State Board of Administration
Local Government Surplus Funds Trust Fund Investment Pool
STATEMENT OF NET ASSETS
September 30, 2004
(in thousands)
(UNAUDITED)

ASSETS		
Investments:		
Certificates of deposit	$	2,574,766
Commercial paper		4,547,709
Federal agencies		2,867,371
Bonds and notes		3,931,544
U.S. obligations		1,200,751
Lending collateral investments		4,096,929
Cash and cash equivalents		1,058
Receivables		37,433
Undistributed expenses		46
TOTAL ASSETS		19,257,607
LIABILITIES & NET ASSETS		
Accounts payable and accrued liabilities		11,490
Distributions payable		730
Obligations under securities lending agreements		4,098,108
Due to local governments		9,477
TOTAL LIABILITIES		4,119,805
NET ASSETS HELD IN TRUST FOR PARTICIPANTS	$	15,137,802

The accompanying notes to the financial statements are an integral part of this statement.

State Board of Administration
Local Government Surplus Funds Trust Fund Investment Pool
STATEMENT OF CHANGES IN NET ASSETS
For the Fiscal Year Ended September 30, 2004
(in thousands)
(UNAUDITED)

OPERATIONS	
Income from investing activity:	
Investment income	$ 241,668
Bank fees	(391)
Administrative expense	(3,098)
Net income from investing activity	238,179
From securities lending activities:	
Securities lending income	75,907
Securities lending expense	(66,093)
Net income from securities lending	9,814
NET INCREASE RESULTING FROM OPERATIONS	247,993
DISTRIBUTIONS PAID AND PAYABLE	(249,129)
SHARE TRANSACTIONS	
Investment contributions	43,039,238
Investment withdrawals	(43,957,523)
NET INCREASE RESULTING FROM SHARE TRANSACTIONS	(918,285)
TOTAL INCREASE IN NET ASSETS	(919,421)
NET ASSETS HELD IN TRUST FOR PARTICIPANTS:	
Net assets, October 1	16,057,223
NET ASSETS, SEPTEMBER 30	$ 15,137,802

The accompanying notes to the financial statements are an integral part of this statement.

State Board of Administration
Local Government Surplus Funds Trust Fund Investment Pool
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2004
(UNAUDITED)

1. Summary of Significant Accounting Policies

The following summary of the Local Government Surplus Funds Trust Fund Investment Pool's 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 (Board) was established on June 21, 1928, pursuant to Chapter 14486, 1929, Laws of Florida. The Board was subsequently created as a constitutional body corporate on January 1, 1943, under the provisions of Senate Joint Resolution No. 324, 1941; approved by the electorate in November 1942. The Board is composed of the Governor, as Chairman, the State Chief Financial Officer, as Treasurer, and the State Attorney General, as Secretary, and has as its major investment responsibilities: the Florida Retirement System, the Local Government Surplus Funds Trust Fund, the debt service accounts for State bonds, the Florida Hurricane Catastrophe Trust Fund, the Lawton Chiles Endowment Fund, and managing the assets of various other Trust Funds.

The Board is defined as a special-purpose unit of the State of Florida based on the criteria identified and described in GASB Statement Number 14. The definition of a special-purpose government is a government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

These financial statements reflect only the transactions and balances for the Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool). For additional information on the LGSF Pool, please contact Robert Copeland, Senior Operating Officer, Finance & Accounting, at the State Board of Administration.

The Local Government Surplus Funds Trust Fund was created by Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, F.S.). The law allowed the Board 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.

All units of Local Government that qualified to be participants in the Local Government Surplus Funds Trust Fund after January 1, 1982 had surplus funds deposited into the Pooled Investment Account. Rules 19-7.001 through 19-7.017 have been developed for the Local Government Pooled Investment Account pursuant to Section 218.409, F.S.

B. Regulatory Oversight

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration.

The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7-like fund.

1. Summary of Significant Accounting Policies (continued)

C. Basis of Presentation

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

D. Fund Accounting

The LGSF Pool reports on its financial position and the results of operations using funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording assets, liabilities, fund equity, revenues, either expenditures or expenses depending on the fund type, and other financing sources and uses. The LGSF Pool is reported as an investment trust fund in the financial statements.

