# State Board of Administration
## Local Government Surplus Funds Trust Fund Investment Pool
## STATEMENT OF NET ASSETS
**June 30, 2007**
**(in thousands)**
**(UNAUDITED)**

| | | |
|---|---|---|
| ASSETS | | |
| Investments: | | |
| Certificates of deposit | $ | 2,910,027 |
| Commercial paper | | 9,451,248 |
| Liquidity notes | | 11,820,244 |
| Domestic bonds and notes | | 6,042,085 |
| International bonds and notes | | 540,000 |
| Federal agencies | | 100,000 |
| Lending collateral investments | | 100,184 |
| Cash and cash equivalents | | 4,111 |
| Receivables | | 78,802 |
| Undistributed expenses | | 80 |
| TOTAL ASSETS | | 31,046,781 |
| LIABILITIES & NET ASSETS | | |
| Accounts payable and accrued liabilities | | 526 |
| Distributions payable | | 110 |
| Obligations under securities lending agreements | | 100,187 |
| Due to local governments | | 5,757 |
| TOTAL LIABILITIES | | 106,580 |
| NET ASSETS HELD IN TRUST FOR PARTICIPANTS | $ | 30,940,201 |

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 June 30, 2007
**(in thousands)**
**(UNAUDITED)**

| | |
|---|---|
| OPERATIONS | |
| Income from investing activity: | |
| Investment income | $ 1,460,664 |
| Bank fees | (345) |
| Administrative expense | (3,294) |
| Net income from investing activity | 1,457,025 |
| | |
| From securities lending activities: | |
| Securities lending income | 105,845 |
| Securities lending expense | (102,899) |
| Net income from securities lending | 2,946 |
| | |
| NET INCREASE RESULTING FROM OPERATIONS | 1,459,971 |
| | |
| DISTRIBUTIONS PAID AND PAYABLE | (1,462,990) |
| | |
| SHARE TRANSACTIONS | |
| Investment contributions | 69,225,326 |
| Investment withdrawals | (60,417,024) |
| | |
| NET INCREASE RESULTING FROM SHARE TRANSACTIONS | 8,808,302 |
| | |
| TOTAL INCREASE IN NET ASSETS | 8,805,283 |
| | |
| NET ASSETS HELD IN TRUST FOR PARTICIPANTS: | |
| Net assets, July 1 | 22,134,918 |
| | |
| NET ASSETS, JUNE 30 | $ 30,940,201 |

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 June 30, 2007
## (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 by obtaining broker discount rates based on the remaining days to maturity, and converting those discount rates to market prices, 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 June 30, 2007 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 June 30, 2007, the ratio of fair value divided by amortized cost was 99.99%.

**2. Deposits and Investments**

**A. Deposits**

At June 30, 2007, the carrying amount of deposits totaled $4,111,408. All deposits were held in one of the financial institutions utilized by the Board. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Board will not be able to recover deposits. Chapter 280, Florida Statutes (F.S.), generally requires public funds to be deposited in a bank or savings association designated by the State Chief Financial Officer (CFO) as authorized to receive deposits in the State and that meets the collateral requirements as set forth in Chapter 280, F.S.

The State CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository (QPD) following guidelines outlined in Chapter 69C-2, Florida Administrative Code, and Section 280.04 F.S. Eligible collateral includes Federal, federally-guaranteed, state and local government obligations, corporate bonds, and letters of credit issued by a Federal Home Loan Bank. Other collateral may be eligible, with the State CFO's permission.

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 QPD's of the same type as the depository in default.

The deposit balances reported by the LGSF Pool's banks totaled $4,137,077. All deposits were covered by Federal insurance or the collateral pool described above, except for $32 held in a securities lending collateral account that was uninsured and 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, Florida Statutes. 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, 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 (WAM) maturity limited to 90 days (reset dates used to calculate WAM)
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" at time of purchase
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 following:

Senior Investment Officer-Fixed Income
Manager of Operations and Securities Lending-Fixed Income
Director of Short Term Investments & Operations-Fixed Income
SBA Inspector General
SBA Deputy Executive Director

Effective November 1, 2007 the Investment Oversight Committee was changed to include three members, including the Deputy Executive Director, the Senior Investment Officer-Fixed Income and the Manager of Enterprise Risk Management and Compliance. 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. Deposits and Investments** (continued)

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, 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.

