



BIENNIAL REPORT
FEBRUARY 2011

**Participant Local Government
Advisory Council (PLGAC)**

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Investment of Local Government Surplus Funds Act

facts-at-a-glance...

Florida PRIME is an exclusive service for Florida governmental organizations, providing a cost-effective investment vehicle for their surplus funds. Governmental funds invested in Florida PRIME are available for short-term investment primarily because of the mismatch between the revenue receipts and spending obligations of Florida local governments.

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 AAA(m) rating, full transparency, and best-in-class financial reporting.

Florida PRIME offers the best value for governmental investors. As the lowest-cost investment pool in the state, total fees are a fraction of the cost of other investment options in Florida.

PRIME Statistics (As of December 31, 2010)

Total Participants
815

Total Market Value
\$7,266,394,554

Total Number of Accounts
1,787

INTRODUCTION

This report has been developed by the Participant Local Government Advisory Council (the “Council”) 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 (formerly the Local Government Investment Pool, and now known as “Florida PRIME”), to be a very high quality investment option for its participants. This report provides a high level overview of the numerous investment and operational improvements made since the Council’s inaugural meeting on February 25, 2009. 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. [www.sbafla.com/prime]

It is revealing to view the Florida PRIME investment pool in the context of the overall money market industry. The money market industry has faced many challenges over the past few years that have led to significant reforms and near-complete transparency. Most notably, early in

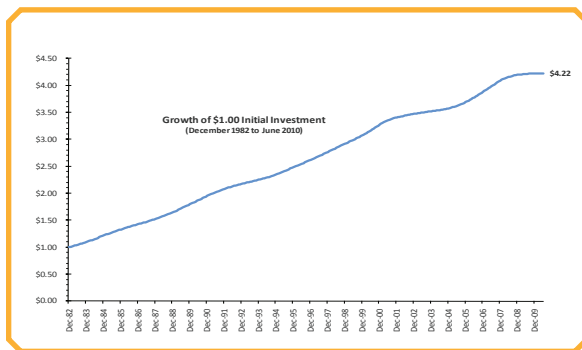
2010, the Securities & Exchange Commission adopted a series of reforms to Rule 2a-7 designed to improve disclosure, enhance liquidity, further limit risk and in general prevent future disruptions across the money market fund industry. Both the management of Florida PRIME and our participants recognized the value these reforms deliver and that a strong money market industry leads to an even stronger local government investment pool.

