



BIENNIAL REPORT

March 2013

Participant Local Government Advisory Council (PLGAC)

CONTENTS

	<u>SECTION NAME</u>
3	Facts-at-a-glance
4	Introduction
4	Fund Governance
6	Investment Overview
6	Eligible Participants
6	Interest Rate Environment
8	Principal Stability Rating
9	Ad-Valorem Revenues
10	Review of Compliance
11	Participant Communications
14	Education Center
15	Go-Green Initiative
14	Annual Participant Surveys
15	Investment Management Policies
16	Pool Expenses
19	Money Market Reforms
20	Review of Fund B
21	Recommendations
<hr/>	
	<u>APPENDIX</u>
22	Part IV, Chapter 218, Florida Statute Investment of Local Government Surplus Funds Act

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SBA SENIOR OFFICER, INVESTMENT PROGRAMS & GOVERNANCE

Michael McCauley

FACTS-AT-A-GLANCE

Florida PRIME is an exclusive service for Florida governmental organizations, providing a cost-effective investment vehicle for their surplus funds.

Florida PRIME's investment objective consists of three parts which, in priority order, are safety, liquidity, and competitive returns with minimization of risks. Investment risk is managed by confining investments to a narrowly defined set of high quality, short duration "cash equivalent" instruments. Florida PRIME is managed consistent with SEC 2a-7 money market standards.

Florida PRIME, the Local Government Surplus Funds Trust Fund, is utilized by hundreds of governmental investors including state agencies, state universities and colleges, counties, cities, special districts, school boards, and other direct support organizations of the State of Florida. Florida PRIME continues to offer participants exceptional service, including expanded reporting, enhanced web functionality, improved customer service, and strengthened investment guidelines.

Florida PRIME is a government investment pool that offers management by an industry leader in professional money management, conservative investment policies, an extensive governance framework, a Standard & Poor's 'AAAm' rating, full transparency, and best-in-class financial reporting.

Pool Statistics

(As of December 31, 2012)

Total Participants
844

Total Market Value
\$8,476,195,715

Total Number of Accounts
1,771

2013 BIENNIAL REPORT

INTRODUCTION

This report has been developed pursuant to Section 218.409 (10) (b), Florida Statutes. According to this requirement, "The council shall prepare and submit a written biennial report to the board, trustees, the Investment Advisory Council, and the Joint Legislative Auditing Committee that describes the activities and recommendations of the council."

Based on our oversight and governance efforts, the Council considers the Local Government Surplus Funds Trust Fund (branded as "Florida PRIME[™]"), to be a very high quality investment option for its participants. This report provides an overview of the numerous investment and operational improvements made since the Council's last Biennial Report in early 2011. Although comprehensive in its scope, readers are directed to other reports covering the annual

compliance and legal reviews, as well as all materials from historical Council meetings, which are publicly available on the Florida PRIME[™] website.

FUND GOVERNANCE

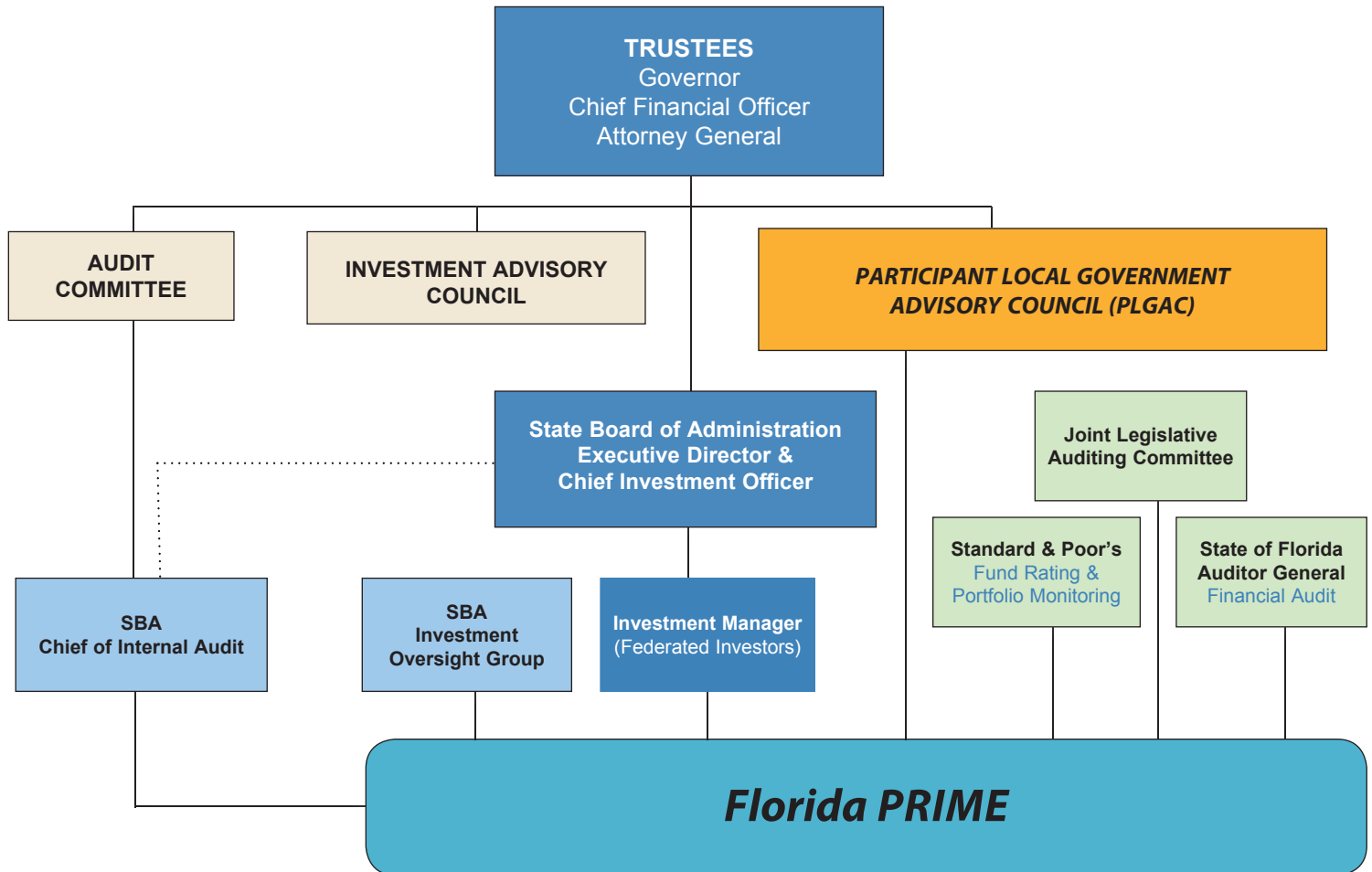
Florida PRIME[™] is overseen by several governing bodies, including the Cabinet acting as the State Board of Administration (Governor, Attorney General, and Chief Financial Officer), the Participant Local Government Advisory Council, the Investment Advisory Council, and the Florida Legislature and its affiliated entities. All three of the Trustees of the Board are elected statewide to their respective positions as Governor, Chief Financial Officer, and Attorney General.

In November of 1942, the voters adopted a constitutional provision creating the State Board of Administration as a constitutional

body, which succeeded to the power, control, and authority of the statutory Board of Administration. See the Florida Constitution of 1885, art. IX, §16. The initial duty of the State Board of Administration, as set forth in the relevant constitutional provisions, was to administer the Second Gas Tax. The Constitution further provides that the State Board of Administration ("Board" or "SBA") should also have "such powers as may be conferred upon it by law." The Board consists of three Trustees which have ultimate authority and oversight for the SBA's investment strategy.

The Participant Local Government Advisory Council ("PLGAC" or "Council") was created in 2008 through amendment to section 218 of the Florida Statutes. Members of the Council are appointed by the Board and are subject to confirmation by the Florida Senate. Members must possess special knowledge, experience,

As the lowest-cost and highest yielding investment pool in the state, Florida PRIME[™] offers the best value for all of its governmental investors.



and familiarity obtained through active, long-standing, and material participation in the dealings of the investment pool. Members are appointed for four-year terms. A vacancy is filled for the remainder of the unexpired term. The Council annually elects a Chair and a Vice-Chair from its membership. A member may not be elected to consecutive terms as Chair or Vice-chair. The Council reviews the administration of the Florida

PRIME™ and Fund B trust funds and makes recommendations regarding such administration to the SBA Trustees. The fund also undergoes independent annual financial audits, performed by the Auditor General’s Office.

The PLGAC, comprised of investor representatives, oversees the operational and investment related activities of the fund. Both Councils are responsible for review of the

Florida PRIME™ Investment Policy Statement and any proposed changes prior to its presentation to the Trustees and will undertake other duties set forth in applicable Florida Law.

The SBA’s Investment Advisory Council (or “IAC”) reviews investments made by the staff of the SBA and makes recommendations regarding investment policy, strategy and procedures. The

Council meets on an ongoing basis to discuss general investment policies and broad topics related to the general economic outlook.