Investment trust funds, a fiduciary fund type, are used to account for assets held in a trustee capacity, and the primary purpose of the funds is investment for the purposes of generating additional financial resources.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses, transfers 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 full accrual basis of accounting. Revenues are recognized when earned. Expenses are recognized when incurred.

F. Deposits and Investments

Consistent with GAAP, the LGSF Pool reports as "Cash" all cash on hand and on deposit in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit. All cash deposits are held by banks as required under Florida law. See Note Two for further detailed information.

The LGSF Pool's investments are recorded at amortized cost, consistent with GASB Statement Number 31. The securities lending cash collateral investments are recorded at fair value, since SEC Rule 2a-7 does not impose the same maturity limitations and other constraints for collateral investments. The fair value of commercial paper is estimated at amortized cost since quoted prices are not available.

G. Method used to determine participants' shares sold and redeemed

In accordance with the regulations of 2a7-like pools, the method used to determine the participants' shares sold and redeemed is the amortized cost method. 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. Accrued income, based on the par value of interest bearing investments, is also included in an investment's value.

1. Summary of Significant Accounting Policies (continued)

H. Legally binding guarantees

The Board has not provided or obtained any legally binding guarantees during the fiscal year ended September 30, 2004 for the LGSF Pool.

I. Involuntary Participation

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

J. Frequency of determining fair value of shares

The fair value of the investments of the LGSF Pool is determined on a monthly 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 .5%. As of September 30, 2004, the ratio of fair value divided by amortized cost was 99.92%.

2. Deposits and Investments

A. Deposits

At September 30, 2004, the carrying amount of deposits totaled $1,058,436. All deposits were held in one of the financial institutions utilized by the Board. Chapter 280, Florida Statutes, generally requires public funds to be deposited in a bank or savings association designated by the State Chief Financial Officer as authorized to receive deposits in the State and meeting the collateral requirements. Collateral in the amount of the greater of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125 percent of the average daily balance of public deposits greater than capital, is required to be deposited with the State Chief Financial Officer. Collateral may be held by another custodian with approval of the Chief Financial Officer if conditions are met which protect the State's interests. The amount of collateral may be increased to 125 percent of the average daily balance of public deposits if specified conditions exist. Eligible collateral includes federal, federally-guaranteed, state and local government obligations and corporate bonds.

Statutes provide that if a loss to public depositors is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other qualified public depositories of the same type as the depository in default.

The deposit balances reported by the LGSF Pool's banks totaled $1,058,436. Of this amount, $58,436 was covered by Federal insurance or the collateral pool described above and $1,000,000 was uncollateralized.

2. Deposits and Investments (continued)

B. Investments

1. Investment Authority

The Board has the authority to administer and invest the funds of the Local Government Surplus Funds Trust Fund in accordance with Chapter 218, Part IV, F.S. The statute states the Board shall invest the monies in the trust fund in the same manner and subject to the same restrictions as are set forth in Chapter 215.47, F.S., which identifies all authorized securities.

Florida Statute 215.47 includes a wide range of instruments including, but not limited to, federally-guaranteed obligations, certain state bonds, corporate bonds, commercial paper, bankers acceptances, federal agencies, short-term obligations purchased individually or in pooled accounts, interests in certain open-end or closed-end management type investment companies or investment trusts, common and preferred stock, repurchase and reverse repurchase agreements, real estate, futures contracts, option contracts and domestic or foreign notional principal contracts. While Florida Statute 215.47 includes a broad range of instruments to enable the Board to administer its varied investment responsibilities, the investments for the LGSF Pool will only consist of short-term high quality instruments.

The objective of the internally managed LGSF Pool portfolio is to pool investment funds of local government participants in an investment portfolio of money market instruments that provides liquidity while preserving capital. 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). The portfolio is designed to accommodate the liquidity needs of the participants. The pertinent investment constraints contained in 2a-7 include the following:

Weighted average portfolio maturity limited to 90 days
Maximum maturity for government and agency securities limited to 762 days
Money market instruments limited to maximum maturity of 397 days
Credit ratings must be "first tier"
Diversification provided by limiting single issuer to 5% of total assets
Market value must remain within plus or minus ½ of 1% of amortized cost

