date of the examination, the site of the examination, any accommodation requirements of the examiner, and the reports and data which must be assembled by the Company and forwarded

to the FHCF upon request. The Company shall be prepared to choose one location in which to be examined, unless otherwise specified by the SBA.

(b) The reports and data are required to be forwarded to the FHCF as set forth in an examination notice letter. The information is then forwarded to the examiner. If the FHCF receives accurate and complete records as requested, the examiner will contact the Company to inform the Company as to what policies or other documentation will be required once the examiner is on site. Any records not required to be provided to the examiner in advance shall be made available at the time the examiner arrives on site. Any records to support reported losses which are provided after the examiner has left the work-site will, at the SBA's discretion, result in an additional examination of exposure and/or loss records or an extension or expansion of the examination already in progress. All costs associated with such additional examination or with the extension or expansion of the original examination shall be borne by the Company.

(c) At the conclusion of the examiner's work and the management review of the examiner's report, findings, recommendations, and work papers, the FHCF will forward a preliminary draft of the examination report to the Company and require a response from the Company by a date certain as to the examination findings and recommendations.

(d) If the Company accepts the examination findings and recommendations, and there is no recommendation for additional information, the examination report will be finalized and the exam file closed.

(e) If the Company disputes the examiner's findings, the areas in dispute will be resolved by a meeting or a conference call between the Company and FHCF management.

(f) 1. If the recommendation of the examiner is to resubmit the Company's exposure data for the Contract Year in question, then the FHCF will send the Company a letter outlining the process for resubmission and including a deadline to resubmit. The resubmission will include a data file to be submitted to the FHCF's Administrator and an exam file to be submitted to the offices of the SBA. The resubmission is also required to be accompanied by a detailed written description of the specific changes made to the resubmitted data. Once the resubmission is received by the FHCF's Administrator, the FHCF's Administrator calculates a revised Reimbursement Premium for the Contract Year which has been examined. The SBA shall then review the resubmission with respect to the examiner's findings, and accept the resubmission or contact the Company with any questions regarding the resubmission. Once the SBA has accepted the resubmission as a sufficient response to the examiner's findings, the FHCF's Administrator will send the Company an invoice for any Reimbursement Premium and interest due or to refund Reimbursement Premium, as the case may be. Once the resubmission has been approved, the exam file is closed.

2. If the recommendation of the examiner is either to resubmit the Company's exposure data for the Contract Year in question or giving the option to pay the estimated Premium difference, then the FHCF will send the Company a letter outlining the process for resubmission or for paying the estimated Premium difference and including a deadline for the resubmission or the payment to be received by the FHCF's Administrator. If the Company chooses to resubmit, the same procedures outlined in Article XIII(3)(f)2. apply.

(g) If the recommendation of the examiner is to update the Company's Proof of Loss Report(s) for the Contract Year under review, the FHCF will send the Company a letter outlining the process for submitting the Proof of Loss Report(s) and including a deadline to file. The updated Proof of Loss Report(s) will be submitted to the FHCF's Administrator with a copy of the Proof of Loss Report(s) and a supporting detailed claims listing to be submitted to the offices of the SBA. The report is required to be accompanied by a detailed written description of the specific changes made. Once the Proof of Loss Report(s) is received by the FHCF Administrator, the FHCF's Administrator will calculate a revised reimbursement. The SBA shall then review the submitted Proof of Loss Report(s) with respect to the examiner's

findings, and accept the Proof of Loss Report(s) as filed or contact the Company with any questions. Once the SBA has accepted the corrected Proof of Loss Report(s) as a sufficient response to the examiner's findings, the FHCF's Administrator will send the Company an invoice for any overpayments and interest due. Once the Proof of Loss Report(s) is approved, the exam file is closed.

(h) If the Company continues to dispute the examiner's findings and/or recommendations and no resolution of the disputed matters is obtained through discussions between the Company and FHCF management, then the process within the SBA is at an end and further administrative remedies may be pursued under Chapter 120, Florida Statutes.

(i) The examiner's list of errors is made available in the examination report sent to the Company. Given that the examination was based on a sample of the Company's policies or claims rather than the whole universe of the Company's Covered Policies or reported claims, the error list is not intended to provide a complete list of errors but is intended to indicate what information needs to be reviewed and corrected throughout the Company's book of Covered Policy business or claims information to ensure more complete and accurate reporting to the FHCF.

(4) **Costs of the Examinations**

The costs of the examinations shall be borne by the SBA. However, in order to remove any incentive for a Company to delay preparations for an examination, the SBA shall be reimbursed by the Company for any examination expenses incurred in addition to the usual and customary costs, which additional expenses were incurred as a result of the Company's failure, despite proper notice, to be prepared for the examination or as a result of a Company's failure to provide requested information. All requested information must be complete and accurate. The Company shall be notified of any administrative remedies which may be obtained under Chapter 120, Florida Statutes.

ARTICLE XIV - INSOLVENCY OF THE COMPANY

Company shall notify the FHCF immediately upon becoming insolvent. Except as otherwise provided below, no covered loss reimbursements will be made until the FHCF has completed and closed its examination of the insolvent Company's losses, unless an agreement is entered into by the court appointed receiver specifying that all data and computer systems required for FHCF exposure and loss examinations will be maintained until completion of the Company's exposure and loss examinations. Except as otherwise provided below, in order to account for potential erroneous reporting, the SBA shall hold back 25% of requested loss reimbursements until the exposure and loss examinations for the Company are completed. Only those losses supported by the examination will be reimbursed. Pursuant to Section 215.555(4)(g), Florida Statutes, the FHCF is required to pay the "net amount of all reimbursement moneys" due an insolvent insurer to the Florida Insurance Guaranty Association (FIGA) for the benefit of Florida policyholders. For the purpose of this Contract, a Company is insolvent when an order of liquidation with a finding of insolvency has been entered by a court of competent jurisdiction. In light of the need for an immediate infusion of funds to enable policyholders of insolvent companies to be paid for their claims, the SBA may enter into agreements with FIGA allowing exposure and loss examinations to take place immediately without the usual notice and response time limitations and allowing the FHCF to make loss reimbursements (net of any amounts payable to the SBA from the Company or FIGA) to FIGA before the examinations are completed and before the response time expires for claims filing by reinsurers and financial institutions, which have a priority interest in those funds pursuant to Section 215.555(4)(g), Florida Statutes. Such agreements must ensure the availability of the necessary records and adequate security must be provided so that if the FHCF determines that it overpaid FIGA on behalf of the Company, or if claims are filed by reinsurers or financial institutions having a priority interest in these funds, that the funds will be repaid to the FHCF by FIGA with in a reasonable time.

ARTICLE XV - TERMINATION

The FHCF and the obligations of both parties under this Contract can be terminated only as may be provided by law or applicable rules.

ARTICLE XVI - VIOLATIONS

Pursuant to the provisions of Section 215.555(10), Florida Statutes, any violation of the terms of this Contract by the Company constitutes a violation of the Insurance Code of the State of the Florida. Pursuant to the provisions of Section 215.555(11), Florida Statutes, the SBA is authorized to take any action necessary to enforce any administrative rules adopted pursuant to Section 215.555, Florida Statutes, and the provisions and requirements of this Contract.

ARTICLE XVII - APPLICABLE LAW

(1) **Applicable Law**: This Contract shall be governed by and construed according to the laws of the State of Florida in respect of any matter relating to or arising out of this Contract.

(2) **Notice of Rights**: Pursuant to Chapter 120, Florida Statutes, and the Uniform Rules of Procedure, codified as Chapters 28-101 through 28-111, F.A.C., a person whose substantial interests are affected by a decision of the SBA regarding the FHCF may request a hearing within 21 days shall have waived his or her right to a hearing. The hearing may be a formal hearing or an informal hearing pursuant to the provisions of Sections 120.569 and 120.57, Florida Statutes. The petition must be filed (received) in the office of the Agency Clerk, General Counsel's Office, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317-3300 or 1801 Hermitage Blvd., Suite 100, Tallahassee, FL 32308, within the 21 day period.

ARTICLE XVIII – REIMBURSEMENT CONTRACT ELECTIONS

Reimbursement Percentage

For purposes of determining reimbursement (if any) due the Company under this Contract and in accordance with the Statute, the Company has the option to elect a 45% or 75% or 90% reimbursement percentage under this Contract. If the Company is a member of an NAIC group, all members must elect the same reimbursement percentage, and the individual executing this Contract on behalf of the Company, by placing his or her initials in the box under (a) below, affirms that the Company has elected the same reimbursement percentage as all members of its NAIC group. If the Company is an entity created pursuant to Section 627.351, Florida Statutes, the Company must elect the 90% reimbursement percentage. The Company shall not be permitted to change its reimbursement percentage during the Contract Year. The Company shall be permitted to change its reimbursement percentage at the beginning of a new Contract Year, but may not reduce its reimbursement percentage if a Covered Event required the issuance of revenue bonds, until the bonds have been fully repaid.

IMPORTANT NOTE: The FHCF has issued revenue bonds as a result of its liabilities for Covered Events under the Contract Year effective June 1, 2005. As those bonds have not been fully repaid, the Company may not select a Reimbursement Percentage that is less than its selection under the prior Contract Year effective June 1, 2009.

The Reimbursement Percentage elected by the Company for the prior Contract Year effective June 1, 2009 was as follows: «Legal_Name» - «M_2009_Coverage_Option»

(a) **NAIC Group Affirmation**: Initial the following box if the Company is part of an NAIC Group:

☐

(b) **Reimbursement Percentage Election**: The Company hereby elects the following Reimbursement Percentage for the Contract Year from 12:00:01 a.m., Eastern Time, June 1, 2009, to 12:00 a.m., Eastern Time, ~~December 31, 2010~~ May 31, 2011, (the individual executing this Contract on behalf of the Company shall place his or her initials in the box to the left of the percentage elected for the Company):

☐ **45%** **OR** ☐ **75%** **OR** ☐ **90%**

Reporting Exposure for a Single Structure, with a Mix of Commercial Habitational and Commercial Non-Habitational Exposure, Written on a Commercial Policy

This section is applicable to all Companies which either have exposure for single structures with a mix of commercial habitational and commercial non-habitational exposure written under a Commercial Policy, or have the authority to write such policies. If the Company does not have the authority to write this type of exposure, this section **does not** apply; initial the **N/A** box on the next page, which completes this ARTICLE. If the Company **does** write, or has the authority to write, this type of exposure, please read and complete the remainder of this ARTICLE.