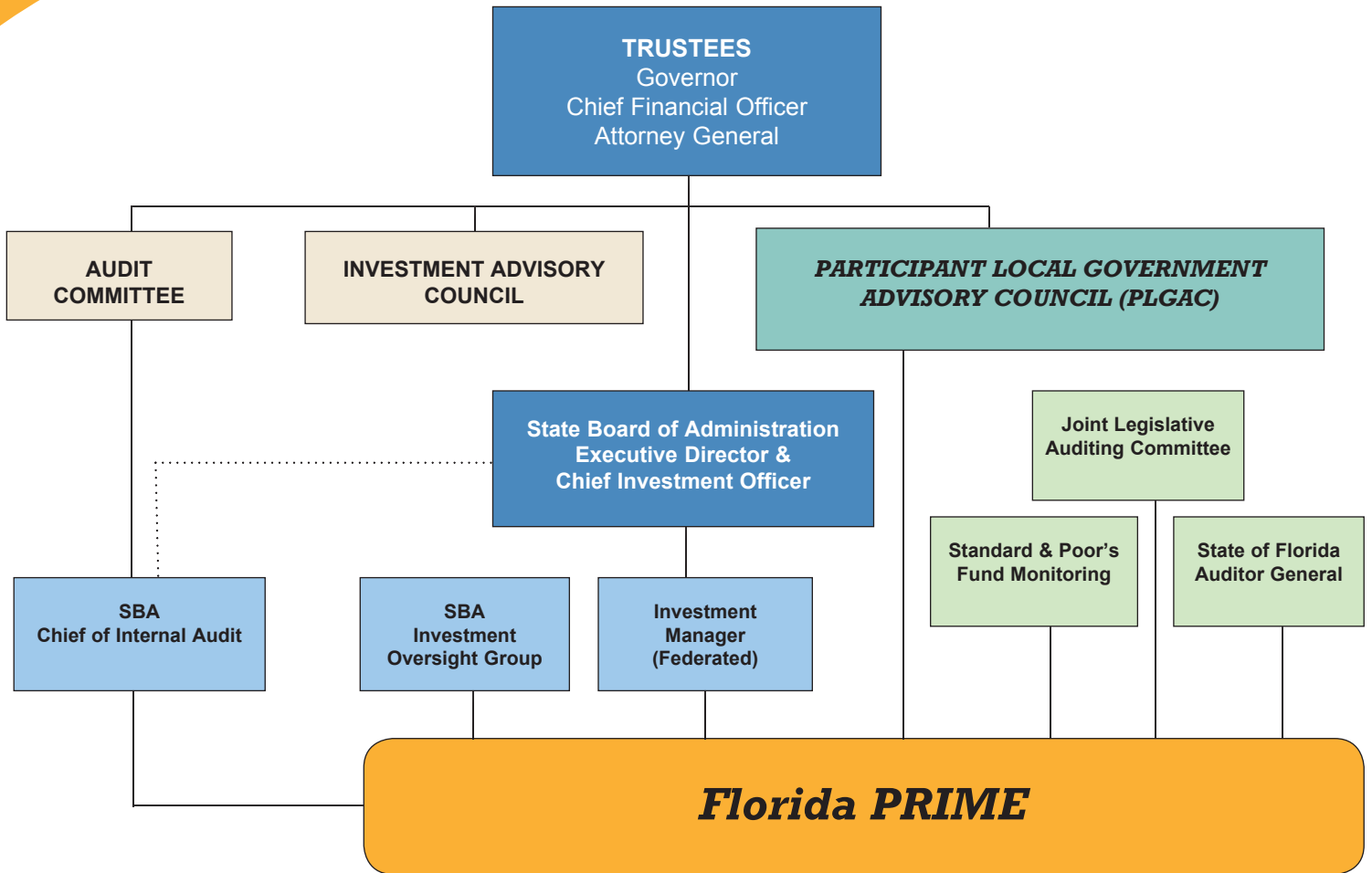
Through its commitment to follow SEC Rule 2a-7 cash management standards, Florida PRIME has adopted these reforms with full integrity and continues to earn Standard & Poor’s AAAM rating—the highest quality rating assigned by Standard & Poor’s. A cost-effective, highly liquid vehicle for the investment of surplus public funds is vital to Florida governmental organizations. We remain 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 best-run state pools in the nation.

EXTREMELY LOW INTEREST RATE ENVIRONMENT

Money market investment vehicles have been under significant pressure, with lackluster asset growth during the last few years. 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 stated repeatedly that it, “continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.” 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 instruments.

GROWTH OF A DOLLAR IN FLORIDA PRIME





The credit crisis and market upheaval which started in late 2007 and accelerated in September 2008, demonstrated that money market funds are susceptible to runs. Money market funds are vulnerable to runs because investors have an incentive to redeem their shares before others do when there is a perception that the fund might suffer a loss. While the financial crisis from which the nation is recovering did not originate with the money market industry, over the course of reform discussions there were some predictions the money market industry as we know it today would become obsolete. That has proven to be false.

Dynamic, efficient and transparent markets improve the allocation of capital and increase economic growth; the resiliency of the money market industry is a testament to the benefits it provides to corporate, government and individual investors and to the entities it helps finance.

Of course, in this historically low interest rate environment, money market rates have been unattractive to many institutional and retail investors—both on an absolute basis and relative to higher yielding bank investment vehicles. As a result, money market funds have experienced significant outflows. From January 2009 (which was the high point for

money market fund assets) through October 2010, investors redeemed nearly \$1.1 trillion. In contrast, reflecting increased confidence among the state’s public entities, Florida PRIME has bucked this trend by experiencing attractive net flows over the past calendar year: pool assets increased from \$6.5 billion on December 31, 2009 to \$7.2 billion on December 31, 2010.

FISCAL HEALTH OF PARTICIPATING GOVERNMENTS

Over the last three years, local governments throughout the state have experienced significant loss of revenues, particularly due to lower overall ad-valorem tax collections. As a direct result of the real estate and housing downturn, coupled with an extreme economic recession, many local government revenue sources have decreased by 10 to 20 percent, or more, from 2007 to 2010, and have yet to return to pre-crisis levels. This downturn in revenues has led to significant reductions in operating budgets and lowered service levels, as well as forced utilization of reserve funds by many public entities. Participating governments in Florida PRIME had less surplus funds to invest on a short-term basis,

further constraining year-over-year asset growth.