While the Board has statutory authority for a wide range of derivative instruments, the LGSF Pool did not hold any investments at June 30, 2007 that could be classified as "derivative" investments under GASB TB 2003-1. Although the 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 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 June 30, 2007 are 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. The fair value of these securities is 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 June 30, 2007, the LGSF Pool held approximately $17 billion in floating and variable rate securities, representing 55% of total investments.

**2. Deposits and Investments** (continued)

3. Credit Risk & 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 LGSF Pool's investment in a single issuer.

The LGSF Pool is run similar to an SEC 2a-7 money market fund. Investments must be first tier at the time of purchase. The 2a-7 first tier definition includes (1) a rated security that has received a short-term rating from the Nationally Recognized Statistical Rating Organizations (NRSROs) in the highest short-term rating category for debt obligations; or (2) is an unrated security that is of comparable quality to a security meeting the requirements for a rated security in (1), as determined by the fund's Investment Oversight Committee; or (3) is a security issued by a registered investment company that is a money market fund; or (4) is a Government security. For investments with remaining maturities of 397 days or less at the time of purchase, short-term ratings should be at least S&P A-1, Moody's P-1, or Fitch F-1. For securities without short-term ratings, long-term minimum ratings by at least one NSRSO are required consisting of S&P A-, Moody's A3, or Fitch A-. The LGSF Pool's exposure to a single issuer is limited to 5% of portfolio amortized cost (excluding U.S. Treasuries and Agencies). Maximum exposure to second tier issuers is limited to no more than 1% of portfolio amortized cost.

The LGSF Pool utilizes several securities lending programs, although only the Dresdner program was active at fiscal year-end. At the time of purchase, investments purchased in these programs with original maturities of less than or equal to 1 year should carry a rating consisting of the highest applicable short-term rating by at least one of the NRSROs (i.e. S&P A-1, Moody's P-1, Fitch F-1). Investments with original maturities of greater than 1 year, but less than or equal to 2 years, at the time of purchase, should carry at least one rating by an NRSRO of at least S&P A, Moody's A2, or Fitch A, except for asset backed securities which must have a rating of AAA by S&P, Aaa by Moody or AAA by Fitch. Investments with original maturities of greater than 2 years should have, at time of purchase, a rating by at least one NRSRO of at least S&P AA-, Moody's Aa3 or Fitch AA-, except for asset backed securities, which must be rated AAA by one of the above. Ratings are not applied to U.S. Government securities, its agencies or instrumentalities, repurchase agreements or shares of mutual funds. There is no limit on the amount of securities purchased within a portfolio if the securities are issued or guaranteed by the U.S. Government, its agencies or instrumentalities. There is also no limit on repurchase agreements collateralized by the same. For other securities, aggregate exposure to any single issuer or guarantor or counterparty (in connection to repurchase agreements) shall not exceed the greater of $5 million or 5% of the book value of the portfolio. An additional 5% of the book value of the portfolio can be invested in the obligations of a single issuer (i.e. no more than the greater of 10% of the book value or $5 million) that will mature on the next business day, that are redeemable upon demand, or that contain an unconditional put feature.