Commercial-Residential Class Code
If a single structure is used for both habitational and non-habitational purposes and the structure has a commercial-residential class code (based on a classification plan on file with and reviewed by the Administrator), the entire exposure for the structure should be reported to the FHCF under the Data Call, and the FHCF will reimburse losses for the entire structure as well.

Commercial Non-Residential/Business Class Code
If a single structure is used for both habitational and non-habitational purposes and the structure has a commercial non-residential or business class code (based on a classification plan on file with and reviewed by the Administrator), the habitational portion of that structure should be identified and reported to the FHCF under the Data Call.

However, in recognition of the unusual nature of commercial structures with incidental habitational exposure and the hardship some companies may face in having to carve out such incidental habitational exposure, as well as the losses to such structures, the FHCF will accommodate these companies by allowing them to exclude the entire exposure for the single structure from their Data Call submission, providing the following two conditions are met:

(1) The decision to not carve out and report the incidental habitational exposure shall apply to all such structures insured by the Company; and
(2) If the incidental habitational exposure is not reported to the FHCF, the Company agrees it shall not report losses to the structure and the FHCF shall not reimburse any losses to the structure.

Initial the **CARVING** box below if the Company is able to carve out and report its incidental habitational exposure, **OR**, if this requirement presents a hardship, the Company must communicate its decision to not carve out and to not report the incidental exposure by having the individual executing this Contract on behalf of the Company placing his or her initials in the **NOT CARVING** box below. If the Company does not currently write such policies, but has the authority to write such policies after the start date of this Contract, the decision to carve or not carve out the incidental habitational exposure must be indicated below.

	OR		**OR**	
CARVING		**NOT CARVING**		**NA**

By initialing the **CARVING or NOT CARVING** box above, the Company is making an irrevocable decision for the corresponding Contract Year Data Call submission and any subsequent resubmissions.

Important Note: Since this election will impact your Data Call submission, please share this decision with the individual(s) responsible for compiling your Data Call submission.

Additional Living Expense (ALE)Written as Time Element Coverage
If your Company writes Covered Policies that provide ALE coverage on a time element basis (i.e. coverage is based on a specific period of time as opposed to a stated dollar limit), you must initial the 'Yes – Time Element ALE' box below. If your Company does not write time element ALE coverage, initial 'No – Time Element ALE' box below.

	OR	
Yes – Time Element ALE		**No – Time Element ALE**

ARTICLE XIX – SIGNATURES

Approved by:

Florida Hurricane Catastrophe Fund
By: State Board of Administration of the State of Florida

By: _____ _____
Ashbel C. Williams Date
Executive Director

Approved as to legality:

By: _____ _____
Gary Moreland Date
Assistant General Counsel
FL Bar ID#0702765

«Legal_Name»

_____
Typed/Printed Name and Title

By: _____ _____
Signature Date

ATTENTION: THIS ADDENDUM MUST BE COMPLETED, SIGNED, AND RETURNED BY ALL COMPANIES ELIGIBLE FOR COVERAGE UNDER THIS ADDENDUM REGARDLESS OF CHOICE TO ACCEPT OR REJECT THIS OPTIONAL COVERAGE

ADDENDUM NO. 1
to
REIMBURSEMENT CONTRACT
Effective: June 1, 2010
(Contract)

between

«Legal_Name»
«addendum_Last_Line»
(Company)

NAIC # «NAIC»

and

THE STATE BOARD OF ADMINISTRATION OF THE STATE OF FLORIDA (SBA) WHICH ADMINISTERS THE FLORIDA HURRICANE CATASTROPHE FUND (FHCF)

It is Hereby Agreed, effective at 12:00:01 a.m., Eastern Time, June 1, 2010, that this Contract shall be amended as follows:

ADDITIONAL COVERAGE OPTION (up to $10 million) PURSUANT TO SECTION 215.555(4)(b)4., FLORIDA STATUTES.

Pursuant to Section 215.555(4)(b)4., Florida Statutes, certain Companies may select additional FHCF reimbursement coverage of up to $10 million dollars. The additional premium to be charged for this additional reimbursement coverage shall be 50 percent of the additional reimbursement coverage provided, which shall include one prepaid full reinstatement. The additional premium shall be due and payable in three equal installments on August 1, 2010, on October 1, 2010, and on December 1, 2010.

The minimum retention level that must be retained associated with this additional coverage layer is 30 percent of the insurer's surplus as of December 31, 2009, for each Covered Event. For an insurer which began writing property insurance in 2010 and did not have a surplus as of December 31, 2009, surplus shall be deemed to be the surplus reported to the Office of Insurance Regulation at the time the insurer received its Certificate of Authority. This coverage is designed to apply a retention that triggers coverage prior to the insurer reaching its retention under the

mandatory coverage level. The SBA will determine and pay, within 30 days or as soon as practicable after receiving Proof of Loss Reports, the reimbursement amount due under this optional coverage based on losses paid by the Company.

The reimbursement percentage applicable to this additional coverage shall be 100 percent, which includes reimbursement for loss adjustment expense as provided under the Reimbursement Contract. Once the limit of coverage under this option is exhausted, the insurer's retention under the mandatory coverage will apply.

This additional reimbursement coverage shall be in addition to all other coverage provided by the SBA under the Company's Reimbursement Contract and shall be in addition to the claims-paying capacity of the FHCF as defined in Section 215.555(4)(c)1., Florida Statutes, but only with respect to those insurers that select the additional coverage option. Coverage provided in this additional coverage option shall otherwise be consistent with terms and conditions as relates to the Reimbursement Contract including, but not limited to, definitions, coverage for Covered Policies as defined, exclusions, loss reporting, and examination procedures.

While this additional coverage shall not reduce, overlap, or duplicate coverage otherwise provided for in the Reimbursement Contract or offset any co-payments, the amount of coverage selected herein is irrevocable. Any amount of additional coverage selected herein that would in effect overlap FHCF coverage otherwise provided for in the Reimbursement Contract, or any other Addenda to the Reimbursement Contract, shall be deemed by the FHCF to shift above the highest level of coverage otherwise provided by the FHCF.

The claims-paying capacity with respect to all other participating insurers, including eligible Companies that do not select the additional coverage option, shall be limited to their reimbursement premium's proportionate share of the actual claims-paying capacity as defined in Section 215.555(4)(c)1., Florida Statutes and as provided for under the terms of the Reimbursement Contract, plus any coverage provided under any other Addenda to the Reimbursement Contract.

The optional coverage provided in this Addendum expires on ~~December 31, 2010~~ May 31, 2011. To be eligible for this optional coverage, the Company must return a fully executed Addendum No. 1 (two originals) no later than 5 p.m., Central Time, June 1, 2010. A Company failing to meet the applicable deadline shall not be eligible for optional coverage under Addendum No. 1 for the 2010 Contract Year. Furthermore, there shall be no coverage under this Addendum for any Loss Occurrence, as defined in Article V of the Contract and under which the Company would be eligible for reimbursements under the Contract, that occurs prior to the FHCF receiving the fully executed Addendum No. 1 (original copies).

New Participants, as defined in Article V of the Contract, must return a fully executed Addendum No. 1 (two originals) within thirty days of writing its first Covered Policy and prior to a Loss Occurrence under which the company would be eligible for reimbursements under the Contract. A Company failing to meet the applicable deadline shall not be eligible for optional coverage under Addendum No. 1 for the 2010 Contract Year.

ALL COMPANIES EXECUTING A REIMBURSEMENT CONTRACT AND ELIGIBLE FOR THIS ADDITIONAL COVERAGE MUST INDICATE BELOW THE AMOUNT OF ADDITIONAL COVERAGE SELECTED, IF ANY.

If your Company does not wish to purchase the additional coverage under this Addendum, print "No Coverage" on the line below and initial the box.

_____ ☐

If your Company is eligible for the coverage under this Addendum and elects to purchase this coverage, indicate the amount of additional coverage up to $10 million (there is no additional coverage available in excess of $10 million) on the line below:

$_____

IF THIS ADDENDUM NO. 1 IS RETURNED WITHOUT THE BLANK SPACE IMMEDIATELY ABOVE FILLED IN WITH A DOLLAR AMOUNT, IT SHALL BE DEEMED BY THE STATE BOARD OF ADMINISTRATION TO BE A CHOICE TO REJECT THE ADDITIONAL COVERAGE.

_____

«Legal Name»

By: _____ _____

Name/Title Date

Approved by:

Florida Hurricane Catastrophe Fund
By: State Board of Administration of the State of Florida

By: _____ _____

Ashbel C. Williams Date
Executive Director & CIO

Approved as to legality:

By: _____ _____

Gary Moreland Date
Assistant General Counsel
FL Bar ID#0702765

ATTENTION: THIS ADDENDUM MUST BE COMPLETED, SIGNED, AND RETURNED BY ALL COMPANIES EXECUTING A REIMBURSEMENT CONTRACT REGARDLESS OF CHOICE TO ACCEPT OR REJECT THIS OPTIONAL COVERAGE

ADDENDUM NO. 2
to
REIMBURSEMENT CONTRACT
Effective: June 1, 2010
(Contract)

between

«Legal_Name»
«addendum_Last_Line»
(Company)

NAIC # «NAIC»

and

THE STATE BOARD OF ADMINISTRATION OF THE STATE OF FLORIDA (SBA) WHICH ADMINISTERS THE FLORIDA HURRICANE CATASTROPHE FUND (FHCF)

It is Hereby Agreed, effective at 12:00:01 a.m., Eastern Time, June 1, 2010, that this Contract shall be amended as follows:

TEMPORARY INCREASE IN COVERAGE LIMIT OPTIONS FOR ADDITIONAL COVERAGE PURSUANT TO SECTION 215.555(17), FLORIDA STATUTES.

Pursuant to Section 215.555(17), Florida Statutes, the Temporary Increase in Coverage Limit (TICL) Options provision allows the Company to select additional FHCF reimbursement coverage above its mandatory FHCF coverage layer under the Reimbursement Contract. The optional coverage selections provided in this Addendum No. 2 expires on ~~December 31, 2010~~ May 31, 2011. Coverage provided under TICL shall otherwise be consistent with terms and conditions as relates to the Reimbursement Contract including, but not limited to, definitions, coverage for Covered Policies as defined, exclusions, loss reporting, and examination procedures.

To be eligible for this optional coverage, the Company must return a fully executed Addendum No. 2 (two originals) no later than 5 p.m., Central Time, June 1, 2010. New Participants, as defined in Article V of the Contract, must return a fully executed Addendum No. 2 (two originals) within thirty days of writing its first Covered Policy and prior to a Loss Occurrence, as both terms are defined in Article V of the Contract, under which the company would be eligible for reimbursements under the Contract.