REVIEW OF FUND GOVERNANCE

Florida PRIME is overseen by several governing bodies, including the State Board of Administration, the Participant Local Government Advisory Council, the Investment Advisory Council, and the Florida Legislature and its affiliated entities.

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, which was incorporated by reference into the Florida Constitution of 1968 Article XII, §9(c)(2). 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. All three of the Trustees

(continued on Page 9)

ESTIMATED ANNUAL EXPENSES		
As of January 2011		
Service/Product	\$ Estimate	Expenses in Basis Points Annualized
Expenses to be Charged Directly to Florida PRIME		
SBA Charges		
Investment Oversight and Transfer Agent Activities	\$420,000.00	0.60
Variable Costs:		
Investment Management (Federated) ^{1,2}	\$1,825,000.00	2.61
BNY Mellon Custody ¹	\$0.00	0.00
BOA Wire & Banking Services ³	\$54,000.00	0.08
Fixed Costs:		
Standard & Poor’s (S&P) Rating Maintenance	\$42,000.00	0.06
Hewitt EnnisKnupp	\$45,000.00	0.06
Legal Compliance Review	\$15,000.00	0.02
Total Investment & Management Fees	\$2,401,000.00	3.43

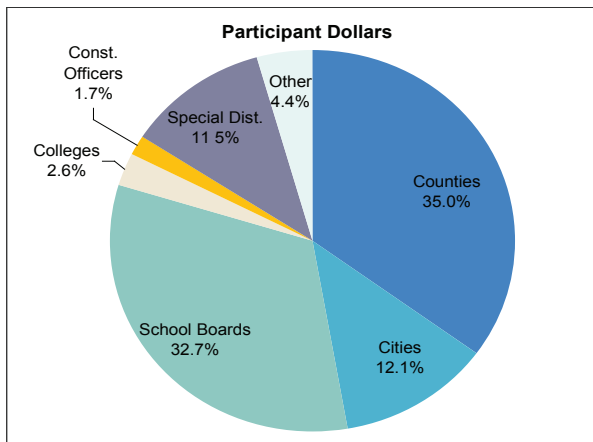
¹ Assumption based on \$7 billion pool market value for Florida PRIME.

² Blended rate based on sliding scale with high of 3.5 basis points and low of 2.0 basis points.

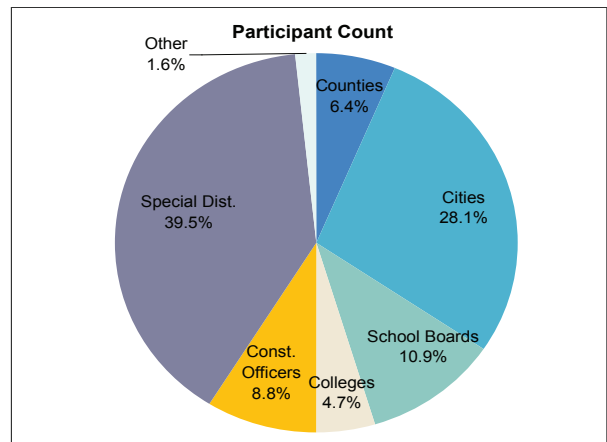
³ Actual fees charged depend on volume of transactions (variable).

PARTICIPANT CONCENTRATION DATA - AS OF DECEMBER 31, 2010

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	2.6%	4.7%
Top 10	48.7%	1.2%	Top 10	2.3%	1.2%
\$100 million or more	57.8%	2.0%	\$100 million or more	0.0%	0.0%
\$10 million up to \$100 million	34.4%	9.2%	\$10 million up to \$100 million	1.8%	0.6%
\$1 million up to \$10 million	7.0%	16.0%	\$1 million up to \$10 million	0.8%	1.2%
Under \$1 million	0.8%	72.9%	Under \$1 million	0.01%	2.8%
Counties	35.0%	6.4%	Constitutional Officers	1.7%	8.8%
Top 10	29.2%	1.2%	Top 10	0.8%	1.2%
\$100 million or more	27.9%	1.1%	\$100 million or more	0.0%	0.0%
\$10 million up to \$100 million	6.5%	1.1%	\$10 million up to \$100 million	0.9%	0.2%
\$1 million up to \$10 million	0.6%	1.1%	\$1 million up to \$10 million	0.7%	1.6%
Under \$1 million	0.0%	3.1%	Under \$1 million	0.1%	7.0%
Municipalities	12.1%	28.1%	Special Districts	11.5%	39.5%
Top 10	7.7%	1.2%	Top 10	8.8%	1.2%
\$100 million or more	2.2%	0.1%	\$100 million or more	5.7%	0.2%
\$10 million up to \$100 million	7.7%	2.5%	\$10 million up to \$100 million	3.8%	1.5%
\$1 million up to \$10 million	2.1%	5.4%	\$1 million up to \$10 million	1.8%	4.3%
Under \$1 million	0.3%	20.1%	Under \$1 million	0.3%	33.5%
School Boards	32.7%	10.9%	Other	4.4%	1.6%
Top 10	26.7%	1.2%	Top 10	4.4%	1.2%
\$100 million or more	20.7%	0.4%	\$100 million or more	1.4%	0.1%
\$10 million up to \$100 million	10.9%	2.7%	\$10 million up to \$100 million	2.8%	0.6%
\$1 million up to \$10 million	1.0%	2.1%	\$1 million up to \$10 million	0.2%	0.2%
Under \$1 million	0.1%	5.8%	Under \$1 million	0.0%	0.6%