INVESTMENT OVERVIEW

Florida PRIME™ provides eligible participants a cost-effective investment vehicle for their surplus funds. Its investment strategy emphasizes, in order of importance, preservation of capital (safety), liquidity and competitive yield. Florida PRIME™ is managed by an industry leader in professional money management, maintains conservative investment policies and a Standard & Poor's 'AAAm' rating. Florida PRIME™ has enhanced transparency and extensive governance oversight. Florida PRIME™ continues to offer participants exceptional service,

including comprehensive reporting, extensive web functionality, and best practice standards for investment procedures and policies.

Florida PRIME™ is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law"). The Trustees have delegated the administrative and investment authority to manage Florida PRIME™ to the Executive Director & CIO of the SBA, subject to applicable Florida law.

ELIGIBLE PARTICIPANTS

Units of local government eligible to participate in Florida PRIME™ include, but are not limited to, any county, municipality, school district, special district, clerk of the circuit

court, sheriff, property appraiser, tax collector, supervisor of elections, state university, state college, community college, authority, board, public corporations, or any other political subdivision or direct support organization of the state. As of December 31, 2012, Florida PRIME™ consisted of 1,771 investor accounts on behalf of 844 total participants.

INTEREST RATE ENVIRONMENT

Since December 2008, short term interest rates in the United States have remained extremely low, due primarily to the Federal Reserve's commitment to keep rates low in an effort to stimulate economic activity and manage inflation. The Federal Open Market Committee (FOMC) has maintained its target range for the federal funds rate at 0 to 0.25 percent and has publicly telegraphed

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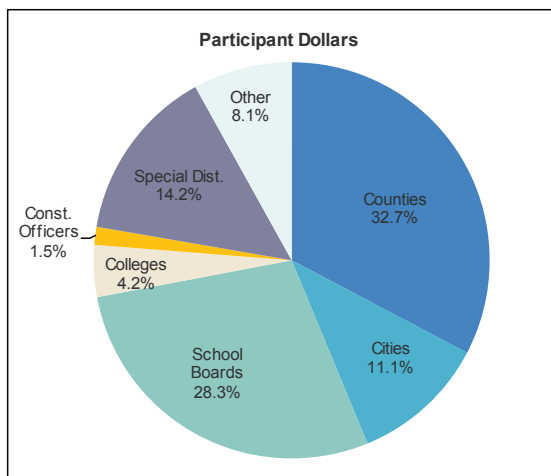
ESTIMATED ANNUAL EXPENSES as of January 1, 2013

	Expenses Charged Directly to the Investment Pool	\$ Estimate	Basis Point Equivalent
<i>SBA Charges</i>	Investment Oversight and Transfer Agent Activities	\$700,000	1.00
<i>Variable Costs</i>	Investment Management (Federated) ^{1,2}	\$1,155,000	1.65
	BNY Mellon Custody ¹	\$0	0.00
	BOA Wire & Banking Services ³	\$76,000	0.11
<i>Fixed Costs</i>	Standard & Poor's (S&P) Rating Maintenance	\$39,000	0.06
	AON Hewitt (Annual Investment Review)	\$47,551	0.07
	Legal Compliance Review	\$14,000	0.02
	TOTAL INVESTMENT & MANAGEMENT FEES	\$2,031,551	2.90

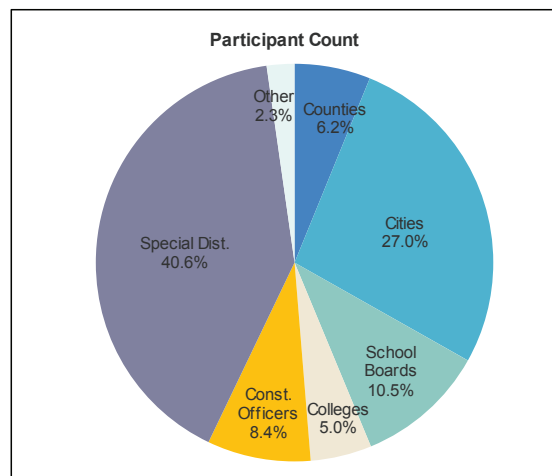
¹ Assumption based on \$7 billion market value for Florida PRIME. ² Blended rate based on sliding scale with high of 3.5 basis points and low of 2.0 basis points, and adjusted for underlying Federated Investors' money market fund holdings. ³ Actual fees charged depend on volume of transactions (variable).

PARTICIPANT CONCENTRATION DATA - AS OF DECEMBER 31, 2012

Participant Balance	Share of Total Fund	Share of Participant Count	Participant Balance	Share of Total Fund	Share of Participant Count
All Participants	100.0%	100.0%	Colleges & Universities	4.2%	5.0%
Top 10	41.2%	1.2%	Top 10	3.8%	1.2%
\$100 million or more	57.9%	2.4%	\$100 million or more	1.8%	0.1%
\$10 million up to \$100 million	35.2%	10.0%	\$10 million up to \$100 million	1.7%	0.7%
\$1 million up to \$10 million	6.2%	17.2%	\$1 million up to \$10 million	0.7%	1.4%
Under \$1 million	0.7%	70.5%	Under \$1 million	0.02%	2.7%
Counties	32.7%	6.2%	Constitutional Officers	1.5%	8.4%
Top 10	27.2%	1.2%	Top 10	0.9%	1.2%
\$100 million or more	25.0%	0.9%	\$100 million or more	0.0%	0.0%
\$10 million up to \$100 million	7.2%	1.4%	\$10 million up to \$100 million	0.8%	0.5%
\$1 million up to \$10 million	0.5%	1.1%	\$1 million up to \$10 million	0.6%	1.2%
Under \$1 million	0.0%	2.7%	Under \$1 million	0.1%	6.8%
Municipalities	11.1%	27.0%	Special Districts	14.2%	40.6%
Top 10	6.6%	1.2%	Top 10	9.8%	1.2%
\$100 million or more	1.7%	0.1%	\$100 million or more	4.8%	0.4%
\$10 million up to \$100 million	7.3%	2.5%	\$10 million up to \$100 million	7.9%	2.3%
\$1 million up to \$10 million	1.8%	5.7%	\$1 million up to \$10 million	1.3%	4.3%
Under \$1 million	0.2%	18.7%	Under \$1 million	0.3%	33.8%
School Boards	28.3%	10.5%	Other	8.1%	2.3%
Top 10	23.7%	1.2%	Top 10	7.9%	1.2%
\$100 million or more	18.4%	0.5%	\$100 million or more	6.1%	0.4%
\$10 million up to \$100 million	8.6%	2.1%	\$10 million up to \$100 million	1.7%	0.5%
\$1 million up to \$10 million	1.2%	3.0%	\$1 million up to \$10 million	0.3%	0.6%
Under \$1 million	0.1%	5.0%	Under \$1 million	0.0%	0.8%



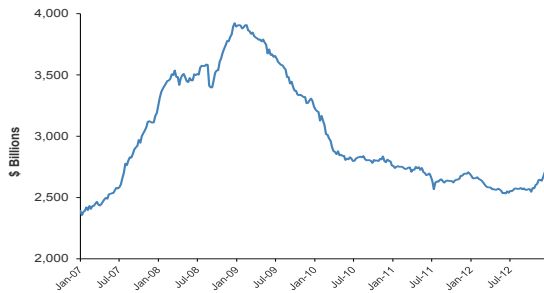
Total Fund Value: \$8,476,195,715



Total Participant Count: 844

The pool is a cost-effective, highly liquid vehicle for the investment of surplus funds of Florida governmental organizations. The Council remains committed to the growth and success of Florida PRIME™ as the investment vehicle of choice for Florida’s governmental investors, and one of the largest and highest-performing government investment pools in the nation.

its commitment to continue until the first quarter of 2014 its program of “quantitative easing,” comprised of significant monthly bond purchases. This policy, an effort to bolster the economy by making borrowing easier, has kept a tight lid on the returns available from U.S. Treasury bills, commercial paper, and other



MONEY MARKET INDUSTRY FUND FLOWS

money market instruments.

During 2011 and 2012, money market funds continued their struggle to operate economically and experienced generally stagnant growth in assets. According to iMoneyNet, total money market

funds did reverse a four year declining trend, ending the year at \$2.674 trillion, chalking up a small one-year gain of \$9.7 billion. During 2009, 2010 and 2011, all funds experienced outflows totaling \$230 billion, \$400 billion, and \$120 billion, respectively. FitchRatings, one of the major rating agencies covering money market

funds, continues to be highly skeptical towards many smaller funds or the organizations managing those funds, lacking the requisite scale to operate effectively. The same can be said of the local government investment pool space, with smaller operations feeling more investor pressure and experiencing higher account volatility given the smaller size and participant concentration.

In contrast, Florida PRIME™ experienced strong asset gains over the last two years, with pool assets

increasing from \$7.26 billion on January 1, 2011 to \$8.48 billion on December 31, 2012, an increase of \$1.22 billion or 17 percent. The pool closed the 2012 calendar year at levels not seen since March of 2008.