# State Board of Administration
## Local Government Surplus Funds Trust Fund Investment Pool
## NOTES TO FINANCIAL STATEMENTS
## For the Fiscal Year Ended June 30, 2007
## (UNAUDITED)

**2. Deposits and Investments** (continued)

The LGSF Pool's credit quality ratings are as follows at June 30, 2007 (expressed in thousands):

| Fair Value of Pool Investments | | | | | | | Ratings [1] | | |
|---|---|---|---|---|---|---|---|---|---|
| Certificates of Deposit | Commercial Paper | Liquidity Notes | Domestic Bonds & Notes | International Bonds & Notes [2] | Federal Agencies | Total | S&P | Moody | Fitch |
| $ …… | $ …… | $ …… | $ 169,989 | $ …… | $ 99,930 | $ 269,919 | AAA | | |
| 585,346 | …… | …… | 2,806,155 | 540,000 | …… | 3,931,501 | AA | | |
| 1,575,632 | …… | …… | 2,335,904 | …… | …… | 3,911,536 | A | | |
| 300,000 | …… | …… | …… | …… | …… | 300,000 | | Aaa | |
| …… | …… | …… | 150,000 | …… | …… | 150,000 | | Aa | |
| 199,970 | …… | …… | 289,733 | …… | …… | 489,703 | | A | |
| 249,925 | …… | …… | …… | …… | …… | 249,925 | | | A |
| …… | 7,422,155 | 11,816,292 | …… | …… | …… | 19,238,447 | A-1* | | |
| …… | 1,528,524 | …… | …… | …… | …… | 1,528,524 | | P-1* | |
| …… | 499,948 | …… | 289,652 | …… | …… | 789,600 | Not rated | Not rated | |
| $ 2,910,873 | $ 9,450,627 | $ 11,816,292 | $ 6,041,433 | $ 540,000 | $ 99,930 | 30,859,155 | | | |
| | | | | | Securities Lending Collateral Pool | 100,184 | Not rated | Not rated | |
| | | | | | | $30,959,339 | | | |

* Long-term ratings are presented except for "A-1" and "P-1". These are short-term ratings for S&P and Moody's.

[1] S&P Ratings were primarily used. If S&P did not rate a security, then Moody's ratings were used. If neither S&P or Moody's provided a rating, Fitch ratings were presented. If none of these three rating agencies issued a rating, the security was listed as "Not rated".

[2] Bonds & notes are labeled "international" if the security was issued in a country other than the United States. All the LGSF Pool's international corporate bonds and notes are denominated in U.S. dollars.

**2. Deposits and Investments** (continued)

4. Custodial Credit Risk

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

The Board does not have an overall policy addressing custodial credit risk. However, based on negotiated trust and custody contracts, all of the LGSF Pool's investments are held in the Board's name by the Board's custodial financial institutions at June 30, 2007.

5. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The LGSF Pool is run similar to a SEC 2a-7 money market fund. The LGSF Pool's weighted average maturity (WAM) is not allowed to exceed 90 days. Next reset dates are used for investments with floating and variable interest rates to calculate the WAM. Maturities of money market securities are not allowed to exceed 397 days, and maturities of government securities are not allowed to exceed 762 days. The LGSF Pool also participates in several securities lending programs, although only one program was active at fiscal year-end. SEC 2a-7 regulations limit the amount of securities that may be on loan at any one time to no more than one third of the portfolio. Maximum weighted average maturity (WAM) is either 45 or 60 days, depending on the lending program. Next reset dates (for floating rate securities) are used to calculate WAM.

Presented below are the investments held in the LGSF Pool at June 30, 2007 at fair value (expressed in thousands), with the WAM for each security type.

**2. Deposits and Investments** (continued)

| Investment Type | Fair Value | Weighted Average Days to Maturity [1] |
|---|---|---|
| Pool Investments: | | |
| Certificates of deposit [2] | $ 2,910,873 | 32 |
| Commercial paper [2] | 9,450,627 | 24 |
| Liquidity notes [2] | 11,816,292 | 26 |
| Domestic corporate bonds & notes | 5,625,517 | 20 |
| Domestic municipal bonds & notes | 415,916 | 16 |
| International corporate bonds & notes [3] | 540,000 | 68 |
| Federal agencies | 99,930 | 69 |
| Totals | $ 30,859,155 | |
| **Portfolio weighted average maturity** | | **26** |
| Invested Securities Lending Collateral: | | |
| Securities lending collateral investment pool | $ 100,184 | 31 |
| | $ 100,184 | |

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

[2] Certificates of deposit, commercial paper and liquidity notes include domestic and yankee issues.