The Board has set up a five member Investment Oversight Committee, which consists of the Senior Investment Officer-Fixed Income, the Portfolio Manager (Compliance)-Fixed Income, the Director of Short Term Investments & Operations-Fixed Income, the Board's Inspector General, and the Board's Chief Investment Officer (joined the Committee July 1, 2003). Effective July 1, 2003, the Board's Inspector General replaced the Board's Chief of Internal Audit as the fourth member and the Board's Chief Investment Officer became the fifth member of the oversight committee. In addition, procedures have been established to review the compliance of the LGSF Pool investments with each of the investment constraints. In the event that an investment fails to meet the compliance standards, or if the market value deviation from amortized cost exceeds ½ of 1% of total amortized cost of LGSF Pool investments, the Investment Policy Guidelines state that the Investment Oversight Committee will promptly consider what action, if any, shall be initiated by the Portfolio Manager to bring the investment(s) back into compliance.

2. Derivatives

GASB Technical Bulletin 2003-1 is effective for periods ending after June 15, 2003; and supersedes GASB Technical Bulletin 1994-1. GASB TB 2003-1 states that the derivative definition from FASB Statement 133,

2. Deposits and Investments (continued)

paragraph 6, as amended, should be used. The basic definition of a derivative is as follows:

A derivative instrument is a financial instrument or other contract with all three of the following characteristics:

a) It has (1) one or more underlyings and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.

b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c) Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Under GASB TB 1994-1, derivatives were generally defined as a contract whose value was dependent on, or derived from, the value of an underlying asset, reference rate or index.

While the Board has statutory authority for a wide range of derivative instruments, the LGSF Pool did not hold any investments at September 30, 2004 that could be classified as “derivative” investments under GASB TB 2003-1. Floating and variable rate notes previously reported as derivatives under GASB TB 1994-1 no longer appear to fit the definition of a derivative under the recently issued GASB TB 2003-1. Although most floating and variable rate notes held by the LGSF Pool contain terms requiring their interest rates to change based on an underlying reference rate or interest rate index, none appear to meet the second and third requirements in the GASB TB 2003-1 derivative definition. Their terms do not require or permit net settlement and their initial net investment is not smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Floating rate and adjustable rate securities held by the LGSF Pool at September 30, 2004 are mostly debt instruments with a variable interest rate generally tied to prevailing short-term interest rates such as the London Interbank Offered Rate (LIBOR), Prime or Fed Funds rates. They are relatively insensitive to interest rate changes. These floating rate instruments are used as part of the investment strategy to hedge against interest rate risk and provide diversification to the portfolio. Floating rate and adjustable rate securities in the LGSF Pool are reported at amortized cost (for Pool investments) and fair value (for securities lending cash collateral investments) on the statement of net assets. As of September 30, 2004, the LGSF Pool held approximately $8.96 billion in floating and variable rate securities, representing 59% of investments. The LGSF Pool also held approximately $4 billion in floating and variable rate securities in the invested securities lending collateral, representing 96% of the total invested securities lending collateral.

3. Credit Risk

The LGSF Pool investments are shown by type, carrying value, fair value and level of credit risk assumed in the holding of the various securities. Credit risk is defined as the risk that the Board may not recover securities held by another party. The level of credit risk assumed in the various investments are categorized as follows:

2. Deposits and Investments (continued)

(1) Insured or registered, or securities held by the Board or its agent in the Board's name.
(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Board's name.
(3) Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Board's name.

Certain investments cannot be categorized because they are not evidenced by securities that exist in physical or book entry form, such as mutual or pooled funds. The schedule of investments held by the Board at September 30, 2004 is presented below (in thousands).