PRINCIPAL STABILITY RATING

Since December 2007, Florida PRIME™ has maintained a “AAA” fund rating from Standard & Poor’s (S&P). A Standard & Poor’s Principal Stability fund rating, also known as a money-market fund rating, is a current opinion of a fund’s capacity to maintain stable principal or net asset value. Standard & Poor’s conducts weekly surveillance of the Florida PRIME™ portfolio and its ongoing investment characteristics.

When assigning a Principal Stability rating to a fund, S&P evaluates the creditworthiness of a fund’s investments and counter parties, the market price exposure of its investments, sufficiency of the fund’s portfolio liquidity, and management’s ability and policies

SEC Rule 2a-7 - Primary Risk-Limiting Provisions

LIQUIDITY

- Daily Portfolio Valuation of 10% - can include cash, U.S. Treasuries and securities that can be sold in one day (municipal funds are not subject to the daily limit).
- Weekly Portfolio Liquidity of 30% - weekly assets and agency discount notes of 60 days maturity or less.

DIVERSIFICATION

- Illiquid securities can only comprise 5% of portfolio, defined as those securities unable to be sold close to their amortized cost within 7 business days.

MATURITY

- Individual securities (except for U.S. government floating rate securities) can have a maximum maturity of 397 days.
- The weighted average maturity (WAM) cannot exceed 60 days and can be calculated using the reset date of a floating rate security.
- The weighted average life (WAL) cannot exceed 120 days. The WAL is calculated by using the final maturity of a floating rate security, not the reset date.

CREDIT

- Maximum first tier issuer concentration of 5% of portfolio assets.
- Maximum second tier issuer concentration limit of 3% of portfolio with additional restrictions of 0.5% per single issuer and a final maturity not exceeding 45 days.
- Fully collateralized repurchase agreements can only be used for look-through purposes if comprising cash items or government securities.

Source: FitchRatings, "Money Fund Liquidity : Regulation Versus Risk Aversion," November 14, 2012

to maintain the fund's stable net asset value by limiting exposure to loss. S&P believes, "funds that seek to maintain a stable net asset value should be managed conservatively with well-defined guidelines and investment policies (for example: within SEC Rule 2a-7 guidelines) with regard to average maturity, credit quality, and liquidity."

Principal Stability fund ratings reflect a fund's ability to maintain principal stability and to limit exposure to losses due to credit, market, and/or liquidity risks. The rating categories range from 'AAAm' (extremely strong capacity to

maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks) to 'Dm' (failure to maintain principal stability resulting in a realized or unrealized loss of principal). The 'm' distinguishes the Principal Stability fund ratings from Standard & Poor's traditional debt ratings.

AD-VALOREM REVENUES

While many local governments throughout the state continue to

experience soft revenue levels, particularly due to weak ad-valorem tax collections, there is growing evidence of a bottoming housing market and modest upturn. Local government revenue sources decreased significantly year-over-year during the 2007 to 2011 time frame, and remain muted in most regions throughout the state. This downturn in revenues led to budgetary pressure and ultimately lower levels of working capital. As a result, participating governments in Florida PRIME[™] had relatively less surplus funds to invest on a short-term basis.

In September of 2012, the SBA's Investment Policy & Economic unit evaluated the relationship between the net asset value of Florida PRIME™ and the taxable value of real property in the Florida. The study found a clear seasonal pattern with month-end asset values for the pool, which has a cyclical peak occurring at or near the end of each calendar year. The study also found that property values have been rising recently, resulting in higher property tax receipts and subsequent growth in Florida PRIME™ assets. Over the last three years, the pool's year-end

net asset value has risen gradually even though statewide taxable value continued to fall, albeit modestly. Regression analysis indicated a strong relationship between the two components, with every 1 percent rise in taxable value generating a 0.62 percent increase in the year-end value of the fund. Finally, the study projects Florida PRIME™'s net asset value to steadily increase over the next few years, rising to \$11 billion in 2016, based on certain underlying assumptions.

REVIEW OF COMPLIANCE

The Local Government Surplus Funds Trust Fund is governed by Part IV of Chapter 218, Florida Statutes [see Appendix on Page 22]. During fiscal years 2011 and 2012, Florida PRIME™ conducted statutorily required annual certifications covering both its legal compliance, as well as its investment practices. For the annual legal compliance review, an external law firm (Lewis, Longman & Walker, PA) was tasked with evaluating the pool's compliance with Sections 218.40 through 218.422, Florida Statutes. For the annual investment best practice review, an external consultant (Hewitt EnnisKnupp) reported on the pool's operations and investment procedures. The results and reports were discussed at joint Investment Advisory Council (IAC) and Participant Local Government Advisory Council (Council) meetings in June 2011 and June 2012, and were posted to the pool's website.

The pool is also subject to external financial audit, performed by the State of Florida Auditor General's office. The annual financial audit reviews the trust fund's financial statements prepared by the SBA, the net assets (and changes thereof) of the Local Government Surplus Funds Trust Fund, as well as any deficiencies in internal control, in accordance with prescribed financial reporting standards (Governmental Auditing Standards issued by the Comptroller of the United States). The most recent financial audit, covering the 2011 fiscal year, was completed in December and sent directly to each participant by the Auditor General's

FLORIDA PRIME EDUCATION CENTER



In early 2012, a new custom education and training portal was added to the Florida PRIME website, offering all current and prospective investors courses cover a wide variety of relevant investment and financial topics including, but not limited to, accounting, alternative assets, corporate governance, custody, derivatives, economics, fixed income, interest rates, risk, and trade processing.

<https://www.sbafla.com/prime>

office. The fiscal year 2012 financial audit was released in February of 2013.

PARTICIPANT COMMUNICATIONS

Participant outreach and communications have been formalized to consistently address and advance investor interests. Since 2008, both staff of Federated Investors and the SBA have attended conferences and various meetings of local government associations and maintained dialogue with individual participants. All communication efforts are evaluated for their effectiveness and any recurring issues are documented by the SBA, Federated Investors, and the PLGAC.

During 2011 and 2012, staff of Federated and the SBA continued to attend various conferences, continued sponsorships, and presentation of exhibits. Federated continues formal participant outreach and has applied generous financial resources towards promoting Florida PRIME™ among existing and prospective participants.

One of the key investor reports is the Monthly Summary Report (MSR). The MSR continues to provide more information to its participants than any other governmental investment pool within the state, and goes beyond the frequency and depth of disclosures required of an SEC-registered 2a-7 money market fund. Florida PRIME™'s MSR includes all investment transactions, investment holdings by security and type, short

and long-term yield performance, and other material portfolio information.

General communications and significant informational items are distributed to participants regularly, including monthly report summaries and other one-time disclosures or news items affecting participant accounts. Every month, each participant receives an "eNotice" via e-mail listserv immediately following the posting of a new MSR to the website. This eNotice summarizes the most critical elements contained in the MSR and incorporates direct links to the pool's website. In addition, a similar eNotice is sent to each participant in Fund B communicating the amount and scheduled availability of dollar transfers made to Florida PRIME™.

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Florida PRIME™ - Yields for Periods Ending June 30, 2012

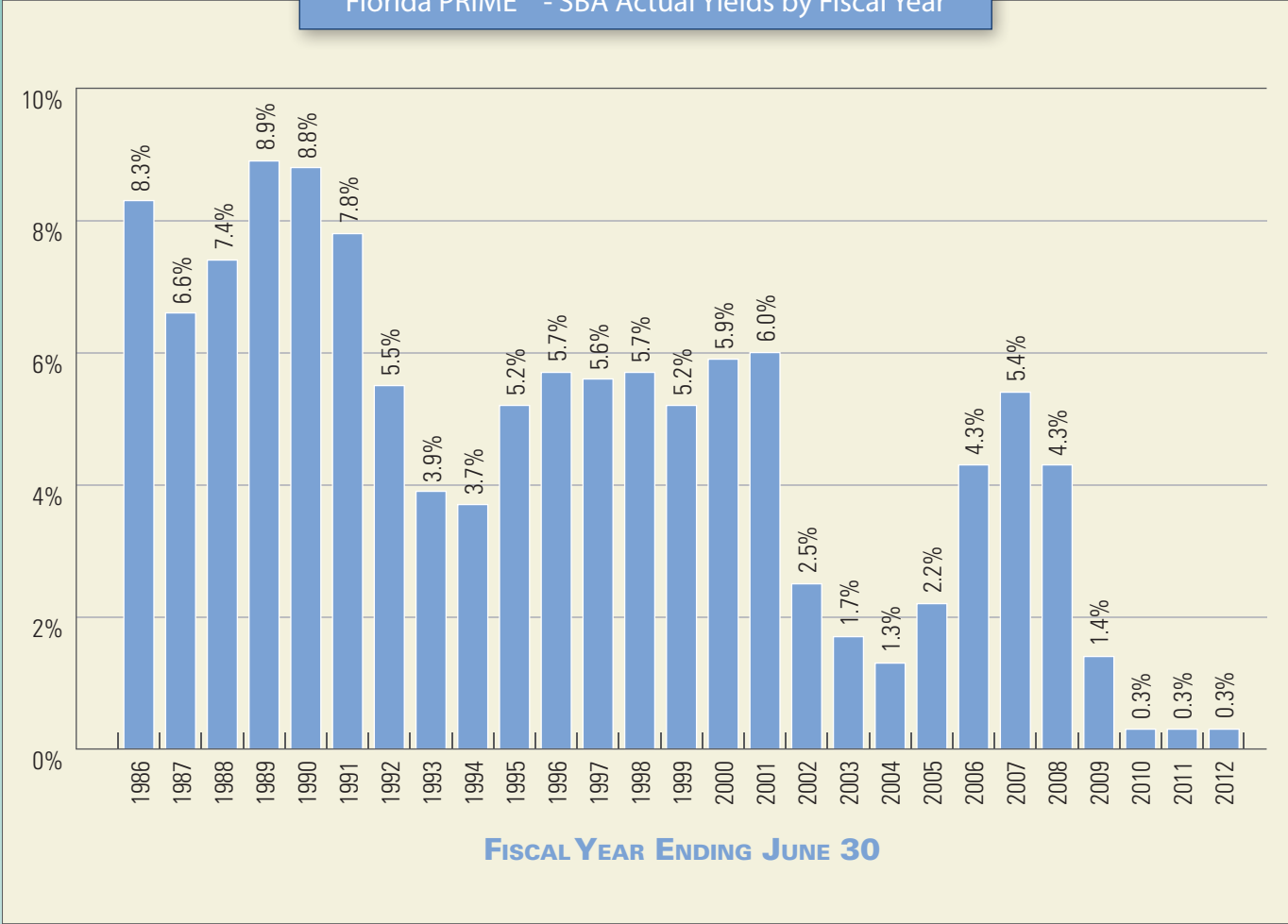
	SBA Actual Yield	Benchmark Yield	Actual Over (Under) Bmk.
One Year	0.29%	0.09%	0.20%
Three Years	0.29%	0.15%	0.14%
Five Years	1.31%	1.15%	0.15%
Ten Years	2.14%	1.90%	0.23%
Fifteen Years	3.10%	2.87%	0.23%
Twenty Years	3.51%	3.34%	0.18%
Twenty-Five Years	4.33%	4.19%	0.15%

