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

ASSETS	
Investments:	
Certificates of deposit	$ 2,165,023
Commercial paper	12,505,759
Liquidity notes	3,088,988
Domestic bonds and notes	8,593,718
International bonds and notes	540,000
Federal agencies	250,000
Lending collateral investments	252,301
Cash and cash equivalents	21,363
Receivables	202,966
Undistributed expenses	79
TOTAL ASSETS	27,620,197
LIABILITIES & NET ASSETS	
Accounts payable and accrued liabilities	1,616
Distributions payable	177
Obligations under securities lending agreements	254,000
Due to local governments	22,779
TOTAL LIABILITIES	278,572
NET ASSETS HELD IN TRUST FOR PARTICIPANTS	$ 27,341,625

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, 2007
(in thousands)
(UNAUDITED)

OPERATIONS	
Income from investing activity:	
Investment income	$ 1,576,975
Bank fees	(340)
Administrative expense	(3,564)
Net income from investing activity	1,573,071
From securities lending activities:	
Securities lending income	68,292
Securities lending expense	(66,375)
Net income from securities lending	1,917
NET INCREASE RESULTING FROM OPERATIONS	1,574,988
DISTRIBUTIONS PAID AND PAYABLE	(1,571,448)
SHARE TRANSACTIONS	
Investment contributions	68,898,485
Investment withdrawals	(62,585,155)
NET INCREASE RESULTING FROM SHARE TRANSACTIONS	6,313,330
TOTAL INCREASE IN NET ASSETS	6,316,870
NET ASSETS HELD IN TRUST FOR PARTICIPANTS:	
Net assets, October 1	21,024,755
NET ASSETS, SEPTEMBER 30	$ 27,341,625

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, 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 (see Note 5 – Subsequent Events for more information).

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 September 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 September 30, 2007, the ratio of fair value divided by amortized cost was 99.72%.

2. Deposits and Investments

A. Deposits

At September 30, 2007, the carrying amount of deposits was $21,363,153. 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 $21,363,150 at September 30, 2007. All deposits were covered by Federal insurance or the collateral pool described above.

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 Group, 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 Group was changed to consist of 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 Group 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 September 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 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, 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 September 30, 2007, the LGSF Pool held approximately $17.3 billion in floating and variable rate securities representing 64% of 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 SEC 2a-7 money market funds. 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 Group; 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.

At September 30, 2007, the LGSF Pool did not have 5% or more exposure to any single issuer. The LGSF Pool's credit quality ratings are as follows at September 30, 2007 (expressed in thousands):

2. Deposits and Investments (continued)

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
$ ……	$ ……	$ ……	$ 370,008	$ ……	$ 250,008	$ 620,016	AAA		
395,099	……	……	3,662,624	149,955	……	4,207,678	AA		
1,128,276	……	……	2,225,840	……	……	3,354,116	A		
……	11,401,246	2,983,632	……	……	……	14,384,878	A-1*		
……	……	93,710	……	……	……	93,710	A-2*		
189,654	……	……	450,065	……	……	639,719		Aa	
……	……	……	493,869	……	……	493,869		A	
197,780	……	……	……	……	……	197,780		Baa	
147,315	……	……	……	……	……	147,315			A
……	643,501	……	……	……	……	643,501		P-1*	
99,160	418,000	……	1,378,153	389,259	……	2,284,572	Not rated	Not rated	Not rated
$ 2,157,284	$ 12,462,747	$3,077,342	$ 8,580,559	$ 539,214	$ 250,008	27,067,154			
Securities lending collateral investment pool						252,301	Not rated	Not rated	Not rated
						$ 27,319,455			

* Long-term ratings are presented except for "A-1", "A-2"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 the LGSF Pool's investments are held in the Board's name by the Board's custodial financial institutions at September 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 September 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]	$	2,157,284	33
Commercial paper [2]		12,462,747	41
Liquidity notes [2]		3,077,342	21
Domestic corporate bonds & notes		8,165,599	27
Domestic municipal bonds & notes		414,960	15
International corporate bonds & notes [3]		539,214	67
Federal agencies		250,008	17
Totals	$	27,067,154	
Portfolio weighted average maturity			**34**
Invested Securities Lending Collateral:			
Securities lending collateral investment pool		252,301	25
	$	252,301	

[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 September 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 September 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.