Total Fund Value: \$7,266,394,554



Total Participant Count: 815

**FLORIDA PRIME YEAR-END BALANCES
FISCAL YEAR ENDING JUNE 30**

	Beginning Net Asset Value	Contributions	Distributions	Investment Gain (Loss)	Ending Net Asset Value
1993-94	\$ 9,474,680,065	\$ 23,151,074,576	\$ (24,863,862,122)	\$ 345,914,650	\$ 8,107,807,169
1994-95	\$ 8,107,807,169	\$ 20,684,389,717	\$ (22,596,273,639)	\$ 346,064,436	\$ 6,541,987,683
1995-96	\$ 6,541,987,683	\$ 26,957,268,577	\$ (25,858,771,543)	\$ 450,887,963	\$ 8,091,372,680
1996-97	\$ 8,091,372,680	\$ 27,075,476,120	\$ (26,707,085,595)	\$ 488,183,447	\$ 8,947,946,651
1997-98	\$ 8,947,946,651	\$ 27,999,203,474	\$ (27,226,593,964)	\$ 558,712,985	\$ 10,279,269,146
1998-99	\$ 10,279,269,146	\$ 30,806,612,424	\$ (30,524,717,097)	\$ 605,863,072	\$ 11,167,027,546
1999-00	\$ 11,167,027,546	\$ 30,268,289,228	\$ (31,269,790,423)	\$ 658,039,724	\$ 10,823,566,075
2000-01	\$ 10,823,566,075	\$ 35,871,825,533	\$ (32,033,003,422)	\$ 765,938,748	\$ 15,428,326,934
2001-02	\$ 15,428,326,934	\$ 35,658,121,453	\$ (36,573,757,078)	\$ 386,707,164	\$ 14,899,398,472
2002-03	\$ 14,899,398,472	\$ 41,206,823,561	\$ (38,316,906,355)	\$ 281,151,451	\$ 18,070,467,130
2003-04	\$ 18,070,467,130	\$ 42,716,840,356	\$ (42,841,762,633)	\$ 241,763,035	\$ 18,187,307,887
2004-05	\$ 18,187,307,887	\$ 48,782,717,784	\$ (49,687,574,621)	\$ 407,504,633	\$ 17,689,955,684
2005-06	\$ 17,689,955,684	\$ 55,600,968,278	\$ (52,032,572,510)	\$ 873,645,040	\$ 22,131,996,492
2006-07	\$ 22,131,996,492	\$ 67,761,945,518	\$ (60,418,210,449)	\$ 1,464,570,721	\$ 30,940,302,283
2007-08	\$ 30,940,302,283	\$ 22,338,576,154	\$ (46,925,022,760)	\$ 709,955,548	\$ 7,063,811,226
2008-09	\$ 7,063,811,226	\$ 9,412,687,616	\$ (10,581,057,668)	\$ 88,852,539	\$ 5,984,293,713
2009-10	\$ 5,984,293,713	\$ 12,759,345,593	\$ (13,278,921,332)	\$ 16,218,199	\$ 5,480,936,173

of the Board are elected statewide to their respective positions as Governor, Chief Financial Officer, and Attorney General.

The Participant Local Government Advisory 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, 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 Council also prepares and submits a written biennial report to the Trustees, the SBA’s Investment Advisory

Council, and the Joint Legislative Auditing Committee that describes the activities and recommendations of the council. Florida PRIME’s undergoes independent annual financial audits, performed by the Auditor General’s Office.