- All yields are annualized for periods indicated through June 30, 2012.
- Yields are net of fees, and reflect the yield calculation pursuant to Chapter 19-7.011, Florida Administrative Code.
- Benchmark is the S&P AAA/AA Rated GIP All 30-Day Net Index for all time periods except the period July, 1994 to March, 1995 where an approximation using one month LIBOR was used.

HISTORICAL FUND PERFORMANCE

For the year ending June 30, 2012, Florida PRIME™ delivered an aggregate \$21.4 million in investment earnings to its investors. Relative performance of Florida PRIME™ has been strong over short- and long-term time periods. For the period ending June 30, 2012, Florida PRIME™ generated excess returns (performance above the pool's benchmark) of approximately 20 basis points (0.20%) over the last 12 months, 14 basis points (0.14%) over the last 3 years, and 15 basis points (0.15%) over the last 5 years. By historical standards, absolute returns have been low over the past three years reflecting the near-zero Federal Funds rate strategy employed as part of the overall stimulus strategy of the Federal Reserve Board of Governors.

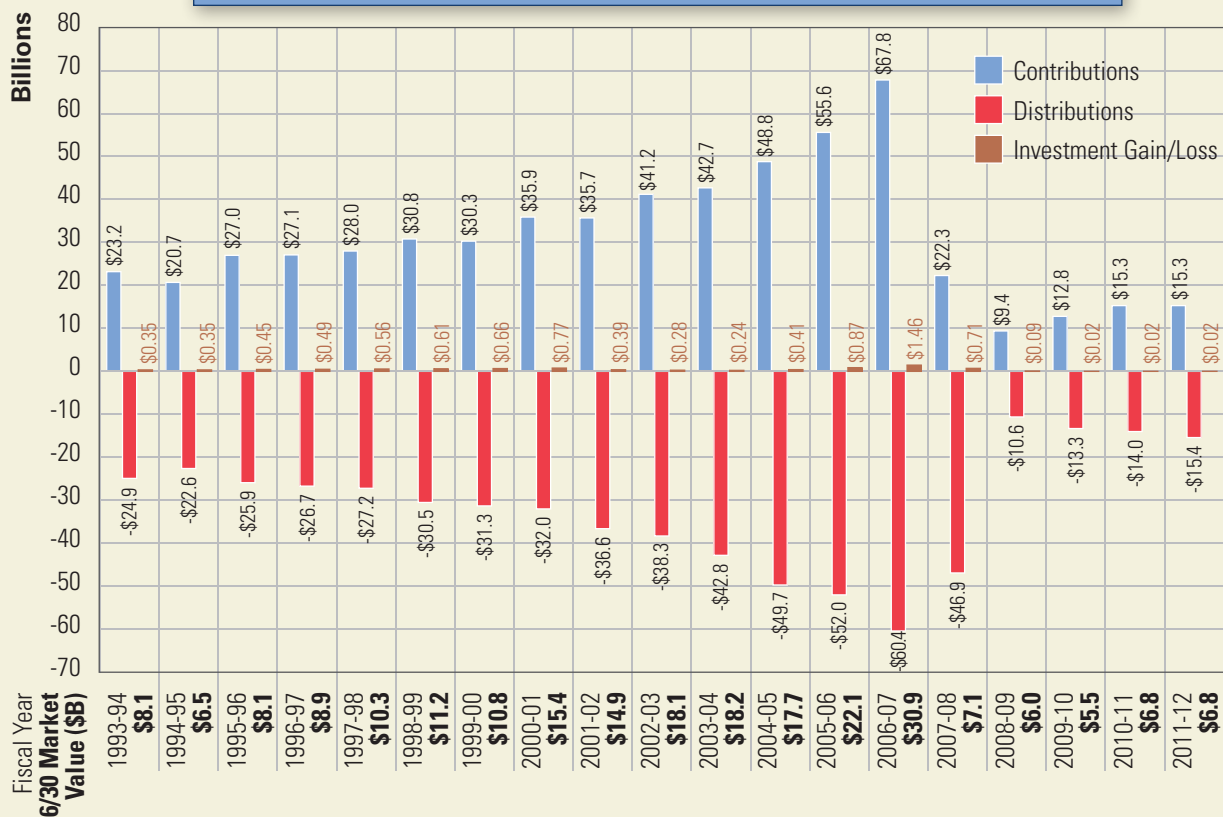
Florida PRIME™ - SBA Actual Yields by Fiscal Year



HISTORICAL PARTICIPANT CASH FLOWS

During the fiscal year ending June 30, 2012, participant deposits totaled \$15.3 billion; participant withdrawals totaled \$15.4 billion, for a net decrease of approximately \$0.07 billion (or -1.05 percent) in the pool's net asset value.

Florida PRIME™ - Annual Change in Total Fund Value by Source



EDUCATION CENTER

In response to feedback received from previous participant surveys, SBA created a customized training portal for Florida PRIME™ participants. The new “Education Center” was launched in April 2012 and is conveniently accessible through the Florida PRIME™ website. The Education Center utilizes two well-established online training development organizations, Intuition and Bisk Education, each of which offer over 300 financial courses. The available courses cover a wide variety of relevant investment and financial topics including, but not limited to, accounting, alternative assets, corporate governance, custody, derivatives, economics, fixed income, interest rates, risk, and trade processing.

Many of the courses have the extra benefit of fulfilling continuing

education units (CEUs) for many professional positions and continuing professional education (CPE) requirements for Certified Public Accountants. These training programs are offered only to current participants. The programs have various levels and associated costs to accommodate different participant needs. Additionally, the cost is borne solely by those participating in a course in order to maintain the low cost of the pool for other participants. At the end of the 2012, there were approximately two dozen pool participants participating in either the Intuition or BiskCPEasy education courses.

GO-GREEN INITIATIVE

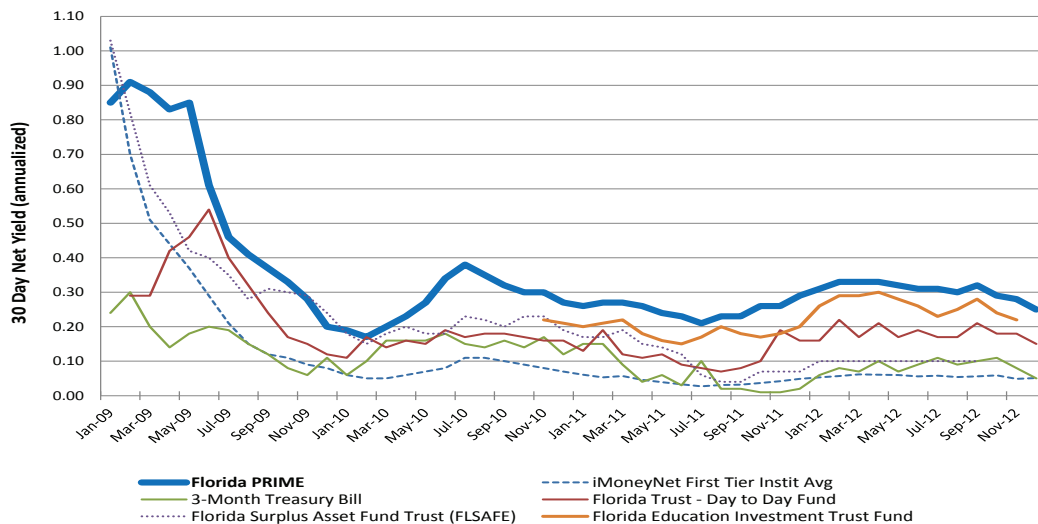
A significant enhancement during the last two years was the implementation of the “Go Green” initiative that began late in 2011.