[3] Corporate bonds and notes are labeled "international" if the security was issued in a country other than the United States. All the LGSF Pool's international corporate bonds and notes are denominated in U.S. dollars.

6. Foreign Currency Risk

The LGSF Pool fund did not have any foreign currency risk as of June 30, 2007. All investments were denominated in U.S. Dollars.

## 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 2006-2007. At June 30, 2007 only the Dresdner program was active. 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 one third 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 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 $100,087,500 in cash as collateral for the lending programs as of June 30, 2007. The collateral held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest) at June 30, 2007. 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.

## 4. Summary of Investment Holdings

GASB Statement 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 (expressed in thousands):

## 4. Summary of Investment Holdings (continued)

| | Par | Carrying Value | Fair Value | Range of Interest Rates [1] | Range of Next Reset Dates [2] | Range of Maturity Dates [3] |
|---|---|---|---|---|---|---|
| Pool Investments: | | | | | | |
| Certificates of deposit | $ 2,910,000 | $ 2,910,027 | $ 2,910,873 | 5 29 - 5 39 | 7/1/07 - 9/28/07 | 8/24/07 - 7/16/08 |
| Commercial paper | 9,457,306 | 9,451,248 | 9,450,627 | 5 27 - 5 55 | 7/1/07 - 9/17/07 | 7/2/07 - 4/10/08 |
| Liquidity notes | 11,861,844 | 11,820,244 | 11,816,292 | 5 29 - 5 53 | 7/3/07 - 8/22/07 | 7/2/07 - 2/22/08 |
| Domestic corporate bonds & notes | 5,626,000 | 5,626,106 | 5,625,517 | 5 28 - 5 47875 | 7/2/07 - 9/27/07 | 10/31/07 - 7/25/08 |
| Domestic municipal bonds & notes | 416,000 | 415,979 | 415,916 | 5 33 | 7/16/07 | 7/14/08 |
| International corporate bonds & notes [4] | 540,000 | 540,000 | 540,000 | 5 32563 - 5 33 | 8/07/07 - 9/17/07 | 5/07/08 - 6/16/08 |
| Federal agencies | 100,000 | 100,000 | 99,930 | 5 0 | na | 9/7/07 |
| | $ 30,911,150 | $ 30,863,604 | $ 30,859,155 | | | |
| Invested Securities Lending Collateral: | | | | | | |
| Securities lending collateral investment pool [5] | $ 100,188 | $ 100,184 | $ 100,184 | 5 48* | open | open |
| | $ 100,188 | $ 100,184 | $ 100,184 | | | |

na - not applicable

* The average portfolio yield as of 6/30/07 is reported for the securities lending collateral investment pool

[1] The coupon rate in effect at 6/30/07 is reported If a security is discounted, the purchase yield is reported

[2] Not all securities within a security type have reset dates Some are discounted or may have a fixed interest rate

[3] Liquidity notes contain provisions that allow them to be extended at the option of the issuer If the issuer opts to extend the maturity, the liquidity note will turn into a floating rate instrument The maturity dates presented are for the initial maturity of the liquidity notes since none of them had been extended as of June 30, 2007

[4] Corporate bonds and notes are labeled "international" if the security was issued in a country other than the United States All the LGSF Pool's international corporate bonds and notes are denominated in U S dollars

[5] Securities lending collateral investment pool includes the Dresdner lending program Cash collateral is pooled with cash collateral from other SBA funds and the investment of that cash is consolidated in a pooled investment account

## 5. Subsequent Events

In August 2007, investor anxiety about the sub-prime residential mortgage issue spilled over into the commercial paper market. For many years, the LGSF Pool has purchased commercial paper with high short-term credit ratings (i.e., rated A-1/P-1 or better by Standard & Poor's and Moody's), including asset backed commercial paper with the highest ratings of A-1+/P-1. The SBA maintains a list of 150 to 200 approved commercial paper programs. Out of an approved list of approximately fifty extendable asset backed commercial paper (ABCP) programs on July 31, 2007, the LGSF Pool owned extendable ABCP issued by seven programs that recently chose to extend maturities. All seven were collateralized by Prime and Alt-A mortgages; the latter mortgages have high FICO scores and low loan to value ratios, but non-standard documentation. We have reviewed the underlying collateral and it continues to pay as expected, but the seven ABCP programs have employed various responses to the credit crunch.