3. Securities Lending (continued)

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 $254,000,000 in cash as collateral for the lending programs as of September 30, 2007. The collateral held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest) at September 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 Reset Dates [2]	Range of Maturity Dates [3]
Pool Investments:						
Certificates of deposit	$ 2,165,000	$ 2,165,023	$ 2,157,284	5 14 - 5 92	10/1/07-12/31/07	10/15/07 - 11/28/08
Commercial paper	12,570,290	12,505,759	12,462,747	4 8 - 6 75	10/1/07-11/26/07	10/1/07-8/8/08
Liquidity notes	3,092,789	3,088,988	3,077,342	5 13 - 6 5	10/15/07-11/23/07	10/2/07-3/19/08
Domestic corporate bonds & notes	8,178,045	8,177,738	8,165,599	5 10 -6 00	10/1/07-12/27/07	10/22/07 - 12/13/08
Domestic municipal bonds & notes	416,000	415,980	414,960	5 7725	10/15/07	12/12/08
International corporate bonds & notes [4]	540,000	540,000	539,214	5 33 - 5 66	11/7/07-12/17/07	6/16/08 - 11/7/08
Federal agencies	250,000	250,000	250,008	5 36	10/17/07	7/17/09
	$ 27,212,124	$ 27,143,488	$ 27,067,154			
Invested Securities Lending Collateral:						
Securities lending collateral investment pool [5]	254,000	252,301	252,301	5 52*	open	open
	$ 254,000	$ 252,301	$ 252,301			

na - not applicable
* The average portfolio yield as of 9/30/07 is reported for the securities lending collateral investment pool

[1] The coupon rate in effect at 9/30/07 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

[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 only 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

Since inception, 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, are paying enhanced coupons and will mature early. Of note, Westpac Banking Corp. has announced that they are purchasing the RAMS franchise and plan to commit $1.5 billion to $6 billion to the 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 totaled $8,066,720.

During the month of November, 2007 net withdrawals from the LGSF Pool were in excess of $12 billion. A special meeting was called by the SBA trustees November 29th, at which time, the SBA trustees voted to temporarily freeze all activity in the LGSF Pool. As a result of the large withdrawals, the LGSF Pool, as of November 30, 2007, no longer met the requirements of a 2a-7-like pool as the percentage of amortized cost compared to its market value fell to 99.13%.

The trustees also voted to hire an outside investment firm, BlackRock Financial Management (BlackRock), to review the situation and recommend a plan for restructuring. The plan, designed by BlackRock, adopted by the trustees, December 4th divided the LGSF Pool into two sub-pools, designated as Local Government Investment Pools (LGIP) A & B. The main attributes of each sub-pool are listed below:

<u>LGIP A:</u>

- Contains all money market assets
- Initially funded with approximately $12 billion, or 86% of the LGSF Pool
- Intended to be run as an SEC 2a-7-like pool
- Intended to be rated by S&P
- Re-opened December 6, 2007 with limited liquidity draws (redemptions require a fee of 2% if withdrawals exceed the greater of $2 million or 15% of participant balance)
- Liquidity draws without a redemption fee will be increased over time

5. Subsequent Events (continued)

LGIP B:

- Consists of assets in default, impaired or having significant credit risk
- Initially funded with approximately $2 billion, or 14% of the LGSF Pool
- Includes the LGSF Pool reserve account of $22 million and November interest earnings which were not distributed to participants totaling $95,702,481

BlackRock was hired as the interim investment manager until a permanent manager is selected. The search is expected to be completed and a final selection made by January 31, 2008. The SBA entered into an Agreement with Standard & Poor's (S&P) for a rating of the LGIP A. One requirement to maintain the 'AAAm' principal stability fund rating is that when the deviation between the market value and amortized cost exceeds .25%, the custodian or other approved accounting agent shall notify the investment manager and the Investment Oversight Group and the investment manager shall establish a formal action plan. This is stricter than SEC 2a-7 requirements that market value divided by amortized not be below 99.5% or above 100.5%. On December 21, 2007 Standard and Poor's Ratings Services (S&P) assigned its 'AAAm' principal stability fund rating to the LGIP A.