Under this initiative, participants are able to opt out of receiving hard copies of monthly account statements and can now access them online. Participants benefit from the increased flexibility and ease of accessing their specific information. This enhancement not only increases efficiencies for participants and the SBA Staff, but is also a cost conscious and socially responsible initiative.

ANNUAL PARTICIPANT SURVEYS

The SBA conducts annual surveys of Florida PRIME™ participants to gain a better understanding of overall investor satisfaction, gauge interest in various enhancements contemplated for Florida PRIME™, and obtain information on investors’ usage of the website and other resources. The 2012 participant survey attracted 177 respondents, representing an approximate 21

PERFORMANCE BENCHMARKING - FLORIDA PRIME COMPARED TO COMPETING FUNDS & MONEY MARKET INDICES



percent response rate which is slightly higher than was achieved for the 2011 survey.

A diversified group of governmental units responded to the survey, ranging from colleges and universities, constitutional officers, counties, municipalities, school boards, and school districts. Roughly 72 percent of respondents indicated that they employ less than 1,000 employees. Over 70 percent of the respondents indicated that they utilize the Florida PRIME™ website at least once a month, with the primary reasons being to access account balances and statements, making transactions and, to a lesser extent, obtaining yield information and accessing the Monthly Summary Reports.

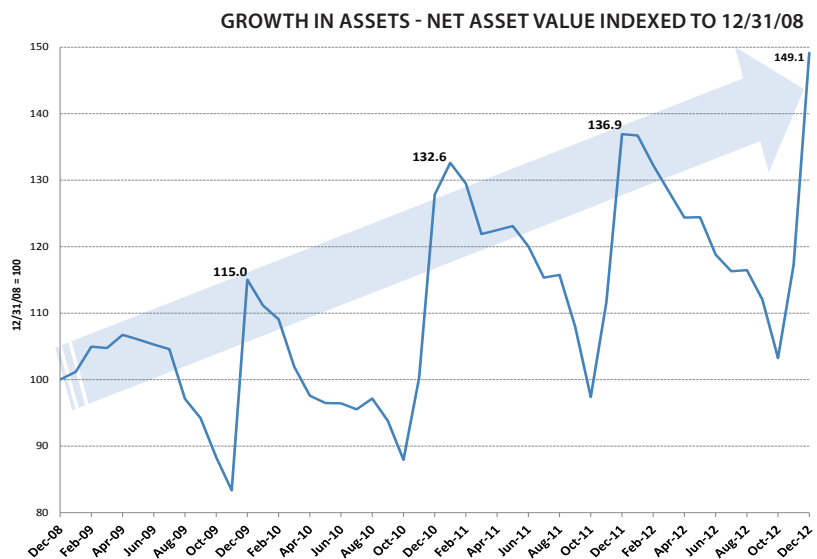
An impressive 96 percent of respondents rated the Florida PRIME™ website as very useful, and over half find its functionality very easy to use. The survey revealed that the SBA Florida PRIME™ service representatives are called or emailed fairly infrequently; however, when utilized, a large majority of respondents found them to be very helpful, knowledgeable, and responsive. Respondents also noted that they find the monthly reports (account statements, summary reports, and eNotices) very or somewhat useful. The survey also indicated that roughly half of respondents utilized an SEC-registered money market fund in the past twelve months in addition to the Florida PRIME™.

INVESTMENT MANAGEMENT POLICIES

The primary document governing the investment framework of Florida PRIME™ is its investment policy statement, or "IPS." Section 218.409 (2), F.S., requires an investment

attendant to the pool's investment management practices.

In 2011, there was only one significant change made to the Florida PRIME™ IPS. The SBA and Federated Investors anticipated that certain Securities and Exchange

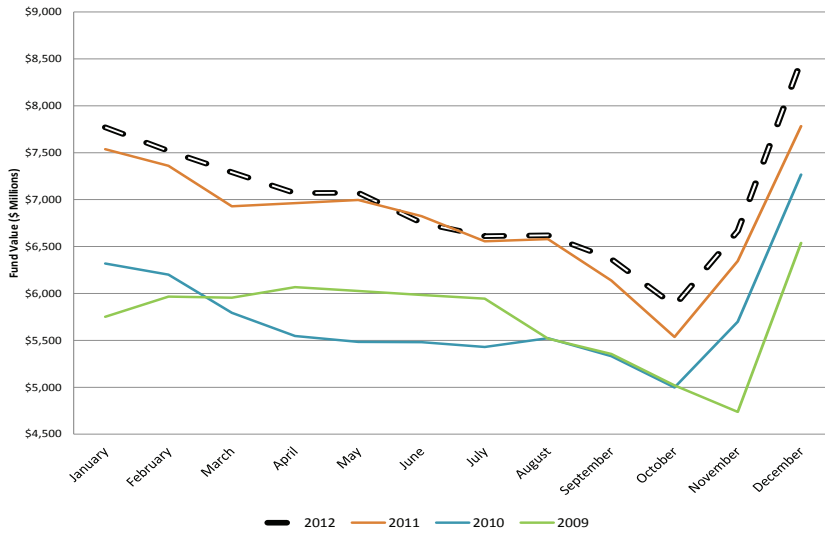


policy for Florida PRIME™ to be annually updated to conform with best investment practices. The investment policy must be reviewed by the Investment Advisory Council (IAC) and the Participant Local Government Advisory Council (PLGAC). The pool's IPS has been updated annually, to incorporate industry best practices and maintain consistency with revisions to the SEC's Rule 2a-7 requirements. Rule 2a-7 was established to limit risks money market funds can take in an effort to provide investors safety of principal and liquidity. Florida PRIME™ has maintained its "2a-7-like" objective through strict risk controls

Commission rule amendments adopted in 2010 would require that by December 31, 2010: (i) money market funds designate at least four nationally recognized statistical rating organizations ("NRSROs") whose ratings the fund would use to determine portfolio security eligibility under the rule; and (ii) funds disclose designated NRSROs.

The SEC issued a no-action letter delaying enforcement of these new requirements in amended Rule 2a-7 under the Investment Company Act of 1940 due, in part, to certain conflicting provisions of the Dodd-

ANNUAL FUND FLOW CYCLE



Frank Act of 2010. The Dodd-Frank Act essentially directed the SEC to eliminate requirements to utilize or reference NRSROs credit ratings. The fund's IPS was revised to reflect the SEC no-action letter, pending final SEC rules on the issue.

And in 2012, the IPS was amended to add new language incorporating a more detailed description of certain

current Standard & Poor's rating criteria for money market funds related to repurchase counter party ratings, dollar weighted average maturity, and maximum weighted average life requirements. Although Florida PRIME™ had been in compliance with these requirements, the applicable IPS sections addressing these requirements were expanded and clarified.

New language was also added in 2012 to address the roles and responsibilities of the Executive Director and the Chief Risk and Compliance Officer, allowing the Florida PRIME™ IPS to conform to changes made in other SBA policy statements following the 2011 Crowe Horwath study. Finally, new language was added to the IPS to facilitate a quarterly SBA compliance review, consistent with the 2012 Hewitt AON Hewitt EnnisKnupp Florida PRIME™ Best Practices Review. Federated Investment Counseling will continue to perform daily and monthly compliance procedures. The SBA will also continue to perform daily independent market value/ amortized cost monitoring and certain daily and monthly accounting reconciliation.

POOL EXPENSES

As the lowest-cost investment pool in the state, Florida PRIME™ offers the best value for governmental investors, with total fees that

Fund B Surplus Funds Trust Fund Returns for Periods Ending June 30, 2012

	SBA Actual Return	Benchmark Return	Actual Over (Under) Bmk.
One Year	11.15%	NA	NA
Three Years	29.34%	NA	NA
Since Inception	4.41%	NA	NA

- All returns are annualized for periods indicated through June 30, 2012.
- As a liquidating fund, this portfolio does not have a market-based benchmark. Its investment objective is to maximize the present value of distributions to participants.
- Inception of the fund is December 2007.