Any Company failing to meet the applicable deadline shall not be eligible for optional coverage under Addendum No. 2.

I. TICL Coverage

The Company may purchase one of eight optional coverages above its mandatory FHCF coverage provided for in the FHCF Reimbursement Contract. The TICL options allow the Company to purchase its mandatory FHCF premium share of one of the ten optional layers of coverage. The optional layers of coverage above the mandatory FHCF coverage are $8 billion, $7 billion, $6 billion, $5 billion, $4 billion, $3 billion, $2 billion, or $1 billion.

The purchase of a TICL option increases the Company's coverage under the Reimbursement Contract as calculated pursuant to Section 215.555(4)(d)2., Florida Statutes. The Company's increased coverage shall be the FHCF reimbursement premium multiplied by the TICL multiple. Each TICL coverage multiple shall be calculated by dividing $8 billion, $7 billion, $6 billion, $5 billion, $4 billion, $3 billion, $2 billion, or $1 billion by the aggregate mandatory FHCF premium under the Reimbursement Contract paid by all companies.

In order to determine the Company's total limit of coverage, the Company's TICL coverage multiple is added to its regular Payout Multiple under the Reimbursement Contract. The total of these two multiples shall represent a number that, when multiplied by an insurer's mandatory FHCF reimbursement premium under the Reimbursement Contract, defines the Company's total limit of FHCF reimbursement coverage for the Contract Year under the Reimbursement Contract and Addendum No. 2. The SBA shall reimburse the Company for 45 percent, 75 percent, or 90 percent of its losses from each Covered Event in excess of the Company's FHCF Retention under the Reimbursement Contract, plus 5 percent of the reimbursed losses to cover loss adjustment expense, not to exceed the Company's total limit of coverage as defined above. The percentage shall be the same as the coverage level selected by the Company under its Reimbursement Contract.

II. TICL Premium

The Company's TICL premium shall be determined as specified in Sections 215.555(5) and (17), Florida Statutes, as amended, and shall be due and payable in three installments on August 1, 2010, October 1, 2010, and December 1, 2010.

III. Liability of the FHCF

Pursuant to Section 215.555(17)(g), Florida Statutes, the liability of the FHCF with respect to all TICL addenda shall not exceed $8 billion and shall depend on the number of insurers that select the TICL optional coverage and the TICL coverage options selected. In no circumstance shall the liability of the FHCF exceed its actual claims-paying capacity as defined in Section 215.555(2)(m), Florida Statutes.

The additional TICL capacity shall apply only to the additional coverage provided under the TICL options and shall not otherwise affect any insurer's reimbursement from the FHCF if the insurer chooses not to select a TICL option to increase its limit of FHCF coverage.

IV. Coordination of Coverage

Reimbursement amounts under TICL shall not be reduced by reinsurance paid or payable to the Company from sources other than the FHCF.

The TICL coverage shall be in addition to all other coverage provided by the FHCF under the Company's Reimbursement Contract or other Addenda to the Reimbursement Contract, and shall be in addition to the claims-paying capacity of the FHCF as defined in Section 215.555(4)(c)1., Florida Statutes, but only with respect to those insurers that select the TICL coverage.

The TICL coverage selected is irrevocable and shall not overlap or duplicate coverage otherwise provided for in the Reimbursement Contract, or any Addenda to the Reimbursement Contract, or offset any co-payments or retention amounts.

V. Addendum No. 2 TICL Coverage Election

ALL COMPANIES EXECUTING A REIMBURSEMENT CONTRACT MUST INDICATE BELOW THE LEVEL OF OPTIONAL TICL COVERAGE SELECTED, IF ANY. IF THE COMPANY FAILS TO MEET THE JUNE 1, 2010 DEADLINE OR MEETS THIS DEADLINE BUT FAILS TO SELECT AN OPTIONAL COVERAGE UNDER THIS ADDENDUM, IT SHALL BE DEEMED BY THE STATE BOARD OF ADMINISTRATION TO BE A CHOICE TO REJECT TICL COVERAGE.

If your Company does not want to purchase any TICL coverage, print "No Coverage" on the line below and initial the box.

_____ ☐

By selecting an option below (initial the applicable box), the Company is selecting its proportionate share based on its mandatory FHCF reimbursement premium to the total mandatory FHCF reimbursement premiums paid by all companies of the layer of optional coverage.

Company selects $1 billion TICL Coverage Option	**OR**	**Company selects $2 billion TICL Coverage Option**	**OR**	**Company selects $3 billion TICL Coverage Option**	**OR**	**Company selects $4 billion TICL Coverage Option**	
Company selects $5 billion TICL Coverage Option	**OR**	**Company selects $6 billion TICL Coverage Option**	**OR**	**Company selects $7 billion TICL Coverage Option**	**OR**	**Company selects $8 billion TICL Coverage Option**	

VI. Signatures

_____
«Legal_Name 2»

By: _____ _____
Typed/Printed Name and Title Date

Approved by:

Florida Hurricane Catastrophe Fund
By: State Board of Administration of the State of Florida

By: _____ _____
Ashbel C. Williams Date
Executive Director & CIO

Approved as to legality:

By: _____ _____
Gary Moreland Date
Assistant General Counsel, FL Bar ID#0702765

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

CHARLIE CRIST
GOVERNOR
AS CHAIRMAN

ALEX SINK
CHIEF FINANCIAL OFFICER
AS TREASURER

BILL McCOLLUM
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

June 8, 2010

Honorable Charlie Crist
Honorable Alex Sink
Honorable Bill McCollum

I respectfully submit the FY 2010-11 budget requests for the State Board of Administration (SBA) and related entities, including the Public Employee Optional Retirement Program (PEORP), Florida Hurricane Catastrophe Fund (FHCF), Division of Bond Finance, and the Florida Prepaid College Board. Following this transmittal is a slide-deck for SBA, a brief background on each of the SBA budget entities, and separate presentations for Division of Bond Finance and the Florida Prepaid College Board.

The SBA FY 2010-11 budget request contains resources necessary to continue strengthening the Board's policies, operations and controls, while maintaining a prudent long-term investment focus. Additional resources are requested to improve the compliance program, expand risk management initiatives, and ensure that SBA critical systems infrastructure is current and functioning at peak performance.

The PEORP FY 2010-11 budget request provides resources required to continue support for the Florida Retirement System (FRS) Investment Plan and the MyFRS Financial Guidance Program. The budget is designed to ensure that these programs will be well positioned to meet anticipated increases in FRS Investment Plan membership and greater use of educational resources by almost 700,000 FRS employees, while implementing cost controls adopted during the 2010 Legislative Session to prevent additional burdens on FRS employers.

The Florida Hurricane Catastrophe Fund FY 2010-11 budget request provides resources required to support an increasingly complex workload and responsibilities. This includes efforts to protect and advance the State's interest in maintaining insurance capacity in Florida, while minimizing the State's exposure to loss reimbursement claims to insurance companies and to the FHCF.

The Division of Bond Finance FY 2010-11 budget request will fund costs associated with anticipated bond transactions issued on behalf of state agencies or authorities for various program areas within the state. The budget request is also reflective of improvements in the financial markets and fewer planned bond issues.

The Florida Prepaid College Board approved the FY 2010-11 budget request for the Florida Prepaid College Trust Fund (including the budgets for the Prepaid Plan and the Investment Plan) at its meeting on March 10, 2010, and is submitted to you subject to s. 215.44 (4), Florida Statutes. [Florida Prepaid exercises its powers and duties independent of the SBA except for approval of its budget and approval of certain investment policies.]

Sincerely,

Ashbel C. Williams
Executive Director & CIO

State Board of Administration
FY 2010-11 Proposed Budget

June 8, 2010

SBA FLORIDA
INVESTING FOR FLORIDA'S FUTURE

SBA Proposed Budget FY 2010-2011

In an effort to have no increase to our Salaries and Benefits Budget we are proposing the following:

Will utilize 6.5 vacant positions to fill 6.5 requested new positions

Have not requested Recruitment & Retention Funds

Have not requested FY 2010-2011 Incentive Compensation Payment

Will implement the Legislative proposals regarding employee benefit costs

Will absorb any Leave Liability Expense for Retirements

SBA Proposed Budget

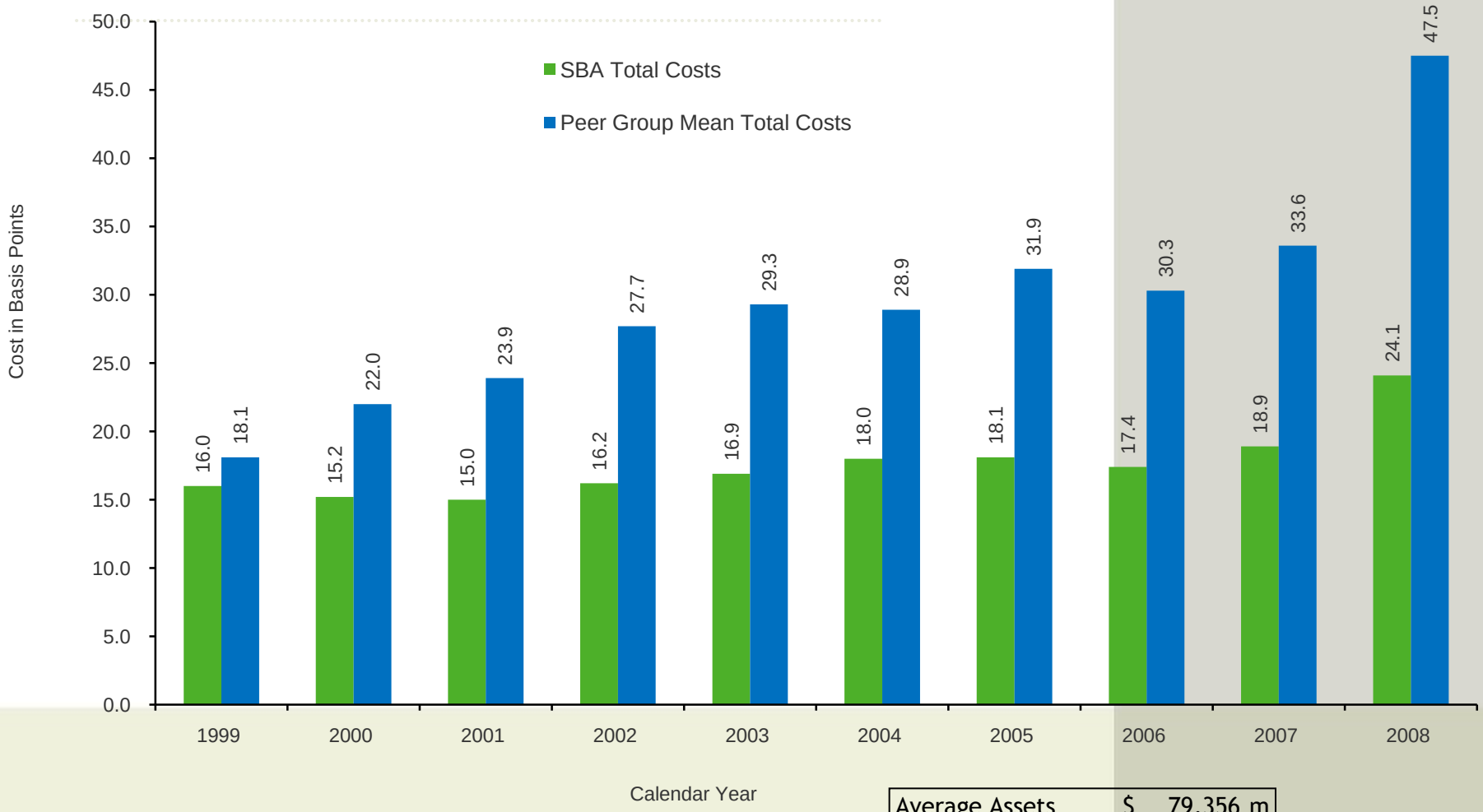
Audit and Compliance related budget issues were funded last fiscal year and additional funding was requested for this year as follows:

	FY 2009-10				FY 2010-11
	Funding Received	Funding Spent		Percent Spent	Funding Requested
Audit Committee/Office of Internal Audit:					
Audit Committee	$235,000	(1)			$435,000
External Systems Audit	$155,000				$155,000
Subtotal	$390,000				$590,000
Disaster Recovery PBX Upgrade	$250,000	$160,000		64.0%	$0
Deloitte & Touche Compliance Review (Phase 3)	$225,000	$98,000	(2)	43.6%	$0
Email Archive Software	$100,000	$20,000		20.0%	$0
New Position - Compliance Mgr. (Salary & Benefits)	$91,500	$87,800		96.0%	$0
Recording Trading/Wire and LGIP Phone Lines	$26,000	$50,400		193.8%	$0
Subtotal	$692,500	$416,200		60.1%	$0

(1) Contract in progress with Ernst & Young

(2) Invoices for travel reimbursement still outstanding

FRS Pension Plan: Cost Relative to Peers



Average Assets	$ 79,356 m
Average SBA Assets	$ 119,908 m
Number of Peers	16

Source: CEM Benchmarking, Inc.

SBA Proposed Budget

- Fees charged for services should be held constant in FY 2010-2011

SBA plans to hold fees constant in FY 2010-2011. To the extent actual operating costs exceed fee revenue, the difference will be charged to the SBA Administrative Trust Fund which has a 4/30/10 balance of $40.0m. Assuming assets under management (AUM) are held at current levels the estimated revenue for FY 2010-2011 will be $22.2m.

SBA Proposed Budget

- **The primary increases in the proposed budget are for the following:**

	Add'l. Funding Requested
– Audit Services for Office of Internal Audit New requirement for external audit of FRS Trust Fund Financial Statements	$200,000
– New Ratings Services and Intex Risk Analytics Programs for Fixed Income &	$164,000
Upgrade to BARRA Risk Model for Foreign Equity Asset Class Replacing current services to adopt the industry best practice risk models, analytic programs and investment tools to consistently and effectively manage internal and external Fixed Income and Foreign Equity portfolios.	$ 77,000
– Major Systems Upgrades: Eagle Star and Pace (Investment Management System): Required upgrade by Support Policy from Release 7.4 implemented in 2006 to Release 10.0	
1) Implementation	$250,000
2) database & applications servers required to support Release 10.0	$270,000
PeopleSoft (HR and Financials Systems) : Required upgrade by Support Policy from 2006 for HR and from 2007 for Financials to version 9.1 available in 2010	
1) Implementation and hardware	$99,000
Note: Major systems upgrades will also enhance ongoing Disaster Recovery efforts.	
– Total Fund Risk Model Allows analysis and evaluation of managed and active risk across the total fund (all asset classes) using a consistent methodology. Would provide a contemporaneous look based on actual current holdings affording us timely risk management.	$400,000
– Training (Previous training related travel resources reallocated to new Training Mgr. for enhanced transparency.)	$114,043
– Bloomberg Terminals (vendor price increases, plus added costs for new Compliance staff.)	$100,760
Total	$1,674,803

SBA Budget Detail By Line Item

(Inclusive of Office of Internal Audit)

Description	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Increase/ (Decrease) %	
Salaries and Benefits				
Salaries	$ 13,195,180.69	$ 13,195,180.69	0.00%	
Recruitment & Retention	$ -	$ -		
Non-Recurring Compensation	$ -	$ -		
Social Security	$ 1,010,420.54	$ 1,010,420.54	0.00%	
Retirement	$ 1,455,622.73	$ 1,455,622.73	0.00%	
Health Insurance	$ 2,080,739.55	$ 2,170,043.64	4.29%	1
Life Insurance	$ 63,319.46	$ 31,659.73	-50.00%	2
Disability Insurance	$ 28,167.73	$ 28,167.73	0.00%	
Dental Insurance	$ 196,659.67	$ 196,659.67	0.00%	
Other Personal Services				
Temporary Employment	$ 226,150.00	$ 199,250.00	-11.89%	
Other Contractual Services	$ 7,361,602.00	$ 8,287,573.33	12.58%	3
Expense				
Repairs and Maintenance	$ 1,036,618.20	$ 1,126,983.00	8.72%	4
Rental of Building	$ 1,495,456.92	$ 1,545,030.26	3.31%	
Rental of Equipment	$ 8,238.00	$ 8,238.00	0.00%	
Travel	$ 717,801.94	$ 515,945.94	-28.12%	5
Training	$ 121,288.40	$ 437,187.83	260.45%	6
Communications	$ 295,650.00	$ 295,650.00	0.00%	
Freight & Postage	$ 78,000.00	$ 78,000.00	0.00%	
Insurance & Surety Bonds	$ 67,259.00	$ 67,259.00	0.00%	
Moving Expense	$ 50,000.00	$ 50,000.00	0.00%	
Office Materials & Supplies	$ 180,095.00	$ 180,095.00	0.00%	
Other Materials & Supplies-EDP	$ 108,400.00	$ 108,400.00	0.00%	
Other Charges & Obligations	$ 225,432.00	$ 225,432.00	0.00%	
Printing	$ 95,600.00	$ 95,600.00	0.00%	
Unemployment Compensation	$ 15,000.00	$ 15,000.00	0.00%	
Other Capital Outlay				
Books =/> $250	$ 500.00	$ 500.00	0.00%	
Office Furniture & Equipment	$ 322,241.28	$ 25,000.00	-92.24%	
Other Capital Outlay - EDP	$ 244,150.00	$ 521,000.00	113.39%	7
TOTALS	**$ 30,679,593.11**	**$ 31,869,899.09**	**3.88%**	

FOOTNOTES:

1. Health Insurance increase reflects reduction for employee portion to be paid plus premium increase.
2. Life Insurance rate has not been determined; however , there will be a rate reduction due to new legislation.
3. Other Contractual Services includes increases for services identified on page 6.
4. Repairs and Maintenance includes increase for IT equipment no longer under warranty.
5. Travel decrease includes additional resources for required due diligence travel driven by asset acquisitions, offset by a new breakout of travel related to required staff training in an effort to be more transparent .
6. Impact of reallocating travel related to training to new Training program for management by the Training Manager.
7. Other Capital Outlay-EDP includes Eagle Star and Pace database and applications servers and PeopleSoft servers required for mandatory upgrades.

Office of Internal Audit Budget Allocation By Category
(for illustration purposes)

Category Description	Fiscal Year 2009-2010	Increase/(Decrease) In Dollars	Fiscal Year 2010-2011	% Inc./ (Dec.)	
Salaries and Benefits	$ 521,568.73	$ 9,818.99	$ 531,387.72	1.88%	1
Other Personal Services	390,000.00	200,000.00	590,000.00	51.28%	2
Expense	20,175.00	0.00	20,175.00	0.00%	3
Other Capital Outlay	500.00	0.00	500.00	0.00%	
TOTALS	**$ 932,243.73**	**$ 209,818.99**	**$ 1,142,062.72**	**22.51%**	

FOOTNOTES:

1. Salaries and Benefits includes increased Health Insurance costs (reduced by employee paid share) and an anticipated reduction in Life Insurance Premiums. The SBA will provide the additional .5 FTE approved by the Audit Committee from existing resources.
2. Additional external audit resources for required FRS financial statement audits. Refer to page 3 and 6.
3. The SBA will provide the additional expense resources over the FY 2009-2010 Budget approved by the Audit Committee from existing resources.

PEORP Budget Detail By Line Item

Description	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Increase/ (Decrease) %	
Salaries and Benefits				
Salaries	$ 614,398.62	$ 614,398.62	0.00%	
Non-Recurring Compensation	$ 27,235.00	$ 27,235.00	0.00%	
Social Security	$ 48,947.57	$ 48,947.57	0.00%	
Retirement	$ 70,255.22	$ 70,255.22	0.00%	
Health Insurance	$ 80,881.29	$ 85,229.28	5.38%	1
Life Insurance	$ 2,881.00	$ 1,440.50	-50.00%	2
Disability Insurance	$ 2,404.33	$ 2,404.33	0.00%	
Dental Insurance	$ 7,469.28	$ 7,469.28	0.00%	
Other Personal Services				
Temporary Employment	$ 20,000.00	$ 20,000.00	0.00%	
Other Contractual Services	$ 11,441,911.32	$ 12,510,743.29	9.34%	3
Expense				
Repairs and Maintenance	$ 220,644.00	$ 220,144.00	-0.23%	
Rental of Building	$ 39,938.66	$ 41,000.00	2.66%	
Rental of Equipment	$ 500.00	$ 500.00	0.00%	
Travel	$ 72,300.00	$ 80,400.00	11.20%	4
Communications	$ 2,500.00	$ -	-100.00%	
Insurance & Surety Bonds	$ 1,000.00	$ 740.00	-26.00%	
Office Materials & Supplies	$ 4,700.00	$ 4,900.00	4.26%	
Other Charges & Obligations	$ 25,000.00	$ 19,130.00	-23.48%	
Printing	$ 19,500.00	$ 21,000.00	7.69%	
Other Capital Outlay				
Office Furniture & Equipment	$ 2,000.00	$ 2,000.00	0.00%	
Other Capital Outlay - EDP	$ 11,000.00	$ 11,000.00	0.00%	
TOTALS	**$ 12,715,466.29**	**$ 13,788,937.09**	**8.44%**	

FOOTNOTES:

1. Health Insurance increase reflects reduction for employee portion to be paid plus premium increase
2. Life Insurance rate has not been determined; however , there will be a rate reduction due to new legislation
3. Other Contractual Services increase includes: $1.17m to implement 2010 legislative changes and transition of portal IT services to a new vendor and $32k for audit required for financial statements.
4. Travel increase includes due diligence required travel for transition of portal IT services to a new vendor.