The SBA’s Investment Advisory Council (or “IAC”) was recently expanded to include nine members appointed by the Board of Trustees. The Investment Advisory Council 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.

REVIEW OF COMPLIANCE

The Local Government Surplus Funds Trust Fund is governed by Part IV of Chapter 218, Florida Statutes [see Appendix on Page 17]. During fiscal years 2009 and 2010, Florida PRIME conducted statutorily required



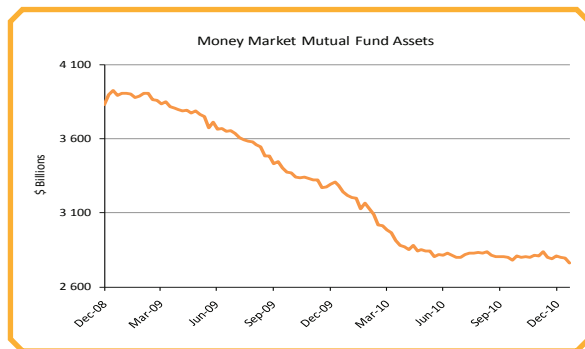
annual certifications covering both its legal compliance, as well as its investment practices. For the annual legal compliance review, an external law firm (Lewis, Longman & Walker, PA) was tasked with evaluating the pool’s compliance with Sections 218.40 through 218.422, Florida Statutes. For the annual 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 2009 and June 2010, and were posted to the pool’s website.

issued by the Comptroller of the United States). The most recent financial audit, covering the 2010 fiscal year, was completed in December and sent directly to each participant by the Auditor General’s office.

REVIEW OF 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 Council.

MONEY MARKET FUND FLOWS



The pool’s investment manager maintained a “Participant Consultant” responsible for fielding participant issues throughout the state. The position formalized the communication between Federated, the SBA, and Florida PRIME participants. Although the Participant Consultant position was discontinued in late 2010, staff of Federated and the SBA have continued to attend various conferences, continued sponsorships, and presentation exhibits. Federated continues formal participant outreach and has applied generous financial resources towards promoting Florida PRIME among existing and prospective participants.

In May 2010, the SBA completed and fully implemented a risk-based investment compliance monitoring program for Florida PRIME. The pool’s compliance monitoring program represents clear documentation of various compliance elements and extensive risk procedures. The SBA’s compliance monitoring program improves the risk assessment and compliance oversight for Florida PRIME and its participants.

In August 2009, the Local Government Surplus Funds Trust Fund, formerly known as the Local Government Investment Pool, or “LGIP,” was formally renamed as “Florida PRIME.” This was done as part of a larger communication initiative to re-brand the pool and overhaul its website, as well as all electronic reporting and print media. The SBA, in conjunction with Federated Investors, had begun to expand and improve all investor communications prior to the re-branding, implementing various timely disclosures, conference calls, and portfolio transparency. As part of the new branding, a logo was developed and all marketing, enrollment, and educational materials were updated to reflect a

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

consistent look and feel. In June 2010, the Florida PRIME name, logo design, and service marks were registered with the Florida Department of State.

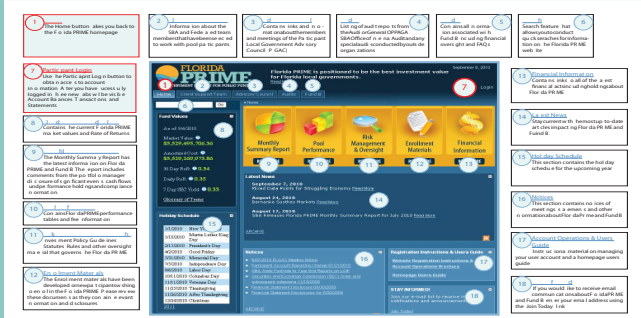
The new Florida PRIME website, which debuted August 10, 2009, is more user friendly, providing investors with new security, and more timely portfolio and investment reporting. Numerous enhancements were made to provide more readily available information on the home page and reduce the number of Adobe Portable Document Format (PDF) documents through additional embedded content. The Florida PRIME website offers current and prospective investors a wealth of information covering investment management and operational activities.


Another area of enhanced communication is the continuously improving Monthly Summary Report (or “MSR”). The MSR currently provides more information to its investors 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. The Florida PRIME’s MSR includes all investment transactions, investment holdings by security and type, short and long-term yield performance, and other material information. In January 2010, a new investment expense fee table was added, providing disclosure of actual payments charged to Florida PRIME for investment, compliance, and administrative functions. Since July 2010, in conjunction with new short-term yield performance reporting, the MSR has included seven-day SEC Yield information, in addition to daily and 30-day interest calculations.