GOVERNMENT INVESTMENT POOL BENCHMARKING

(stable value funds)

Name of Fund [inception date]	Type	AUM (\$B)	Benchmark	Basis Point Fee	Rated	Daily Cutoff	# of Investors	Investment Manager(s)	Sponsor
Florida PRIME (Local Government Surplus Funds Trust Fund) [10/77]	2a-7 Like	\$6.8	S&P AAA/AA Government Investment Pool (GIP) Net of Fees	2.9	AAAm	1pm EST	840	Federated Investors	State Board of Administration (SBA)
Florida Trust (Day to Day Fund) [01/09]	Non 2a-7	\$0.5	3 Month Treasury Bill	11	AAAm	11am EST	12	Payden & Rygel	Florida Association of Court Clerks & Comptrollers (FACC)
Florida Education Investment Trust Fund (FEITF) [10/10]	2a-7 Like (IRC Section 115 Qualified Trust)	\$0.5	none publicly reported	12*	AAAm	2pm EST	n/a	PFM Asset Management LLC	Florida School Boards Association & Florida Association of District Superintendents
Florida Surplus Asset Fund Trust (FLSAFE) [02/08]	Non 2a-7	\$0.1	S&P LGIP Index	22**	AAAm	1pm EST	25	Prudent Man Advisors , Inc.	Florida Management and Administrative Services (FMAS)

* Net fund expense, including all temporary fee waivers. ** Fund expense excluding custody, rating, and other operating charges.

are a fraction of the cost of other investment options. The all-in fees of Florida PRIME™ are approximately one-fourth (1/4) those of its closest competitor. Florida PRIME™'s fees are by far the lowest of any similarly structured government investment pool ("GIP") in the State of Florida and are lower than most other GIPs nationwide and other institutional money market products.

All investors are charged a uniform rate to participate in Florida PRIME™. As of June 30, 2012, the fee charged to Florida PRIME™ investors was 2.43 basis points (or 0.0243 percent) of their account value. These charges cover all the costs of investment management, record keeping, legal compliance, maintenance of a fund rating, and fiduciary oversight of the investment pool.

Over the last few years, the SBA's administration and oversight fees charged to Florida PRIME™ had not adequately covered costs, and the issue was discussed several times by the Participant Local Government Advisory Council (PLGAC) and also with various stakeholders. There were two primary reasons the SBA's administration and oversight fee did not adequately cover its costs: 1) the SBA reduced its fees, from 1.5 basis points to 0.6 basis points, in 2008 (historically, the SBA's fees have been as high as 2.0 basis points in the pre-2000 time frame); and 2) asset levels in Florida PRIME™ have been significantly lower than historical levels, especially since late 2007. Although unrelated to the SBA's fee recovery, the management change made in December 2007, to an external investment manager for the

pool's portfolio, elevated overall pool fees.

As part of investor reporting to Florida PRIME™ participants, a breakout of all current charges is posted to the participant website, in the form of an estimated, basis point equivalent. The actual pool fees charged to Florida PRIME™ investors are disclosed in each Monthly Summary Report.

As the SBA's fee is calculated based on the net-asset-value ("NAV") of the investment pool, the actual amount of revenues generated will rise or fall depending on the level of assets invested in the pool. After lengthy discussion and analysis, the PLGAC approved a recommendation to increase the individual fee component charged

to cover SBA costs, effective July 1, 2012. As a result of this fee change, the SBA's fee increased from 0.6 basis points to 1.0 basis points, with a corresponding increase in the total pool charge to 2.9 basis points. The

pools, stands at 20.64 basis points. Within the broader institutional and retail marketplace, money market funds have increasingly relied on fee waivers to retain fund participants. According to iMoneyNet's Money

year increases in the number of funds waiving all or a portion of their expenses since 2007.

The prevalence of fee waivers is due primarily to the extraordinary low level of interest rates and corresponding tight yields in the short end of the fixed income market. For money market funds currently yielding 10 to 25 basis points, it may be impossible for their fund investors to earn a positive yield without implementing some type of fee waiver. For example, Charles Schwab waived \$112 million in money market fund fees in the first quarter of 2011 and \$433 million in the whole of 2010—without such fee waivers many of their money funds would have offered a negative yield.

COST COMPARISON	Total Cost
Industry Average ¹	20.6
Government Investment Pools (GIPs) in FL ²	15.0
National GIPs ³	7.6
Florida PRIME	2.9

¹ Average basis point charge of all prime institutional money market funds, reported by iMoneyNet.

² Average basis point charge of all money market GIPs operating in the State of Florida.

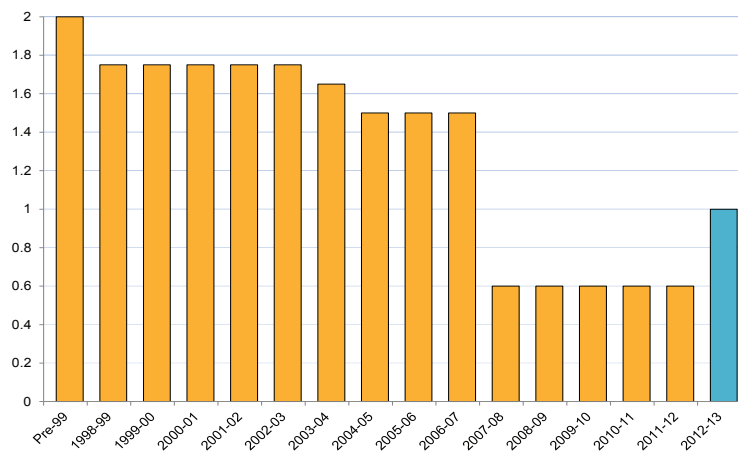
³ Average basis point charge of all government investment pools nationwide, reported by iMoneyNet.

full basis point charge equates to an approximate 67 percent increase in the SBA's charge, and a 16 percent increase in the total participant fee.

According to a recent iMoneyNet™ report on GIPs, the average total cost for all types of money market funds was 14.39 basis points. The average fee for GIPs classified as money market funds was 7.59 basis points. These fee levels, approaching three to six times the cost of Florida PRIME™, are roughly commensurate with other statewide GIPs available to local governments in Florida, which range from 11 to 19 basis points depending on the specific level of temporary fee waiver in effect. According to iMoneyNet™ data, the average fee level for privately-sponsored money market funds, a category of funds excluding government-sponsored investment

Fund Expense Report for the fourth quarter of 2011, 92.5 percent of all money market funds were waiving all or a portion of their expenses. Money market funds have used fee waivers for the last five years, with year over

As a direct result of the depressed interest rates and the commitment of the Federal Reserve to maintain a low interest rate environment through 2014, several investment organizations have departed the money fund cash market and the



HISTORICAL SBA ADMINISTRATIVE & OVERSIGHT FEES (in basis points)

HISTORICAL FUND B DISTRIBUTIONS

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
12/05/07	\$	\$	\$ 2,009,451,941	0.0%
CY 2008	\$ 1,421,900,000	\$ 1,421,900,000	\$ 587,551,941	70.8%
CY 2009	\$ 89,100,000	\$ 1,511,000,000	\$ 498,451,941	75.2%
CY 2010	\$ 135,100,000	\$ 1,646,100,000	\$ 363,351,941	81.9%
CY 2011	\$ 57,425,000	\$ 1,703,525,000	\$ 305,926,941	84.8%
01/09/12	\$ 4,325,000	\$ 1,707,850,000	\$ 301,601,941	85.0%
02/07/12	\$ 3,200,000	\$ 1,711,050,000	\$ 298,401,941	85.2%
03/06/12	\$ 3,925,000	\$ 1,714,975,000	\$ 294,476,941	85.3%
04/05/12	\$ 4,400,000	\$ 1,719,375,000	\$ 290,076,941	85.6%
05/04/12	\$ 5,275,000	\$ 1,724,650,000	\$ 284,801,941	85.8%
06/05/12	\$ 7,050,000	\$ 1,731,700,000	\$ 277,751,941	86.2%
07/04/12	\$ 5,450,000	\$ 1,737,150,000	\$ 272,301,941	86.4%
08/06/12	\$ 4,500,000	\$ 1,741,650,000	\$ 267,801,941	86.7%
09/07/12	\$ 5,150,000	\$ 1,746,800,000	\$ 262,651,941	86.9%
10/04/12	\$ 7,430,000	\$ 1,754,230,000	\$ 255,221,941	87.3%
11/06/12	\$ 3,500,000	\$ 1,757,730,000	\$ 251,721,941	87.5%
12/07/12	\$ 4,710,000	\$ 1,762,440,000	\$ 247,011,941	87.7%

industry has consolidated marginally among the largest institutions. Industry observers forecast the number of institutional cash managers in the U.S. will decline significantly over the next five years. In the U.S., the top three money managers are Federated Investors, J.P. Morgan Asset Management and Fidelity; and Amundi, DB Advisors and Goldman Sachs Asset Management in Europe.

Consolidation has already begun according to data from Strategic Insight Global—which shows the largest 20 money market fund managers in the U.S. holding a 91.6 percent market share as of the middle of 2011, up 3.1 percentage points from 88.5 percent over the last two years. Since early 2009, three large fixed income money fund complexes managed \$15.7 billion, or about 77 percent, of the \$20.5 billion in searches for cash managers by U.S. institutional investors. Federated

Investors won \$12 billion in new mandates, while Pacific Investment Management Co. and Wells Capital Management garnered \$2.3 billion and \$1.4 billion, respectively. Many investors expect additional regulations in the near future, which could further increase the cost of administering and managing money funds. Market pundits think many of the smaller funds will simply close or move to a “white label” structure, whereby one manager keeps certain duties, such as record keeping and client services, while another manager actually handles the investment management of the assets.