CAT Fund Budget Detail By Line Item

Description	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Increase/ (Decrease) %	
Salaries and Benefits				
Salaries	$ 760,695.79	$ 925,695.79	21.69%	1
Non-Recurring Compensation	$ 21,543.00	$ 21,543.00	0.00%	
Social Security	$ 57,770.70	$ 68,058.81	17.81%	1
Retirement	$ 88,823.92	$ 103,780.92	16.84%	1
Health Insurance	$ 135,541.91	$ 176,849.04	30.48%	2
Life Insurance	$ 3,539.30	$ 2,080.51	-41.22%	3
Disability Insurance	$ 1,800.99	$ 2,117.42	17.57%	1
Dental Insurance	$ 12,927.04	$ 15,419.52	19.28%	1
Other Personal Services				
Temporary Employment	$ 15,000.00	$ 15,000.00	0.00%	
Other Contractual Services	$ 6,236,965.00	$ 6,090,965.00	-2.34%	
Expense				
Repairs and Maintenance	$ 1,000.00	$ 1,000.00	0.00%	
Rental of Building	$ 76,076.00	$ 77,775.00	2.23%	
Rental of Equipment	$ 1,700.00	$ 1,786.00	5.06%	
Travel	$ 241,500.00	$ 231,500.00	-4.14%	
Insurance & Surety Bonds	$ 1,250.00	$ 1,250.00	0.00%	
Office Materials & Supplies	$ 10,000.00	$ 10,000.00	0.00%	
Other Materials & Supplies-EDP	$ 3,000.00	$ 3,000.00	0.00%	
Other Charges & Obligations	$ 8,200.00	$ 8,700.00	6.10%	
Printing	$ 6,000.00	$ 6,000.00	0.00%	
Other Capital Outlay				
Books =/> $250	$ 500.00	$ 500.00	0.00%	
Office Furniture & Equipment	$ 2,000.00	$ 2,000.00	0.00%	
Other Capital Outlay - EDP	$ 6,000.00	$ 6,000.00	0.00%	
TOTALS	**$ 7,691,833.65**	**$ 7,771,021.01**	**1.03%**	

FOOTNOTES:

1. Salaries and Benefits includes increases for two newly requested positions (Director of Policy & Risk Evaluation-$120k; Risk Evaluation Analyst II-$45k) .
2. Health Insurance increase reflects reduction for employee portion to be paid plus premium increase.
3. Life Insurance rate has not been determined; however , there will be a rate reduction due to new legislation.

SBA BUDGET ENTITY(S) BACKGROUND

State Board of Administration (SBA)

FY 2010-11 Budget Overview

The proposed budget of $31.9 million represents an increase of 3.88% over the FY 2009-10 Budget and includes a 22.51% increase in funding for the Office of Internal Audit, (under the direction of the Audit Committee) for required audits of FRS financial statements and follow-up audits. The SBA budget does not include any new positions or additional resources for salaries, incentive compensation for investment professionals, leave liability resources for retiring staff, or increases to benefits, other than the health and life insurance changes adopted by the 2010 Legislature. Additional resources are requested in Other Personal Services to enhance compliance and risk management functions at the board by upgrading to industry best practice risk analytic programs in Fixed Income, Foreign Equity, and at total fund level. SBA will acquire a Total Fund Risk Model to manage risk across the total fund (all asset classes) based on actual current holdings contingent upon further review of product offerings and peer practices. Mandatory systems upgrades are also required for three primary responsibilities of the SBA, investment, financial, and human resources. The budget includes resources for upgrade implementation services and hardware related to new software releases/versions, plus increased investment research costs for new Compliance staff. The SBA is in the process of developing a new centralized Training Program to ensure that we educate and maintain a highly skilled staff which we are funding by reallocating previous training-related travel resources (i.e., from travel to training).

Authority & Governance

The original State Board of Administration (SBA) was created by statute in 1929 as the fiscal agent for counties and special road and bridge districts for the purpose of paying debt service on their bonds. The SBA was later established as a constitutional body corporate in 1942 by Section 16 of Article IX of the 1885 Constitution of the State of Florida, for the purpose of administering the Second Gas Tax for the benefit of Florida counties and county road bonds. As a result of a constitutional amendment, effective January 2003, the Governor as chairman, the Chief Financial Officer as treasurer, and the Attorney General as secretary serve as the three-member body corporate, collectively known as the Board of Trustees.

The Trustees have statutory authority to invest assets and discharge their duties in accordance with the limitations on investments as outlined in section 215.47, Florida Statutes, and in compliance with certain federal fiduciary standards of loyalty, care and prudence that incorporated into sections 121.4501(15), 215,44(2)(a) and 215.27(10), Florida Statutes. The Trustees establish broad policy guidelines (e.g., Investment Policy Statements) and delegate the daily administrative and investment authority to the SBA Executive Director & Chief Investment Officer, who is held to the same fiduciary standards as the Trustees. There is an Investment Advisory Council (IAC) appointed by the Trustees that provides advice on investment policy and strategy and a Participant Local Government Advisory Council (PLGAC) that provides advice on the administration of Florida Prime (formerly known as the Local Government Investment Pool). There is also an Audit Committee appointed by the Trustees to assist them in fulfilling oversight responsibilities in the areas of financial reporting, internal controls, risk assessment, audit processes, and compliance, plus reviewing internal and external audits. In addition to the oversight of the Trustees and various advisory groups, the SBA is subject to review by the Auditor General of Florida, Office of Program Policy Analysis & Government Accountability, Office of Internal Audit, Office of Inspector General, and the Florida Legislature. The Florida Legislature provides for the operational flexibility required to meet the SBA's specialized responsibilities and fiduciary duties, relative to other public entities. The SBA is not funded by general revenue, has a measurable bottom line and benchmarks against which success and accountability can be assessed.

Primary Purpose

The SBA fulfills a critical role for the State of Florida as a multi-asset class investment management organization investing and safeguarding assets on behalf of trust funds and a variety of state and local government entities. As of March 31, 2010, the SBA manages 26 different investment funds housing the assets of 37 mandates and trusts. A mandate is an investment responsibility established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust agreement with a client. The SBA invests in all major public and private market asset classes, including U.S. and international stocks and

bonds, inflation-protected securities, direct-owned real estate, private equity limited partnerships, and other opportunistic and strategic investments.

Major asset management responsibilities include:

- The FRS Pension Plan trust Fund, one of the world's largest and financially healthiest public pension funds.
- The FRS Investment Plan, a defined contribution 401(k)-like alternative to the FRS Pension Plan (created under the 2000 Public Employee Optional Retirement Program [PEORP] legislation).
- Florida Prime (formerly the Local Government Investment Pool), a money market pool with primary investment objectives, in priority order, of safety, liquidity, ad competitive returns with minimization of risks. All units of local government in Florida may invest their surplus operating funds in Florida Prime.
- The Lawton Chiles Endowment Fund (LCEF) originated from tobacco litigation settlement monies as a perpetual source of enhanced funding for Florida health maintenance and research programs related to tobacco use.
- Investment of the operating funds and other financial resources of the Florida Hurricane Catastrophe Fund and related entities.

Additional responsibilities, that do not directly involve asset management, including:

- Providing retirement planning support to approximately 700,000 active members of the Florida Retirement System through the MyFRS Financial Guidance Program (created under the 2000 PEORP legislation).
- Administering the Florida Hurricane Catastrophe Fund (FHCF) and its associated program, including the FHCF Finance Corporation, and the Insurance Capital Build-up Program.
- Serving as an investment consultant to retirement programs administered by other state agencies including the State of Florida Deferred Compensation Program and State University Optional Retirement Program.
- Administering all debt service funds for bonds issued pursuant to the State Bond Act, as well as serving as trustee and escrow agent for bonds issued by the Division of Bond Finance.
- Providing administrative support for the Division of Bond Finance and the Florida Prepaid College Board Programs.
- Providing administrative support to the Investment Advisory Council, Participant Local Government Advisory Council, and the Office of Internal Audit.

Operational Structure

The Executive Director & Chief Investment Officer manages the day to day operations of the SBA, assisted by 177.5 permanent staff. The SBA staff consists primarily of executive, investment, financial/accounting, operational, and administrative professionals focused on safeguarding and prudently growing the assets of the FRS Pension Plan and other the assets entrusted to us over the long-term. The SBA is committed to providing superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards of care.

Public Employee Optional Retirement Program (PEORP)

FY 2010-11 Budget Overview

The proposed budget of $13.8 million represents an 8% increase over the 2009-10 Budget. This spending plan is supported by more than one year of reserve in the PEORP Administrative Trust Fund. The employer contribution rate for funding the PEORP Administrative Trust Fund is expected to drop from 5 basis points (since July 1, 2005) to 3 basis points effective July 1, 2010 due to legislation adopted during the 2010 Session. Projected revenue from employers will decrease to approximately $8.6 million (assuming a 2% growth in total FRS payrolls) during FY 2010-11 due to the drop in basis points. We expect that $9 million to $10 million of FRS Investment Plan expenses for recordkeeping, asset custody and educational services can be paid out of the Forfeiture Account[1], consistent with SBA policy and IRS requirements[2]. The Forfeiture Account is projected to accumulate approximately $9.0 million to $9.5 million in FY 2010-2011.

The budget provides for maintaining program costs at the prior year's rates, removal of one-time expenditures for special projects, but allows for increasing use of the educational resources, membership growth in the FRS Investment Plan, and more active elections by new hires, as well as a one-time expenditure of $1.17 million to implement changes from the 2010 Legislative Session and possible transition of the portal/IT services to a new vendor. Also, based on the final recommendations of the Deloitte Compliance Program Assessment, we may require future funding for additional FTEs to meet the recommended levels of oversight of Ernst & Young and Hewitt call centers, but before requesting additional positions, we want to explore additional capacity at Ernst & Young and Hewitt.