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 email 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 URL links to the pool’s

WEB REGISTRATION AUDIO WORKSHOP

In August 2009, an audio tutorial explaining how to use and register on the new Florida PRIME website was made available to pool participants.




FLORIDA PRIME HOME PAGE USERS GUIDE
<https://www.sbafila.com/prime>

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.

REVIEW OF OPERATIONAL ENHANCEMENTS

Effective July 1, 2009, the Florida PRIME extended its hours of operations and the daily transaction deadline, from 11:00 AM ET to 1:00 PM ET as an increased convenience to participants.

Effective January 1, 2010, the Council approved a new accounting policy covering gains and losses and the accounting method for allocation. This policy is consistent with industry practices and allows Florida PRIME to operate in a manner similar to SEC registered 2a-7 investment vehicles. In conjunction with the new accounting policy, all investment and administrative charges are applied directly to the investment pool, consistent with the practices of SEC registered 2a-7

funds.

On July 9, 2010, the SBA began to calculate and make available a new seven-day Yield figure, consistent with the Securities & Exchange Commission’s (SEC) Rule 2a-7 methodology. This is done via calculation by the Bank of New York Mellon (BNY Mellon), the pool’s custodian and book of record. BNY Mellon calculates the yield for Florida PRIME based on the SEC’s yield calculation rules and is then reviewed for accuracy by the SBA’s financial operations unit. Reporting the seven-day Yield allows participants to better compare yields among both 2a-7 and “2a-7-like” investment vehicles.

REVIEW OF 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 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 attendant to the pool’s investment management practices.

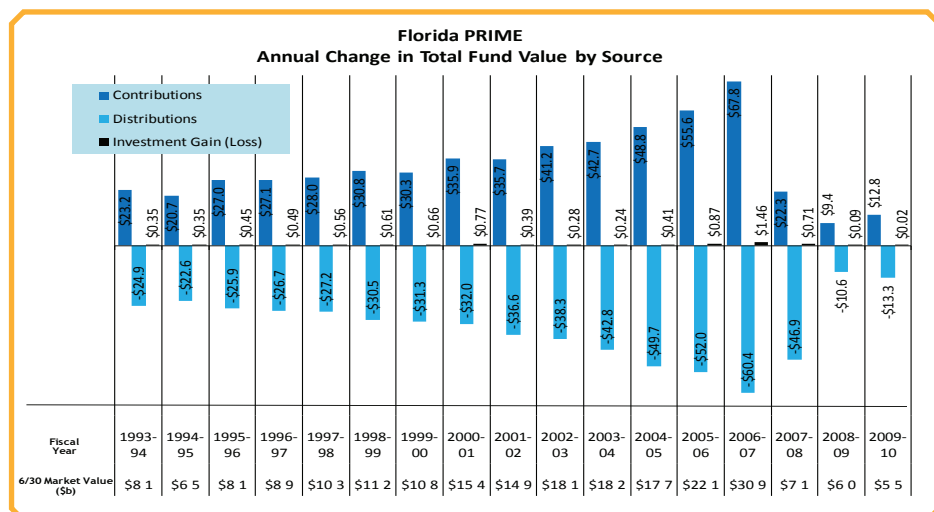
In 2008, the potential to formally register the pool with the SEC was evaluated. After thorough analysis, such legal registration was

not determined to be cost effective. Very few local government investment pools operate as SEC registered funds, due to the high costs and complexity of doing so. Such costs would materially lower investment yields and lead to lower interest earnings by participants.

The primary investment benchmark for Florida PRIME is the Standard & Poor’s AAA/AA Rated GIP All 30-Day Net Index. In 2009, the IPS was changed to move away from a gross index (not adjusting for investment fees), to correspond to a net of fees benchmark, given that the yield is calculated net of fees. In 2010, changes to the IPS were made reflecting significant reforms made by the SEC to Rule 2a-7, increasing the pool’s minimum liquidity requirements, reducing the maximum allocation to illiquid securities, and a requirement to oversee stress testing. Many of the amendments to the IPS also reconciled with the recommendations of the Investment Company Institute (ICI) Money Market Working Group.