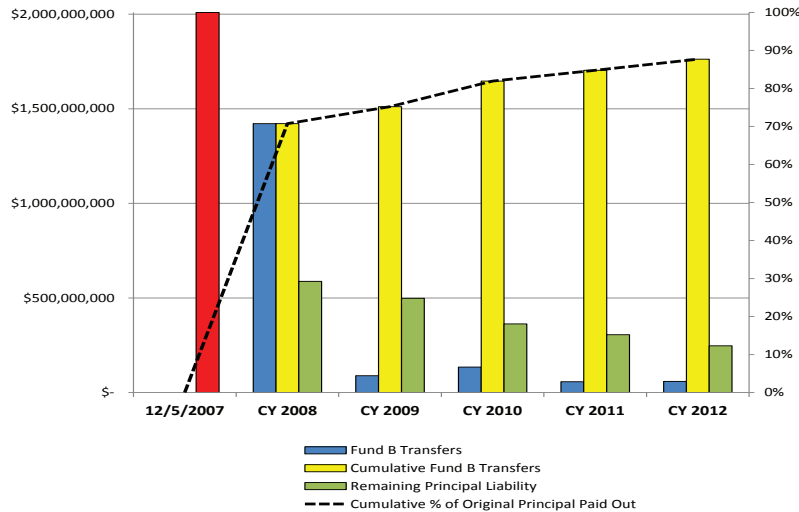
MONEY MARKET REFORMS

The money market industry continues to face challenges including almost certain regulatory changes likely to significantly impact

how money funds operate. On the heels of several changes to Rule 2a-7 implemented during early 2010, the Securities & Exchange Commission (SEC) has continued to evaluate and consider significant money market reforms. During 2012, former SEC Chairman Mary Schapiro attempted unsuccessfully to push through several reforms designed to further stabilize money funds. The SEC’s failure to make any headway on additional regulations prompted additional attention by the Financial Stability Oversight Council (FSOC), a relatively new entity created by the Dodd-Frank Act of 2010.

The FSOC proposed three primary alternatives, all designed to make money market funds more resilient in the face of market stress. First, FSOC proposed having money market funds use variable or “floating” net asset values, as opposed to the long standing practice of funds trading on stable valuations (known

FUND B PARTICIPANT CASH OUTFLOWS



as amortized cost accounting). This change would require money market fund share prices to reflect the actual market value of their portfolio holdings, consistent with the requirements for other types of mutual funds.

The FSOC also proposed that money market funds implement a new buffer component (anywhere from 1 to 3 percent of fund assets) within their funds, aimed at absorbing fluctuations in daily value. A buffer fund could be coupled with a “minimum balance at risk,” which would require a small amount of an investor’s investment be made available for redemption on a delayed basis and subject to first losses if a fund incurs any losses within its buffer fund. These proposals, if ultimately a part of the next stage of reforms, would likely further reduce money market funds’ vulnerability to runs.

The SEC conducted an exhaustive study of industry structure and performance following the 2010 reforms. The report highlighted the role of new daily and weekly liquidity requirements as a likely determinant of the “orderly nature of the observed redemption activity” during the money fund market stress caused by the Eurozone crisis in the summer of 2011. The SEC study also reviewed how money market funds would have performed in September 2008 had the new regulations been in place, opining that, “funds are more resilient now to both portfolio losses and investor redemptions than they were in 2008.”

Reforms have also been proposed by other global entities, primarily in Europe. The International Organization of Securities Commission (IOSCO) published a report in October of 2012, recommending a hybrid approach to a floating net asset value, allowing

the use of amortized cost accounting for only those securities maturing in less than 60 days.

In addition to these numerous money market reform proposals, the Federal Deposit Insurance Corporation’s (FDIC) Transaction Account Guarantee (TAG) program was discontinued on December 31, 2012. The FDIC’s TAG program provided a backstop for bank managed short term cash deposits. Under TAG, bank accounts received FDIC guarantees without any of the normal account size limitations, sacrificing any level of yield in return for the safety of account principal.

The SBA, Federated, and fund participants invested in Florida PRIME™ continue to recognize the value such reforms represent and believes a strong money market industry leads to an even stronger landscape for local government investment pools. Through its commitment to follow SEC Rule 2a-7 cash management standards, Florida PRIME™ has adopted many reforms with full integrity and continues to earn Standard & Poor’s AAAM rating—the highest quality rating assigned by Standard & Poor’s.

REVIEW OF FUND B

The primary objective of the Fund B Surplus Funds Trust Fund (“Fund B”) is to maximize the present value of distributions from the Fund. The securities remaining in Fund B are legacy items from the four issuers whose financial circumstances gave rise to the November 2007 run (in

addition to overnight instruments temporarily holding fund earnings). As of December 31, 2012, remaining amortized cost of original participant principal equaled \$454.2 million, or 83.9 percent more than remaining participant positions in Fund B. Conversely, the current estimated liquidation (market) value of these securities is pegged at \$242.8 million or 98.3 percent of remaining participant positions.

Since the inception of Fund B on December 7, 2007, all the investments have undergone some level of restructuring and have been converted to distinct legal entities under SBA control. Through December 2012, investors cumulatively received distributions from Fund B totaling \$1.77 billion or approximately 87.7 percent of their original balances.

Unlike Florida PRIME™, Fund B is accounted for as a fluctuating NAV pool, not a 2a-7-like money market fund. That is, accounting valuations reflect estimates of the market value of securities rather than their amortized cost. Since the inception of Fund B on December 7, 2007, all of the investments have been restructured, renamed and converted to distinct legal entities. Florida East and West were restructured from KKR and are receiving principal and interest. Florida Funding I was restructured from Ottimo (Issuer Entity) and is receiving principal and interest. Florida Funding II was restructured from Axon Financial Funding and is receiving principal and interest. All cash from pay downs on securities in Fund B are invested in overnight

securities, repurchase agreements, overnight time deposits or commercial paper pending monthly distribution to participant accounts in Florida PRIME™.

In 2011, Fund B's IPS was revised slightly to reflect the pending assignment of the Collateral Manager role to Stone Tower Capital (now named Apollo Capital) and the assumption of certain Fund B-level responsibilities by the SBA that were previously assigned to Federated Investment Counseling. Examples of the latter are reconciling Fund B accounting and performance measurement reports with the Custodian and communicating compliance exceptions. During 2012, there were no changes necessary nor made to the Fund B Investment Policy Statement (IPS).

RECOMMENDATIONS

The 2011 Best Practices Review by AON Hewitt EnnisKnupp did not result in any actionable recommendations. Their 2012 Review, however, included recommendations to: 1) review the independent compliance verification process completed by SBA staff and consider reducing the frequency from monthly to quarterly; and 2) continue to stay apprised of the SEC Rule 2a-7 reform discussions and keep participant needs and best interests at the forefront of any contemplated policy or guideline changes. The first recommendation was discussed at length during the June 2012 Joint PLGAC/IAC meeting, with the fund's oversight groups

directing no material changes to the scope or frequency of Florida PRIME™ compliance testing. And, the SBA and Federated Investors have continued to follow various Rule 2a-7 reform proposals and will evaluate further once detailed rule changes become known.

As part of the last two investor surveys, some participants voiced their desire to utilize funds offering more restrictive investment policies, which would avoid all forms of credit risk. In discussions with numerous financial advisors, external consultants, and Florida PRIME participants, both conservative (for example, Government only mandates) and less restrictive (for example, ultra short or enhanced-cash mandates) investment vehicles have been evaluated. Given the compressed yield environment and market and regulatory risks, the Council does not feel it is the appropriate time to add new fund choices in addition to Florida PRIME.

APPENDIX

PART IV INVESTMENT OF LOCAL GOVERNMENT SURPLUS FUNDS ACT

218.40 Short title.

218.401 Purpose.

218.403 Definitions.

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

218.407 Local government investment authority.

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

218.417 Fund B Surplus Funds Trust Fund.

218.418 Definitions.

218.421 Fund B Surplus Funds Trust Fund; purpose; rulemaking; administration; reporting.

218.422 Fund B Surplus Funds Trust Fund; review.

218.40 Short title.--

This part shall be known, and may be cited, as the "Investment of Local Government Surplus Funds Act."

218.401 Purpose.--

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

218.403 Definitions.--The following words or terms, when used in this part, shall have the following meanings:

(1) "Board" means the State Board of Administration.

(2) "Chief Financial Officer" means the mayor, manager, administrator, clerk, comptroller, treasurer, director of finance, or other local government official, regardless of the title of his or her office, charged with administering the fiscal affairs of a unit of local government.

(3) "Current expenses" means expenses to meet known cash needs and anticipated cash-flow requirements for the short term.

(4) "GASB" means the Governmental Accounting Standards Board.

(5) "GFOA" means the Government Finance Officers Association.

(6) "Governing body" means the body or board in which the legislative power of a unit of local government is vested.

(7) "Short term" means a maximum of 6 months of operation.

(8) "Surplus funds" means any funds in any general or special account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purposes intended.