- Most issuers chose to close their programs in an orderly fashion by selling the collateral and covering any shortfalls with additional cash infusions, as needed. Examples include programs sponsored by Countrywide, Thornburg Mortgage, Luminent Mortgage Capital and American Home Mortgage.

- Two programs sponsored by RAMS Home Loans also extended and are paying enhanced coupons. Of note, Westpac Banking Corp. has announced that they are purchasing the RAMS franchise and plan to commit $1.5 billion to the $6 billion ABCP program.

**5. Subsequent Events** (continued)

- KKR Pacific and KKR Atlantic (sponsored by KKR Financial Holdings) and Ottimo (sponsored by Aladdin Capital Management) extended their maturities, but chose to negotiate with the ABCP investors to achieve a mutually agreeable liquidation plan for the collateral. Our negotiations with KKR, alongside other senior note holders, have been completed and the interests of the ABCP investors have been protected accordingly (i.e., a capital injection by KKR, an interest rate premium, and new maturities in February/March 2008 – including an option to control the collateral at that point). The collateral supporting the Ottimo ABCP has been placed in a liquidating trust for the benefit of note holders. The original Ottimo ABCP have been withdrawn and replaced with an Ottimo money market variable rate note.

In addition to the turbulence surrounding the ABCP, market analysts have also expressed concern regarding Collateralized Debt Obligations ("CDO") and Structured Investment Vehicles ("SIV"). The LGSF Pool has selectively purchased commercial paper issued by these vehicles where they had the highest possible credit ratings (i.e., rated A-1+/P-1) and there were sufficient credit enhancements. As of July 31, 2007, the LGSF Pool had investments in securities by 28 CDOs and SIVs. Of the 28 issuers, positions with only 2 have not matured. One of the active positions (Axon) was recently downgraded by Fitch and Moody's.

In response to the maturity extensions, in August 2007, SBA began distributing income on the KKR and Ottimo securities when it is collected, rather than when it is earned. Total undistributed earned income (net of collections) through October 31, 2007 totals $8,066,720.

Presented below is a list of LGSF Pool holdings that have been downgraded below purchase guidelines.

| | Ratings presented are as of November 19, 2007 | | | Holdings as of October 31, 2007 (in thousands) | | |
|---|---|---|---|---|---|---|
| Issuer | S&P | Moody's | Fitch | Par Value | Carrying Value | Fair Value |
| Axon Financial Funding | C* | NP [1] | C [2] | $175,000 | $174,983 | $155,750 |
| KKR Atlantic Funding Trust Liquidity Note | A-2* | NP [1] | NR [3] | $167,945 | $167,945 | $164,200 |
| KKR Pacific Funding Trust Liquidity Note | A-1* | NP [1] | NR [3] | $356,031 | $356,031 | $348,946 |
| Ottimo Money Market Variable Rate Note [4] | NR [3] | NR [3] | NR [3] | $179,935 | $179,935 | $166,206 |
| Total | | | | $878,911 | $878,894 | $835,102 |
| Percentage of Pool Holdings | | | | 3.36% | 3.36% | 3.21% |

* On negative credit watch

[1] Not Prime

[2] Long-term rating

[3] Not Rated

[4] In November 2007, the Ottimo Funding Liquidity Note was withdrawn and the supporting collateral was placed in a liquidating trust for the benefit of note holders. After this restructure, the LGSF Pool holds a money market variable rate note that is not currently rated by S&P, Moody's or Fitch. The values presented for Par Value, Carrying Value and Fair Value are for the liquidity note holdings as of October 31, 2007. In November, the new investment contains a reduced par of $177,893,642 after a portion of par was collected.