The Council has taken additional steps to ensure the pool remains “2a-7-like.” In January 2010, the SEC passed significant new rules requiring money market fund managers to periodically stress test their funds’ ability to maintain a stable Net Asset Value (or “NAV”)

TRANSACTIONS BY SOURCE



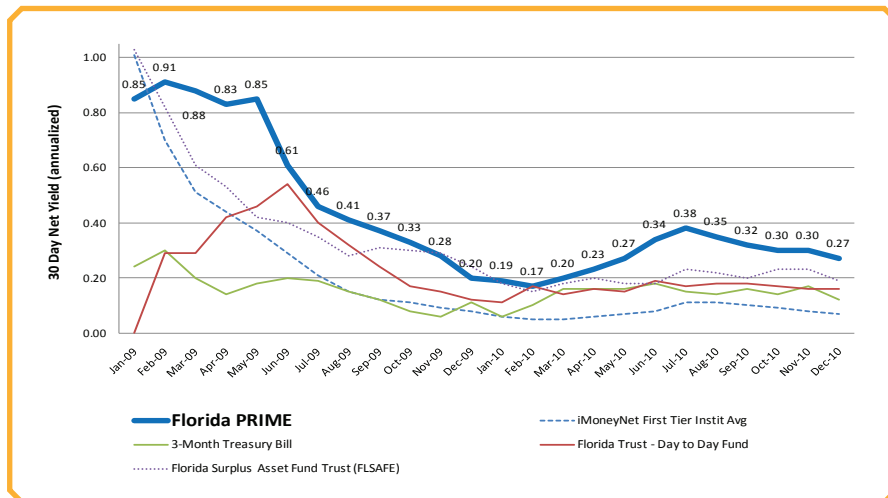
per share based on certain hypothetical events, including a change in short-term interest rates, an increase in shareholder redemptions, a downgrade or default of a portfolio security, and/or changes in interest rate spreads. The stress testing requirements ensure these risks are monitored, and are designed to help money market funds weather stress without incident. In the fall of 2010, the SBA's Investment Oversight Group (IOG) reviewed Federated Investors' stress testing of the pool. Florida PRIME is regularly stress tested and the results of such tests are reviewed at least annually, in compliance with the IPS. All meeting minutes of the IOG are posted to the Florida PRIME website.

days. This change was also designed to lower money market funds' exposure to interest-rate, credit, and liquidity risks associated with floating-rate obligations that money market funds commonly hold. The liquidity and WAM and WAL requirements were incorporated into Florida PRIME's IPS effective July 1, 2010.

More background and policy analysis on proposed money market reforms and those made by the SEC to Rule 2a-7 can be found in the "Report of the President's Working Group on Financial Markets - Money Market Fund Reform Options (October 2010)." The President's

Other SEC reforms covered various risk-limiting constraints on money market fund portfolios. Perhaps the most significant change was the requirement to maintain a substantial liquidity cushion. These reforms were designed to augment liquidity, and enable money market funds to better withstand heavy redemptions without selling portfolio securities into potentially distressed markets at discounted prices. The liquidity rules require money market funds to maintain minimum daily and weekly liquidity positions - with daily liquidity equal to at least 10 percent of assets, and weekly liquidity equal to at least 30 percent of assets. Another change related to the maximum allowable weighted average maturity ("WAM") of fund portfolios, lowering the maximum allowed for money market funds from 90 to 60 days. Florida PRIME had already adopted a maximum 60 day WAM as a result of its maintenance of a 'AAAm' fund rating from Standard & Poor's. Lowering a fund's maximum WAM was designed to diminish funds' exposure to interest rate risk and increase the liquidity of fund portfolios. Concurrently, the SEC also introduced a new weighted average life ("WAL") measure for money market funds, setting a maximum ceiling of 120

PERFORMANCE BENCHMARKING



Working Group (PWG) consists of the Secretary of the Treasury, the Chairman of the Federal Reserve Board of Governors, Chairman of the Securities & Exchange Commission, and the Chairman of the Commodity Futures Trading Commission. The PWG's report was submitted to the newly created Financial Stability Oversight Council (FSOC) for further examination.