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

(10) "Trustees" mean the Trustees of the State Board of Administration.

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

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

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

(2) The primary objectives, in priority order, of investment activities shall be safety, liquidity, and competitive returns with minimization of risks.

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

(4) The board may adopt rules to administer the provisions of this section.

218.407 Local government investment authority.--

(1) Prior to any determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the trust fund, the board or a professional money management firm must provide to the governing body enrollment materials, including a trust fund profile containing impartial educational information describing the administration and investment policy of the trust fund, including, but not limited to:

(a) All rights and conditions of participation, including potential restrictions on withdrawals.

(b) The historical performance, investment holdings, credit quality, and average maturity of the trust fund investments.

(c) The applicable administrative rules.

(d) The rate determination processes for any deposit or withdrawal.

(e) Any fees, charges, penalties, and deductions that apply to the account.

(f) The most recently published financial statements or independent audits, if available, prepared under generally accepted accounting principles.

(g) A disclosure statement for signature by the appropriate local government official.

(2) Upon review of the enrollment materials and upon determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the trust fund, a resolution by the governing body and the signed acceptance of the disclosure statement by the local government official, who may be the chief financial or administrative officer of the local government, shall be filed with the board and, if appropriate, a copy shall be provided to a professional money management firm authorizing investment of its surplus funds in the trust fund established by this

part. The resolution shall name:

(a) The local government official, who may be the chief financial or administrative officer of the local government, or

(b) An independent trustee holding funds on behalf of the unit of local government, responsible for deposit and withdrawal of such funds.

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

(4) The provisions of this part shall not impair the power of a unit of local government to hold funds in deposit accounts with banking or savings institutions or to invest funds as otherwise authorized by law.

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

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

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

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

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

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

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

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

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

(6)(a) The board or a professional money management firm shall provide a report, at a minimum monthly or upon the occurrence of a material event, to every participant having a beneficial interest in the trust fund, the board's executive director, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The report shall include:

1. Reports of any material impacts on the trust fund and any actions or escalations taken by staff to address such impacts. The trustees shall provide quarterly a report to the Joint Legislative Auditing Committee that the trustees have reviewed and approved the monthly reports and actions taken, if any, to address any impacts.

2. A management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary shall be prepared in a manner that will allow anyone to ascertain whether investment activities during the reporting period have conformed to investment policies. Such reporting shall be in conformance with best market practices. The board or a professional money management firm shall furnish upon request the details of an investment transaction to any participant, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

(b) The market value of the portfolio shall be calculated daily. Withdrawals from the trust fund shall be based on a process that is transparent to participants and will ensure that advantages

or disadvantages do not occur to parties making deposits or withdrawals on any particular day. A statement of the market value and amortized cost of the portfolio shall be issued to participants in conjunction with any deposits or withdrawals. In addition, this information shall be reported monthly with the items in paragraph (a) to participants, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council. The review of the investment portfolio, in terms of value and price volatility, shall be performed with practices consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, consideration shall be given to GASB Statement 31. Additional reporting may be made to pool participants through regular and frequent ongoing multimedia educational materials and communications, including, but not limited to, historical performance, investment holdings, amortized cost and market value of the trust fund, credit quality, and average maturity of the trust fund investments.

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

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

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

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

(10)(a) There is created a six-member Participant Local Government Advisory Council for the purposes of regularly reviewing the administration of the trust fund and making recommendations regarding such administration to the trustees. The members of the council shall be appointed by the board and subject to confirmation by the Senate. Members must possess special knowledge, experience, and familiarity obtained through active, long-standing, and material participation in the dealings of the trust fund. Each member shall serve a 4-year term. Any vacancy shall be filled for the remainder of the unexpired term. The council shall annually elect a chair and vice chair from within its membership. A member may not serve consecutive terms as chair or vice chair.

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

218.417 Fund B Surplus Funds Trust Fund.--

(1) There is created the Fund B Surplus Funds Trust Fund within the State Board of Administration. Funds credited to the trust fund shall consist of the investments, interest earned, and reserve in Fund B of the Local Government Surplus Funds Trust Fund. Those funds shall be transferred from the Local Government Surplus Funds Trust Fund to the Fund B Surplus Funds Trust Fund within 30 days after the effective date of this act.

(2) Notwithstanding s. 216.301 and pursuant to s. 216.351, any balance in the trust fund at the end of the fiscal year shall remain in the fund and be available for carrying out the purposes of the trust fund.

(3) Pursuant to the provisions of s. 19(f)(3), Art. III of the State Constitution, the Fund B Surplus Funds Trust Fund is exempt from the termination provisions of s. 19(f)(2), Art. III of the State Constitution. The trust fund shall be terminated upon self-liquidation, if not terminated sooner by law.

218.418 Definitions.--

As used in ss. 218.421 and 218.422, the term:

(1) "Board" means the State Board of Administration.

(2) "Surplus funds" means any funds in any general or special account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purposes intended.

(3) "Trust fund" means the pooled investment fund known as the Fund B Surplus Funds Trust Fund.

(4) "Trustees" means the Trustees of the State Board of Administration.

(5) "Unit of local government" means any governmental entity within the state not part of state government and includes, but is not limited to, the following and the officers thereof: any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporation, or other political subdivision of the state.

218.421 Fund B Surplus Funds Trust Fund; purpose; rulemaking; administration; reporting.--

(1)(a) The purpose of the Fund B Surplus Funds Trust Fund is to maximize the payout of principal on invested surplus funds of units of local government formerly in Fund B of the Local Government Surplus Funds Trust Fund through a prudent work out of the trust fund with the ultimate goal of self-liquidating the trust fund through maturity and payout of the investments.

(b) The State Board of Administration may adopt rules pursuant to ss. 120.536(1) and 120.54 to administer this section.

(2)(a) The board or a professional money management firm shall administer the trust fund on behalf of the participants based on a written investment policy, approved by the trustees, and shall have the power to work out, restructure, or invest such funds. The trustees shall annually certify to the Joint Legislative Auditing Committee that the trustees have conducted a review of the trust fund and that the trust fund is in compliance with the requirements of this section. Any new investments must be made in money market or equivalent funds. The board or a professional money management firm shall keep a separate account, designated by name and number of each participating local government. Individual transactions and totals of all investments, or the share belonging to each participant, shall be recorded in the accounts. Any moneys accrued in the trust fund shall be subject to payment from the trust fund on a monthly basis to the trust fund participants according to their proportional interest in the trust fund so long as at least \$100,000 is in the trust fund at the end of that month. After all securities have matured, been sold, or worked out, a final distribution shall be made to the participants in the trust fund. Participants may not conduct transactions in the trust fund.

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

(c) The investment policy shall be reviewed and approved by the trustees upon the transfer of the funds into the trust fund or when market changes dictate, and in each event, the investment policy shall be reviewed by the Investment Advisory Council and by the Participant Local Government Advisory Council.

(d) Costs incurred in carrying out the provisions of this section, which shall be prorated among the participants in the percentage that each participant's deposits bear to the total trust fund, may be deducted from any interest earned in the trust fund. The board or a professional money management firm may not transfer the interest or use the interest for any other purpose, including, but not limited to, making up investment losses.

(e) After the trust fund self-liquidates, any remaining reserve may be transferred by the trustees at their sole discretion back to the trust fund from which the assets were originally separated.

(3)(a) The board or a professional money management firm shall provide a report at a minimum, monthly, or upon the occurrence of a material event, to every participant having a beneficial interest in the trust fund, the board's executive director, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The report shall include:

1. Reports of any material impacts on the trust fund, and any actions or escalations taken by staff to address such impacts. The trustees shall provide quarterly a report to the Joint Legislative Auditing Committee that the trustees have reviewed and approved the monthly reports and actions taken, if any, to address any impacts.

2. A management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary shall be prepared in a manner that will allow anyone to ascertain whether investment activities during the reporting period have conformed to investment policies. Such reporting shall be in conformance with best market practices.

3. The board or a professional money management firm shall furnish upon request the details of an investment transaction to any participant, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

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

(4) The trustees shall review the board's progress in returning the principal in the trust fund to the participants at each meeting of the board until the trust fund self-liquidates or is terminated by law.

218.422 Fund B Surplus Funds Trust Fund; review.--

Unless the Fund B Surplus Funds Trust Fund has been terminated by law or through self-liquidation, prior to the 2013 Regular Session of the Legislature, the Auditor General shall review the trust fund and the steps taken up to that time to return as much of the principal to the participants as possible and provide a summary report to the board, the trustees, the President of the Senate, the Speaker of the House of Representatives, the Investment Advisory Council, and the Participant Local Government Advisory Council.

Note.--Section 11, ch. 2008-59, provides that "[s]ections 218.418, 218.421, and 218.422, Florida Statutes, as created by this act, shall expire at the time the Fund B Surplus Funds Trust Fund is terminated by law or self-liquidates as determined and announced by the executive director of the State Board of Administration, whichever occurs first."



**1801 Hermitage Boulevard, Suite 100
Tallahassee, Florida 32308
(850) 488-4406**

www.sbafla.com/prime