Authority & Governance

The 2000 Florida Legislature created the Public Employee Optional Retirement Program (FRS Investment Plan or PEORP) within the Florida Retirement System (FRS). The Investment Plan is administered by the Trustees of the State Board of Administration, pursuant to Section 121.4501(8), F.S. The Legislature established the Public Employee Optional Retirement Program Trust Fund in Section 121.4502, F.S. The Investment Plan costs are budgeted and accounted for separately from the SBA Budget.

Primary Purpose

The PEORP serves two primary purposes for the state:

1) The FRS Investment Plan. This is an optional 401(a) defined contribution plan that employees choose in lieu of membership in the FRS Pension Plan (a traditional defined benefit plan). Investment Plan benefits accrue in individual accounts that are participant-directed, portable, and funded by employer contributions and earnings. PEORP is also responsible for processing FRS retirement plan choice enrollments.

2) The MyFRS Financial Guidance Program. These are the educational resources that support employees' choices between retirement plans and provide almost 700,000 employees with the information necessary to make informed decisions about choices within their Plan and in preparation for retirement.

Operational Structure

In its ninth full year of operations (including the initial choice period in FY 2002-2003) the SBA has been responsible for the day-to-day management of the Investment Plan and the MyFRS Financial Guidance Program within the Office of Defined Contribution Programs (ODCP). The SBA Office of Defined Contribution Programs (ODCP) is operationally supported by employer contribution rates adopted each fiscal year by the Florida Legislature. The SBA has partnered with external service providers for the majority of investment plan and financial guidance program functions. Daily oversight and monitoring of external relationships to ensure compliance with contractual obligations, general contract administration, management of programs subject to goals and objectives established by the Trustees, and program compliance with applicable state and federal laws is performed by six full-time employees, including the Sr. Defined Contribution Programs Officer.

[1] Under subsections 121.4501(6), Florida Statutes, balances are forfeited by members who either terminate employment and take a distribution of their vested balance (which in turn forfeits the unvested balance) or terminate employment with an unvested balance and do not return to FRS employment within five years.

[2] The enacting legislation [HB 2393, found at Ch. 2000-169, Laws of Florida] required the SBA to obtain a "favorable determination letter and a favorable private letter ruling from the Internal Revenue Service." The May 4, 2001 private letter ruling requires that the use of forfeited amounts be limited to two purposes: a) Payment of plan administrative expenses; and b) Reduction of future employer contributions to the plan. The Forfeiture Account Policy (#20-1255) states the SBA will, "endeavor to annually expend the proceeds of the Forfeiture Account to pay authorized plan administrative expenses and reduce future employer contributions to the FRS Investment Plan, consistent with applicable federal and state regulation, rule and law."

Florida Hurricane Catastrophe Fund (FHCF)

FY 2010-11 Budget Overview

The proposed budget of $7.77 million represents an increase of 1% over the 2009-10 Budget and includes resources for two additional staff. Proposed cost reductions for external partnerships, and program expenses within the budget offset the increased salary and benefits resource requirements for the additional staff, resulting in a minimal overall budgetary increase. The FY 2010-11 Budget request is less than one percent of the mandatory coverage projected annual premiums of $1.153 billion for the 2010-2011 contract year.

A new "Director of Policy & Risk Evaluation" position at $120,000 is requested to proactively address the issues involving FHCF losses, but will also be responsible for other areas of risk evaluation, policy development, and legal analysis. A "Risk Evaluation Analyst II" position at $45,000 is requested to provide policy and compliance support to the new Director. A rapidly growing, increasing complex workload has presented new challenges within several of the key FHCF program responsibility areas necessitating the need for additional staff: e.g., insurance industry changes and policy complexities have required several modifications to the exposure and loss examination program; intense involvement in all aspects of the legislative process is consuming increasing amounts of time; issuing bonds and other financings (2006, 2008, 2010) and then managing/monitoring for compliance; likely creation of a new audit program for emergency assessment collections to ensure compliance with Florida statutes; compliance monitoring related to growing FHCF investment portfolio and recent revisions to the Investment Policy Guidelines; expanded role and resulting costs of the Florida Commission on Hurricane Loss Projection Methodology; and administering legislative and new reporting requirements for the Insurance Capital Build-up Incentive Program to ensure compliance. Increased staffing will ultimately benefit the FHCF and the State by potentially saving billions of dollars over time through reduced and mitigated loss reimbursement claims to insurance companies and to the FHCF.

Authority and Governance

The Florida Hurricane Catastrophe Fund (FHCF) is a tax exempt trust fund created in November 1993 during a Special Session of the Legislature, in the aftermath of Hurricane Andrew. The FHCF was created in Section 215.555, Florida Statutes with the purpose of improving the availability and affordability of property insurance in Florida by providing reimbursements to insurers for a portion of their catastrophic hurricane losses. Also, included in provisions of Section 215.555, is the creation of a Florida public benefit, not for profit, corporation known as the FHCF Finance Corporation governed by the Board of Directors identified in the Articles of Incorporation. The FHCF is under the direction and control of the State Board of Administration (SBA), guided by the same trustee leadership provided from the Governor, Chief Financial Officer, and Attorney General. A nine member Advisory Council consisting of an actuary, a meteorologist, an engineer, a representative of insurers, a representative of insurance agents, a representative of reinsurers, and three consumers who are representative of other affected professions and industries was established to provide the SBA with information and advice.

Funding for the administration of the FHCF is provided for in s. 215.555(3), Florida Statutes. Financing for the FHCF is obtained from a combination of three sources: 1) reimbursement premiums charged to participating insurers, 2) investment earnings, and 3) emergency assessments (of up to 6% per year and 10% for all years) of 1% are currently being levied against all property and casualty lines of business in the state (policies issued or renewed on or after January 1, 2007), including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2010) medical malpractice premiums. Monies in the fund may not be expended, loaned, or appropriated except to pay obligations of the fund from reimbursement contracts entered into under subsection (4), payment of debt service on revenue bonds issued under subsection (6), costs of the mitigation program under subsection (7), costs of procuring reinsurance, and costs of administration of the fund. The SBA invests the monies of the fund pursuant to ss. 215.44-215.52, Florida Statutes. Earnings from all investments are retained in the fund.

Primary Purpose

The purpose of the FHCF is to protect and advance the State's interest in maintaining insurance capacity in Florida. The FHCF program fulfills a unique and critical role for the state of Florida by serving as a state administered reinsurance program and is mandatory for residential property insurers writing covered policies in the state of Florida. The FHCF supports a public-private partnership with insurer's that preserves the private sector's role as the primary risk bearer. Insurers who write residential property insurance on structures and

contents in Florida are required to enter into a reimbursement contract with the SBA, to report their exposures, to pay premiums, and to report losses by calendar year-end or at other times as required by the SBA.

The FHCF provides very economical coverage for insurers writing residential insurance in the state. The cost of FHCF coverage is significantly less than the cost of private reinsurance due to the FHCF's tax-exempt status, low administrative costs, and lack of a profit or risk-load. In the event of insufficient funds to meet obligations under the reimbursement agreements, the FHCF Finance Corporation has the ability to finance a deficit by the issuance of tax exempt revenue bonds. The fund is obligated to pay losses to participating insurers only to the extent of their actual claims-paying capacity up to a statutory limit for any single contract year.

Operational Structure

The Chief Operating Officer of the Florida Hurricane Catastrophe Fund manages the day-to-day operations of the fund, assisted currently by 10 full-time staff (total of 11 FTE). The small FHCF staff manages substantial program responsibilities through extensive use of external partnerships. Responsibilities include, but are not limited to, proposing legislation; responding to legislative requests; implementing adopted legislation; rulemaking; providing information to participating insurers; conducting insurer training workshops; determining bonding capacity; issuing tax-exempt revenue bonds; collecting emergency assessments pledged to debt service; raising capital in the financial markets to increase claims paying ability; staffing the activities of the FHCF Finance Corporation; preparing financial statements and revenue projections; meeting and coordinating work of the FHCF Advisory Council; staffing the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM and Professional Team) who provide the standards and the review process that is the basis for residential ratemaking in Florida; administering the SBA Insurance Capital Build-up Incentive Program; managing and executing the Exposure and Loss Reimbursement Examination Program; and, coordinating the activities of multiple external service providers.

FY 2010-11 BUDGET PROPOSAL

DIVISION OF BOND FINANCE

Revenue Bond Fee Program

Arbitrage Compliance Program

DIVISION OF BOND FINANCE MISSION STATEMENT

Issue bonds for or on behalf of State agencies and authorities unless law provides otherwise;

Administer the volume cap allocation for private activity bonds;

Provide an arbitrage compliance program for State bond issues;

Provide technical assistance on new financing programs and legislative proposals;

Maintain a system for local government bond issuance reporting; and

Provide coordination for continuing bond disclosure filings.

DIVISION OF BOND FINANCE

AUTHORITY & GOVERNANCE

Statutory authority for the Division of Bond Finance is provided for in the state Constitution (primarily Articles VII and XII, the State Bond Act (s. 215.83, Florida Statutes), the Bond Validation Act (chapter 75, Florida Statutes) and various implementing sections of the Florida Statutes. The Division of Bond Finance (hereafter, the Division) was transferred to the State Board of Administration from the Department of Management Services on July 1, 1992. The Division is organized into three sections that report to a Division Director, who in turn reports to a governing board consisting of the Governor and Cabinet. The three sections are Legal, Bond Programs, and Arbitrage Compliance.

DIVISION RESPONSIBILITIES

The mission of the Division is to provide capital financing on behalf of state agencies and at the option of certain local agencies, typically by issuing tax-exempt bonds. The proceeds of these bonds are used to finance schools, state office buildings, roads, bridges, pollution control facilities, water treatment facilities, and to acquire environmentally sensitive land. Division responsibilities include structuring and conducting bond sales; collecting, maintaining and disseminating information on tax-exempt bonds issued by units of local government; administering the Private Activity Bond Allocation Program as required by federal law; coordinating the continuing annual disclosure of information relating to bonds which it issues; and monitoring tax-exempt securities it issues for compliance with federal arbitrage laws.