	Risk Category 1	Risk Category 2	Risk Category 3	Carrying Value	Fair Value
Classified:					
Pool Investments:					
U.S. obligations	$ 4,096	$	$	$ 4,096	$ 4,088
Federal agencies	43,319	......	......	43,319	43,327
Certificates of deposit, negotiable	2,574,766	......	......	2,574,766	2,574,639
Commercial paper	4,437,273	110,436	......	4,547,709	4,547,404
Corporate notes and bonds	3,681,681	249,863	......	3,931,544	3,931,127
Invested securities lending cash collateral:					
Federal agencies	......	......	67,429	67,429	67,429
Certificates of deposit, negotiable	20,013	......	5,204	25,217	25,217
Commercial paper	71,554	......	40,637	112,191	112,191
Repurchase agreements	118,030	667,629	......	785,659	785,659
Corporate notes and bonds	1,504,952	......	1,238,227	2,743,179	2,743,179
Total Classified Investments	12,455,684	1,027,928	1,351,497	14,835,109	14,834,260
Unclassified:					
Investments loaned to broker-dealers for cash collateral:					
U.S. obligations				1,196,655	1,194,092
Federal agencies				2,824,052	2,815,344
Invested securities lending cash collateral:					
Short-term investment funds				41,969	41,969
Investment agreements				321,285	321,285
Total Unclassified Investments				4,383,961	4,372,690
TOTAL INVESTMENTS				$ 19,219,070	$ 19,206,950

3. Securities Lending

The Board, on behalf of the LGSF Pool, under authorization of Section 215.47 of the Florida Statutes, participated in several securities lending programs during fiscal year 2003-2004. While SEC Rule 2a-7 does not directly address the portion of the portfolio that may be on loan at any given time, the Board has adopted industry practice for 2a-7 type funds which generally restricts lending activity to no more than 1/3 of the portfolio.

In a securities lending program, a lender (the Board) loans various securities to a borrower for collateral with a simultaneous agreement to return collateral for the same securities in the future. The Board is contractually limited

3. Securities Lending (continued)

from pledging or selling collateral except in the event of borrower default. All securities lending programs have indemnity clauses requiring the lender to consume any losses from insufficient collateral. No significant violations of legal or contractual provisions occurred and no losses were incurred due to borrower or lending agent defaults.

The Board held $ 4,098,108,262 in cash and $ 2,596,428 in U.S. Government securities as collateral for the lending programs as of September 30, 2004. The collateral held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest) at September 30, 2004. Maturities of investments made with cash collateral generally are not matched to maturities of the securities loans, due to securities loan agreements being open-ended with no fixed expiration date. As such, investments made with cash collateral are primarily in short-term investments. However, investments purchased for some securities lending programs included investments with maturities of six months or more representing approximately 40 percent to 71 percent of total collateral invested.

4. Summary of Investment Holdings

GASB Statement Number 31 requires certain disclosures to be made in separate or stand-alone financial reports for governmental external investment pools. Included in those requirements is 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. The following table provides this information (in thousands):

	Par	Carrying Value	Fair Value	Range of Interest Rates*	Range of Maturity Dates^
Pool Investments:					
U.S. Obligations	$ 1,200,000	$ 1,200,751	$ 1,198,180	1.125 - 2.125	10/31/04 - 11/30/05
Federal agencies	2,868,666	2,867,371	2,858,671	1.04 - 2.25	12/10/04 - 7/06/06
Certificates of Deposit	2,575,000	2,574,766	2,574,639	1.55 - 2.31	1/27/05 - 8/18/05
Commercial paper	4,548,454	4,547,709	4,547,404	1.74 - 2.28	10/01/04 - 4/15/05
Corporate bonds & notes	3,932,742	3,931,544	3,931,127	1.54 - 2.68	10/01/04 - 6/24/05
	$ 15,124,862	$ 15,122,141	$ 15,110,021		
Invested Securities Lending Collateral:					
Certificates of deposit	$ 25,204	$ 25,217	$ 25,217	1.45 - 2.04	11/12/04 - 1/09/06
Commercial paper	112,261	112,191	112,191	1.42 - 1.94	10/01/04 - 5/25/05
Repurchase agreements	785,659	785,659	785,659	1.93 - 2.03	10/01/2004
Short-term investment funds	41,969	41,969	41,969	1.62 - 1.74 **	open
Time Deposits	1,000	1,000	1,000	2.04 - 2.04	02/25/2004
Corporate bonds & notes	2,944,332	2,743,179	2,743,179	1.26 - 2.47	10/01/04 - 9/10/38
US Agencies	67,635	67,429	67,429	1.64 - 1.69	3/3/06 - 3/10/06
Investment agreements	321,285	321,285	321,285	1.98 - 2.03	10/01/2004
	$ 4,299,345	$ 4,097,929	$ 4,097,929		

* purchase yields or current coupon rate
** rate of return for September, 2004
^ Earlier of final stated maturity or next put date available