At December 31, 2007 the ratio of market value divided by amortized cost in LGIP A had dropped to 99.834% and is being monitored daily by S&P. As of December 31, 2007, the LGIP A had exposure exceeding 5% in five different issuers, as follows:

- Allstate Life Global Funding Trust 5.20%
- Bayerische Hypo-Und Vereinsbank AG 5.38%
- Merrill Lynch & Co. Inc. 5.50%
- Morgan Stanley 5.97%
- National Rural Utilities Cooperative Finance Corp 6.86%

On December 21, 2007 the SBA adopted revised investment policy guidelines for the investment of the LGIP A. Major revisions include the following:

- Must maintain at least 50% of holdings in instruments rated "A-1+" (or those deemed equivalent in credit quality) with the balance in "A-1" rated instruments (or those deemed equivalent in credit quality). Investments rated "A-1" and maturing in seven days or less are grouped with "A-1+" rated investments.
- Weighted average maturity (WAM) of the portfolio shall not exceed 60 days (reset dates are used to calculate WAM).
- Exposure to any single government agency shall not exceed 33.33% of total portfolio amortized cost (exposure to U.S. Treasuries is unlimited).
- When the LGIP A invests in money market funds rated 'AAAm' by S&P, the maximum exposure to any one fund is 10%.
- Exposure to callable notes shall not exceed 10% of the total portfolio amortized cost.
- The LGIP A can only hold up to 10% of the assets in a limited liquidity/illiquid basket, as defined in S&P's 2007 Fund Ratings Criteria, and the investment manager shall have procedures on the approval, risk measurement, control and limits related to less liquid securities.
- From time to time, other restrictions may be disseminated by Standard and Poor's for a fund intending to maintain a 'AAAm' rating and such restrictions will be applicable.

5. Subsequent Events (continued)

The table below includes all investments held in the LGIP A of the LGSF Pool as of December 31, 2007:

Security Identifier	Security Description	Maturity Date	Par	Amortized Cost [1]	Market Value [2]	S&P Rating [3]	Moody Rating [3]
Certificates of Deposit							
07273WQ72	BAYERISCHE HYPO-UND INSTL C/D	05/12/08	100,000,000	100,001,732	99,956,000	A-1	P-1
20259XGH0	COMMERZBANK AG NY INSTL C/D	03/31/08	100,000,000	100,005,427	99,937,500	A	Aa3
25153DAG8	DEUTSCHE BANK AG NY INSTL C/D	10/31/08	190,000,000	190,000,000	189,633,110	A-1	P-1
60681PFV1	MITSUBISHI TR & BK INSTL C/D	01/31/08	90,000,000	90,000,000	89,979,750	A-1	P-1
60681PGD0	MITSUBISHI TR & BK INSTL C/D	03/05/08	100,000,000	100,000,000	100,077,800	A-1	P-1
60681PGQ1	MITSUBISHI TR & BK INSTL C/D	04/14/08	100,000,000	100,000,000	100,027,000	A-1	P-1
Commercial Paper							
16536PEV1	CHESHAM FINANCE IB NT	04/10/08	100,000,000	99,989,286	99,744,300	A-1+	P-1
25153JA26	DEUTSCHE BANK LLC DISC	01/02/08	176,100,000	176,084,102	176,100,000	A-1+	P-1
27219PAR5	EAST FLT FNC IB NT	02/25/08	90,000,000	89,995,583	89,994,780	A-1	P-1
27873NCP9	EBURY FIN LTD IB NT	01/04/08	300,000,000	299,999,156	299,996,700	A-1	P-1
41365WAQ5	HARRIER FIN FDG IB NT	02/15/08	250,000,000	250,000,000	249,650,250	A-1+	P-1
41365WAU6	HARRIER FIN FDG IB NT	04/25/08	190,000,000	190,000,000	189,361,410	A-1+	P-1
55607NAN0	MACQUARIE BANK LTD IB NT	01/30/08	150,000,000	150,000,000	149,947,350	A-1	P-1
55607NAT7	MACQUARIE BANK LTD IB NT	08/08/08	125,000,000	125,000,000	124,549,875	A-1	P-1
74977KA25	RABOBANK USA FINL DISC	01/02/08	461,000,000	460,952,024	460,952,107	A-1+	P-1
90262CA23	UBS FIN DEL INC DISC	01/02/08	175,000,000	174,980,555	175,000,000	A-1+	P-1
Liquidity Notes							
31465AAB6	FENWAY FDG LLC IB NT	02/22/08	200,000,000	199,994,179	199,973,000	A-1	P-1
75158MCF8	RAMS FDG III ECN IB	02/11/08	44,919,065	44,919,065	44,925,309	A-1+	P-1
75158MCG6	RAMS FDG III LLC ECN IB NT	02/11/08	84,009,000	84,009,000	84,009,336	A-1+	P-1
75158MCU5	RAMS FDG III LLC ECN IB NT	02/11/08	88,011,123	88,011,123	88,024,500	A-1+	P-1
Corporates & Other Credit							
02003GBK2	ALLSTATE LIFE GLOBAL FDG TR SR	09/26/08	145,000,000	145,000,000	144,658,525	AA	Aa2
02003MAS3	ALLSTATE LIFE GLOBAL FDG SECD	09/04/08	115,000,000	115,000,000	114,928,470	AA	Aa2
02003MBA1	ALLSTATE LIFE GLOBAL FDG SECD	09/04/08	250,000,000	249,989,542	249,368,000	AA	Aa2
025818HT5	AMERICANE EXPRESS CR CORP	10/17/08	185,000,000	185,000,000	184,750,620	A+e	Aa3e
02581FYF0	AMERICAN EXPRESS CENTURION BK	09/17/08	300,000,000	300,000,000	299,961,600	A+	Aa3
02635PTN3	AMERICAN GEN FIN CORP MEDIUM T	09/18/08	300,000,000	300,000,000	299,843,100	A+	A1
05567LNE3	BNP PARIBAS US MTN SR 00293	08/07/08	150,000,000	150,000,000	149,742,450	AA+e	Aa1e
073902JJ8	BEAR STEARNS COS INC BEAR	12/15/08	278,000,000	277,953,390	276,305,312	A	A1
073902ND6	BEAR STEARNS COS INC BEAR	12/14/08	250,000,000	250,000,000	248,536,500	A-1[5]	A1
14912L3H2	CATERPILLAR FINL SVCS CORP MED	12/05/08	100,000,000	100,000,000	99,958,100	A	A2
14912L3L3	CATERPILLAR FINANCIAL SVCS COR	09/10/08	145,000,000	145,000,000	144,732,475	Ae	A2e
34074GAZ7	FLORIDA HURRICANE CATASTROPHE	12/12/08	452,500,000	452,455,933	452,500,000	AA-	Aa3
37247XAM4	GENWORTH GLOBAL FDG TRS SECD	09/15/08	290,000,000	290,000,000	288,812,160	AA-	Aa3
373334GH8	GEORGIA PWR CO 2007-C SR NT EL	09/17/08	70,000,000	70,000,000	69,831,020	A	A1
40429CBJ0	HSBC FIN CROP EXTENDABLE NT DT	09/24/08	335,000,000	335,008,350	334,940,705	AA-	Aa3
40429CDW9	HSBC FIN CORP EXTENDIBLE NT	10/06/08	150,000,000	150,000,000	149,583,450	A-1+[5]	Aa3
41659EDF1	HARTFORD LIFE GLOBAL FDG TRS	09/15/08	100,000,000	100,000,000	99,950,500	AA-	NR
46623ECZ0	JP MORGAN CHASE & CO MEDIUM TE	09/11/08	150,000,000	150,000,000	149,739,900	AA-e	Aa2e
524908W97	LEHMAN BROS HLDGS INC EXTENDAB	12/26/08	290,000,000	290,000,000	290,098,600	A+	A1
55259AEY1	M & I MARSHALL & ISLEY BK	09/25/08	130,000,000	130,000,000	129,389,000	A+	Aa3
5901882R8	MERRILL LYNCH & CO INC MED	12/12/08	100,000,000	100,000,000	99,688,900	A+	A1
5901886T0	MERRILL LYNCH & CO INC MTN C	12/23/08	190,000,000	190,000,000	189,880,490	A+	A1
59022CAZ6	MERRILL LYNCH & CO INC	12/17/08	250,000,000	250,000,000	248,798,250	A+	A1