GENERAL CHARACTERISTICS

The Division manages the Revenue Bond Fee and Arbitrage Compliance programs with 17 authorized positions (17 FTE), including the Division Director. Fourteen positions are allocated to the Legal and Bond Program functions within the Division, operationally supported by the Revenue Bond Fee Trust Fund. The legal staff performs a wide range of legal services for the Division, and bond program staff performs the financial and analytical services for new and refunding bond issues. Three positions are allocated to the Arbitrage section, operationally supported by the Arbitrage Compliance Trust Fund. The Arbitrage staff is responsible for monitoring bonds issued by the Division for compliance with federal arbitrage regulations in accordance with the 1986 Tax Reform Act.

REVENUE

Revenue for Division programs is derived from fees charged to each state or local agency requesting services related to the sale of bond issues and fees collected in relation to the Arbitrage Compliance Program. Fees are charged in accordance with a schedule of fees adopted by the Division (by resolution) as required by Florida Statutes. Fees are deposited into the Revenue Bond Fee Trust Fund to support Legal and Bond Program operations and the Arbitrage Compliance Trust Fund to support the Arbitrage Program operations.

FY 2010-11 BUDGET SUMMARY

In aggregate, the Division of Bond Finance's budget request of $5.9 million represents a decrease of $1.4 million or 21.1% less than last year's approved budget.

DIVISION OF BOND FINANCE

The budget decrease is attributable to fewer expected transactions; 23 bond issues for FY 2010-11 totaling $1.8 billion, compared with an estimated 30 in the currrent fiscal year. Additionally, a greater portion of the bonds will be sold competitively which have marginally lower transaction costs than negotiated bond sales. Fewer bond issues and lower transaction costs translates to budget reductions for bond rating services, financial advisor fees and expenses, legal expenses, advertising costs, and bond printing expenses.

Division of Bond Finance
Budget Summary Comparison By Category

Category Description	Fiscal Year 2009-10	Increase/(Decrease) In Dollars	Fiscal Year 2010-2011	% Inc./ (Dec.)
Revenue Bond Fee				
Salaries and Benefits	$ 1,735,267.34	$ 7,644.00	$ 1,742,911.34	0.44%
Other Personal Services	3,668,845.00	($1,340,400.00)	2,328,445.00	-36.53%
Expense	513,166.84	($29,664.58)	483,502.26	-5.78%
Capital Outlay	26,800.00	0.00	26,800.00	0.00%
Subtotal	**$ 5,944,079.18**	**$ (1,362,420.58)**	**$ 4,581,658.60**	**-22.92%**
Arbitrage Compliance				
Salaries and Benefits	$ 312,376.85	$1,797.78	$ 314,174.63	0.58%
Other Personal Services	160,000.00	0.00	160,000.00	0.00%
Expense	26,435.54	299.68	26,735.22	1.13%
Capital Outlay	7,000.00	0.00	7,000.00	0.00%
Subtotal	**$ 505,812.39**	**$ 2,097.46**	**$ 507,909.85**	**0.41%**
TOTAL	**$ 6,449,891.57**	**$ (1,360,323.12)**	**$ 5,089,568.45**	**-21.09%**

REVENUE BOND FEE PROGRAM BUDGET

The Revenue Bond Fee budget request of $4.6 million represents a decrease of $1.4 million (23%) less than last fiscal year.

Consistent with the SBA, the benefits budget includes changes adopted during the 2010 Legislative Session for health and life insurance. Health insurance premiums will increase, partially offset by the portion to be paid by employees. New rates for life insurance have not been officially disclosed, but we anticipate a reduction due to the decrease in coverage. No new positions are requested and no changes to the salary budget are proposed.

The Other Personal Services budget category decreased significantly overall, by $1.34 million (36.53%). This reduction results from various factors including fewer anticipated bond issues, and marginally lower transaction costs associated with competitive bond sales versus negotiated bond sales.

The Expense category decreased overall by 6% ($29,700). Modest increases are requested for building rent in accordance with annual contract escalations, higher communications costs, and price increases for required legal books. A significant reduction in anticipated printing costs is directly attributed to fewer bond issues planned during FY 2010-11.

No changes are recommended within the Other Capital Outlay category.

ARBITRAGE COMPLIANCE PROGRAM BUDGET

The Arbitrage Compliance budget request of $507,910 represents a slight increase of 0.41% ($2,100) over last fiscal year.

The Salary and Benefits budget category increased by 0.58% ($1,798) as a result of Legislative actions adopted during the 2010 Session for health and life insurance. Health insurance premiums will increase, partially offset by the portion to be paid by employees. New rates for life insurance have not been officially disclosed, but we anticipate a reduction due to the decrease in coverage. No new positions are requested and no changes to the salary budget are proposed.

There are no changes recommended in the Other Personal Services category or the Other Capital Outlay category for FY 2011.

The Expense category increased slightly, by 1.13% ($300) due to the annual cost escalation of building rent.

Division of Bond Finance
Budget Detail By Line Item

Description	Fiscal Year 2009-10	Fiscal Year 2010-11	% Inc./ (Dec.)
Revenue Bond Fee			
Salaries and Benefits			
Salaries	$ 1,282,607.70	$ 1,282,607.70	0.00%
Non-Recurring Compensation	8,500.00	8,500.00	0.00%
Social Security	98,088.54	98,088.54	0.00%
Retirement	141,529.03	141,529.03	0.00%
Health Insurance	178,217.92	188,869.08	5.98%
Life Insurance	6,014.33	3,007.17	-50.00%
Disability Insurance	2,982.30	2,982.30	0.00%
Dental Insurance	17,327.52	17,327.52	0.00%
Other Personal Services			
Temporary Employment	72,200.00	72,200.00	0.00%
OCS-Accounting/Auditing	16,000.00	16,000.00	0.00%
OCS-Bond Rating Services	1,996,000.00	1,358,000.00	-31.96%
OCS-Financial Advisory Svs/Fiscal Sufficiency	449,100.00	120,100.00	-73.26%
OCS-Data Procesisng/Software < $1,000	5,500.00	7,150.00	30.00%
OCS-Legal Bond Counsel Services	591,625.00	429,975.00	-27.32%
OCS-Advertising/Notices of Sale	448,420.00	235,020.00	-47.59%
SBA Administrative Fee	90,000.00	90,000.00	0.00%
Expense			
Repairs & Maintenance	7,800.00	7,800.00	0.00%
Rental of Building	153,108.06	156,528.48	2.23%
Rental of Equipment	5,532.28	5,532.28	0.00%
Travel	61,000.00	61,000.00	0.00%
Communications	45,200.00	48,960.00	8.32%
Freight & Postage	31,200.00	31,200.00	0.00%
Insurance & Surety Bonds	3,000.00	3,000.00	0.00%
Office Materials & Supplies	8,750.00	8,750.00	0.00%
Office Materials-Books (Legal)	18,657.50	20,157.50	8.04%
Other Supp-Comp. Equip <$1,000	1,500.00	1,500.00	0.00%
Other Charges & Obligations	8,119.00	8,174.00	0.68%
Printing	169,300.00	130,900.00	-22.68%
Other Capital Outlay			
OCO-Books =/> $250	1,000.00	1,000.00	0.00%
Office Furniture & Equipment	5,000.00	5,000.00	0.00%
Other Capital Outlay - EDP	20,800.00	20,800.00	0.00%
Subtotal	**$ 5,944,079.18**	**$ 4,581,658.60**	**-22.92%**

Division of Bond Finance
Budget Detail By Line Item
(Continued)

Description	Fiscal Year 2009-10	Fiscal Year 2010-11	% Inc./ (Dec.)
Arbitrage Compliance			
Salaries and Benefits			
Salaries	$ 226,427.04	$ 226,427.04	0.00%
Non-Recurring Compensation	0.00	0.00	0.00%
Social Security	18,146.51	18,146.51	0.00%
Retirement	23,365.11	23,365.11	0.00%
Health Insurance	38,940.64	41,269.29	5.98%
Life Insurance	1,061.75	530.88	-50.00%
Disability Insurance	701.16	701.16	0.00%
Dental Insurance	3,734.64	3,734.64	0.00%
Other Personal Services			
OCS-Accounting /Auditing Services	120,000.00	120,000.00	0.00%
OCS-Legal Bond Counsel Services	30,000.00	30,000.00	0.00%
SBA Administrative Fee	10,000.00	10,000.00	0.00%
Expense			
Repairs & Maintenance	700.00	700.00	0.00%
Rental of Building	13,206.54	13,506.22	2.27%
Travel	6,000.00	6,000.00	0.00%
Communications	2,929.00	2,929.00	0.00%
Freight & Postage	1,000.00	1,000.00	0.00%
Office Materials & Supplies	1,500.00	1,500.00	0.00%
Office Materials-Books (Legal)	300.00	300.00	0.00%
Other Sup-Comp. Equip. <$1,000	500.00	500.00	0.00%
Printing	300.00	300.00	0.00%
Other Capital Outlay			
OCO-Books =/> $250	500.00	500.00	0.00%
Office Furniture & Equipment	1,500.00	1,500.00	0.00%
Other Capital Outlay - EDP	5,000.00	5,000.00	0.00%
Subtotal	**$ 505,812.39**	**$ 507,909.85**	**0.41%**
TOTAL	**$ 6,449,891.57**	**$ 5,089,568.45**	**-21.09%**

DIVISION OF
BOND FINANCE

FY 2010-11
BUDGET PROPOSAL

1801 Hermitage Boulevard, Suite 100 • Tallahassee, Florida 32308
(850) 488-4406 • www.sbafla.com

FY 2010-11 BUDGET PROPOSAL

FLORIDA PREPAID COLLEGE BOARD

Florida Prepaid College Plan

Florida College Investment Plan

FLORIDA PREPAID COLLEGE BOARD MISSION STATEMENT

The Florida Prepaid College Board is committed to helping Floridians save for future qualified higher education expenses by providing a cost-effective, financially sound Prepaid College Plan and other college savings programs.

THE STANLEY G. TATE FLORIDA PREPAID COLLEGE PROGRAM

Stanley G. Tate was instrumental in the early development of the Florida Prepaid College Board and served tirelessly as Chairman of the Board during the program's first 18 years, from 1987 to 2005. In recognition of Mr. Tate's service, Governor Jeb Bush signed into law House Bill 263 renaming the program after Mr. Tate.

AUTHORITY & GOVERNANCE

The Florida Prepaid College Board (the "Board") is a constitutional corporate body assigned to and administratively housed within the State Board of Administration (SBA), independently exercising the powers and duties specified in ss. 1009.97-1009.984, Florida Statutes. The Board consists of seven members composed of the Attorney General, the Chief Financial Officer, the Chancellor of the Board of Governors, the Chancellor of the Division of Florida Colleges, or their designees, and three members appointed by the Governor, subject to confirmation by the Senate. The Board was created pursuant to Chapter 1009.971(1), Florida Statutes to administer the Stanley G. Tate Florida Prepaid College Program (the "Prepaid Plan") and the Florida College Savings Program (the "Investment Plan").

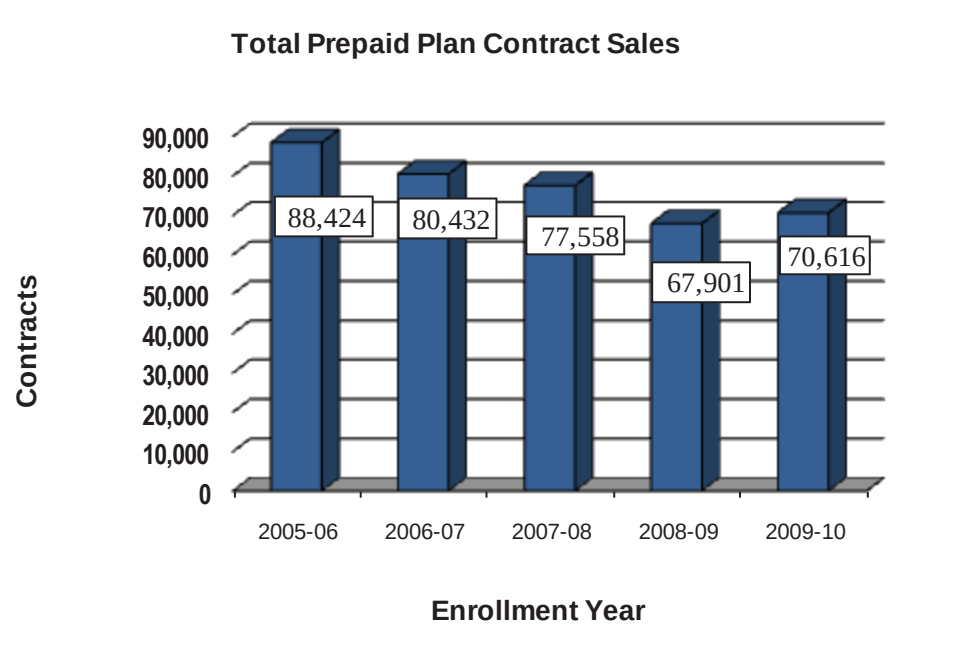
The legislation that created the Prepaid Plan was passed in 1987 and the plan was implemented in fall 1988. Effective July 1, 2006, the statutory name of the Prepaid Plan was changed to the Stanley G. Tate Florida Prepaid College Program. The Prepaid Plan was created to provide a medium through which the cost of a state postsecondary education may be paid in advance of enrollment at a rate lower than the projected corresponding cost at the time of actual enrollment. The Prepaid Plan is authorized by Chapter 1009.98, Florida Statutes, and is governed by Board Rules.

The legislation that created the Investment Plan was passed in 2000 and the plan was implemented in fall 2002. The Investment Plan was created to provide a vehicle whereby participants can save for qualified educational expenses. The Investment Plan is authorized by Chapter 1009.981, Florida Statutes, and is also governed by Board Rules.

BOARD PROGRAMS

The Board appoints an Executive Director who oversees day-to-day operations of the Board and its programs. The Prepaid Plan provides families with a safe, affordable way to save for college for their children. Financially guaranteed by the State of Florida, the Prepaid Plan allows families to lock in the cost of college tuition, tuition differential fee, local fees and dormitory housing at a Florida college at current plan prices and the program pays the actual costs when the child enrolls in college. The Prepaid Plan remains the largest, most successful program of its kind in the country. Since inception in 1987, 1.437 million plans have been purchased statewide for nearly 956,000 children.

The Investment Plan introduced in 2002 has given families the flexibility to choose from five customized investment options. Families are able to decide how much and how often they want to save for college. The Investment Plan is not guaranteed like the Prepaid Plan but it can be used for any qualified college expense including tuition, fees, housing, books, food and even graduate or professional school, in Florida or out of state. The Investment Plan has 30,847 active accounts as of April 25, 2010.



BOARD RESPONSIBILITIES

The Board establishes policy and actively oversees the investment and financial performance of the programs. There are currently 14 positions (FTE) authorized by the Board, including the Executive Director. The Board contracts with various private firms to provide for financial services, investment management services, advertising, and records administration services.

REVENUE

The Board is self-supporting and financially strong. The Board had $8.7 billion in assets in the Florida Prepaid College Trust Fund and an actuarial reserve of $422 million at the close of the 2008-2009 fiscal year (June 30, 2009). As of the calendar year-end December 31, 2009, the Board has averaged an 8.71% annualized return on its Prepaid Plan investments, since inception. As of April 25, 2010 the Investment Plan had $200 million in invested assets.

FY 2010-11 BUDGET APPROVAL

The Florida Prepaid College Board approved the budget request for the Florida Prepaid College Trust Fund (including the budgets for the Prepaid Plan and the Investment Plan) at its meeting on March 10, 2010. Approved minutes of the March 10, 2010 meeting will be available after the next Board meeting scheduled for June 9, 2010.

FY 2010-11 BUDGET SUMMARY

The Board's total budget request of $17.0 million represents a decrease of $4.9 million which is a 22.5% decrease from last year's approved budget. The Board's budget includes provisions for administering both the Prepaid Plan and the Investment Plan. In accordance with common industry practices of netting investment management fees from investment performance, effective July 1, 2010, the proposed budget excludes the fixed income and equity investment managment fees from the budget due to the deduction of investment management fees directly from the market value of the portfolio on a quarterly basis. The exclusion of the fixed income and equity investment managment fees represents a decrease of $5,005,175, which is a 22.9% reduction from last year's Other Personal Services budget. Excluding the deduction for fixed income and equity investment managment fees, the proposed budget represents an increase of $80,372, which is a 0.37% increase over last year's approved budget. Approximately 90.1% of the combined budget total request is dedicated to external service providers (Other Personal Services) and the remaining 9.9% is comprised of Salary and Benefits (8%) for 14 full-time employees, Expenses (1.6%) for general program overhead costs, and Capital Outlay (0.3%) for normal office equipment replacement items.

SALARY & BENEFITS

Consistent with the SBA, the benefits budget includes changes adopted during the 2010 Legislative Session for health and life insurance. Health insurance premiums will increase, offset by the applicable amounts to be paid by employees. New rates for life insurance have not been officially disclosed, but we anticipate a reduction due to the decrease in coverage. No changes were proposed or adopted by the Board for the salary budget.

OTHER PERSONAL SERVICES

This major expense category includes the annual cost of each contract for services that the Board has previously approved and executed. Each contract includes a negotiated fixed price; however, budget increases or decreases are necessary for those contracts that are activity driven. For example, as the total number of prepaid plan contracts increase, the fee for records administraiton will also increase. Contracts that are not activity driven (i.e., legal services, investment consultant services, actuarial services, financial audit services) only increase or decrease with proposed changes in the scope of services or by cost of living adjustments as provided for in the contract.

For FY 2010-11 the Other Personal Services budget category has been reduced by $4.9 million (24.38%). The budget includes a modest contractual fixed cost increase for actuarial services (1.5%), and an anticipated increase in Prepaid Plan contract sales resulting in additional workload and costs for records administration services (1.3%). Cost increases are offset by reductions for trustee services, fixed income management fees, and equity investment management expenses. Effective July 1, 2010, the fixed income and equity investment management fees will be deducted directly from the market values of the Trust Fund, as is the customary industry practice.

EXPENSE AND CAPITAL OUTLAY

There are no proposed budgetary changes in any of the other expense or capital outlay line items.

Florida Prepaid College Board
Budget Summary Comparison By Category

Category Description	Fiscal Year 2009-10	Increase/(Decrease) In Dollars	Fiscal Year 2010-11	% Inc./ (Dec.)
Salaries and Benefits	$ 1,362,240.70	$4,622.44	1,366,863.14	0.34%
Other Personal Services	20,216,157.00	(4,929,425.00)	15,286,732.00	-24.38%
Expense	262,861.00	0.00	262,861.00	0.00%
Other Capital Outlay	48,100.00	0.00	48,100.00	0.00%
TOTAL	$ 21,889,358.70	$ (4,924,802.56)	$ 16,964,556.14	-22.50%

Note: In accordance with common industry practices, the fixed income and equity investment management fees within the Other Personal Services category totaling $5,005,175 have been excluded from the FY 2010-11 budget request.

Florida Prepaid College Board
Budget Detail By Line Item

Description	Fiscal Year 2009-10	Fiscal Year 2010-11	% Inc./ (Dec.)
Salaries and Benefits			
Salaries	$ 953,045.06	$ 953,045.06	0.00%
Non-Recurring Compensation	46,558.52	46,558.52	0.00%
Social Security	76,364.14	76,364.14	0.00%
Retirement	104,342.34	104,342.34	0.00%
Health Insurance	160,526.92	167,410.56	4.29%
Life Insurance	4,522.41	2,261.21	-50.00%
Disability Insurance	1,754.25	1,754.25	0.00%
Dental Insurance	15,127.06	15,127.06	0.00%
Other Personal Services			
Temporary Employment	36,000.00	36,000.00	0.00%
Other Contractual Services	19,980,157.00	15,050,732.00	-24.67%
SBA Administrative Fee	200,000.00	200,000.00	0.00%
Expense			
Repairs & Maintenance	5,000.00	5,000.00	0.00%
Rental of Building	79,500.00	79,500.00	0.00%
Rental of Equipment	5,250.00	5,250.00	0.00%
Travel	30,740.00	30,740.00	0.00%
Communications	73,500.00	73,500.00	0.00%
Freight & Postage	4,705.00	4,705.00	0.00%
Insurance & Surety Bonds	3,000.00	3,000.00	0.00%
Office Materials & Supplies	10,666.00	10,666.00	0.00%
Other Charges & Obligations	10,000.00	10,000.00	0.00%
Printing	40,500.00	40,500.00	0.00%
Other Capital Outlay			
Books =/> $250	0.00	0.00	0.00%
Office Furniture & Equipment	48,100.00	48,100.00	0.00%
Other Capital Outlay - EDP	0.00	0.00	0.00%
TOTAL	**$ 21,889,358.70**	**$ 16,964,556.14**	**-22.50%**

Note: In accordance with common industry practices, the fixed income and equity investment management fees within the Other Personal Services budget totaling $5,005,175 have been excluded from the FY 2010-11 budget request.

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FY 2010-11
BUDGET PROPOSAL

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