continued

5. Subsequent Events (continued)

Security Identifier	Security Description	Maturity Date	Par	Amortized Cost [1]	Market Value [2]	S&P Rating [3]	Moody Rating [3]
617446PL7	MORGAN STANLEY EXTENDIBLE	12/15/08	263,750,000	263,745,836	262,890,966	AA-	Aa3
617446UJ6	MORGAN STANLEY EXTENDIBLE	12/03/08	321,750,000	321,716,160	320,639,963	AA-[4]	NR
637432DW2	NATIONAL RURAL UTILS COOP FIN	01/30/09	211,000,000	211,000,000	210,303,700	A-1	P-1
637432GC3	NATIONAL RURAL UTILS COOOP FIN	10/04/08	210,000,000	210,000,000	209,443,290	A+	A1
637432JU0	NATIONAL RURAL UTILS COOOP FIN	09/01/08	250,000,000	250,000,000	248,990,500	A	A2
69371RH82	PACCAR FINL CORP MEDIUM TERM	09/02/08	140,000,000	140,000,000	139,868,540	AA-	A1
842587AH0	SOUTHERN CO 2007B EXTENDIBLE	09/19/08	95,000,000	95,000,000	94,703,885	A	A3
90261XEC2	UBS AG STAMFORD BRH MEDIUM	09/16/08	300,000,000	300,000,000	299,896,200	AA+e	Aaae
949746MD0	WELLS FARGO & CO NEW EXT NTS	02/02/09	85,000,000	85,000,000	85,000,000	AA+	Aa1
94974BBU3	WELLS FARGO & CO NEW MTN	12/17/08	95,000,000	95,000,000	94,909,560	AA+	Aa1
	Total LGIP A Holdings		9,811,039,188	9,810,810,443	9,794,484,807		

[1] Amortized cost numbers presented are from SBA's STAR system.

[2] Market values presented are from the custodian bank.

[3] Ratings reported by BlackRock Financial Management. If no rating was available from BlackRock, ratings were obtain from Bloomberg.

[4] Issuer rating provided from Bloomberg. No security rating available.

[5] Security specific S&P rating not available, but deemed equivalent to A-1 or A-1+ by BlackRock Financial Management.

The table below includes all investments held in the LGIP B of the LGSF Pool as of December 31, 2007:

Security Identifier	Security Description	Maturity Date	Par	Amortized Cost [1]	Market Value [2]	S&P Rating [3]	Moody Rating [3]
Certificates of Deposit							
22238YTL7	COUNTRYWIDE BANK C/D	02/05/08	200,000,000	200,000,000	199,135,600	A-2	P-2
22238YUB7	COUNTRYWIDE BANK C/D	03/17/08	200,000,000	200,000,000	197,943,400	A-2	P-2
22238YWY5	COUNTRYWIDE BANK C/D	06/25/08	150,000,000	150,000,000	133,355,100	A-2	P-2
22238YXS7	COUNTRYWIDE BANK C/D	02/08/08	100,000,000	100,000,000	97,628,400	A-2	P-2
93940AJV8	WASHINGTON MUTUAL BK INSTL C/D	04/18/08	90,000,000	90,005,367	88,786,260	A	Baa1
Commercial Paper							
48247RDM1	KKR ATLANTIC FDG IB NT	03/18/08	163,466,707	163,466,707	165,734,484	A-2	NR
48247THE1	KKR PACIFIC FDG ECN IB NT	03/18/08	110,691,842	110,691,842	112,398,890	A-1	NP
48247THF8	KKR PAC FDG ECN IB NT	03/18/08	176,963,960	176,963,960	179,693,031	A-1	NP
48247THL5	KKR PAC FDG ECN IB NT	03/18/08	56,876,217	56,876,217	57,753,340	A-1	NP
74977KA25	RABOBANK USA FINL DISC	01/02/08	39,000,000	38,995,948	38,995,948	A-1+	P-1
Liquidity Notes							
05462NAD1	AXON FD LTD/LLC IB NT	04/25/08	175,000,000	174,986,046	110,250,000	D	NP
999A49941	OTTIMO FUNDING LTD	10/30/08	175,380,501	175,380,501	132,317,510	D	NR
Corporates & Other Credit							
125581DQ8	CIT GROUP INC NEW SR NT	06/18/08	290,000,000	290,000,000	288,756,770	A	A2
88319QL76	TEXTRON FINL CORP MEDIUM TERM	09/10/08	200,000,000	200,000,000	200,122,200	A-	A3
	Total LGIP B Holdings		2,127,379,227	2,127,366,588	2,002,870,933		

[1] Amortized cost numbers presented are from SBA's STAR system.

[2] Market values presented are from the custodian bank.

[3] Ratings reported by BlackRock Financial Management. If no rating was available from BlackRock, ratings were obtain from Bloomberg.