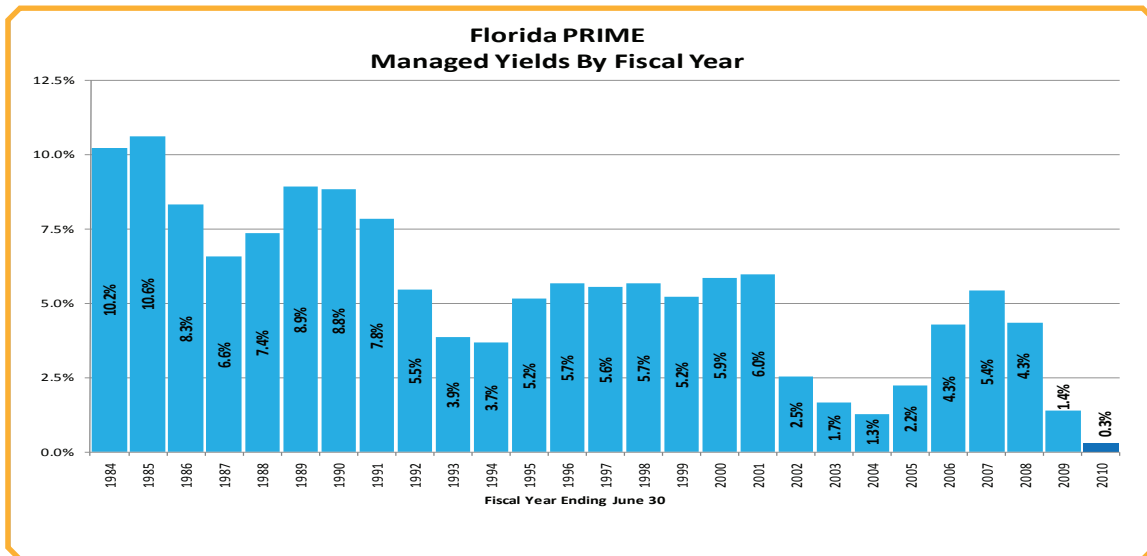
Since December 2007, Florida PRIME has maintained a "AAAm" fund rating from Standard & Poor's (S&P). A Standard & Poor's Principal Stability fund rating, also known as a money-market fund rating, is a current opinion of a fund's capacity to maintain stable principal or net asset value. S&P conducts weekly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

characteristics.

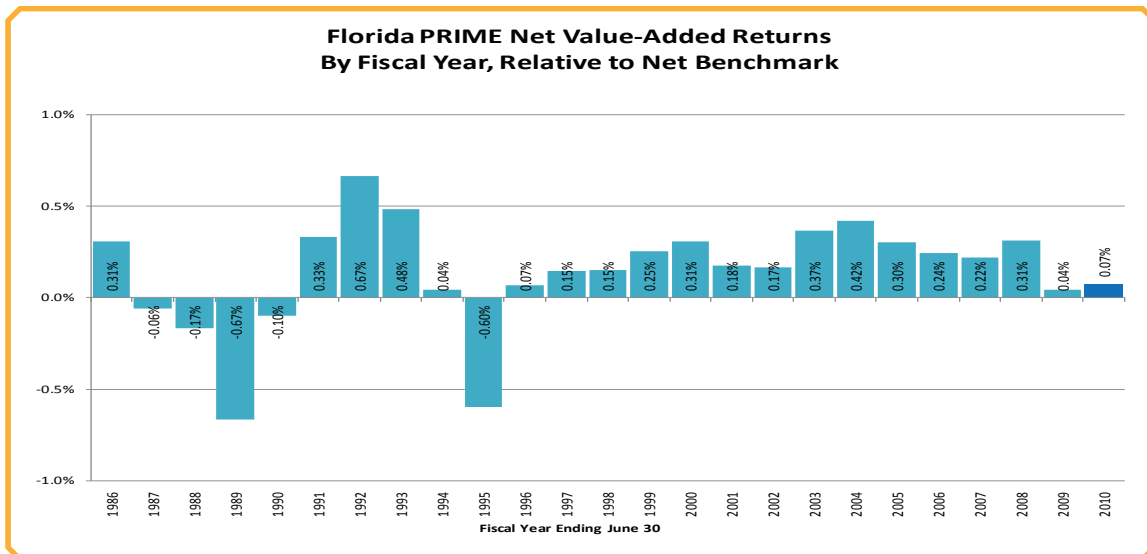
When assigning a Principal Stability rating to a fund, S&P evaluates the creditworthiness of a fund's investments and counterparties, the market price exposure of its investments, sufficiency of the fund's

portfolio liquidity, and management's ability and policies 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

YIELDS BY FISCAL YEAR



PERFORMANCE BY FISCAL YEAR



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.

DIVERSIFICATION NEEDS OF PARTICIPATING GOVERNMENTS

Investors may want to be sure that the actual level of risk they set aside in seeking organizational diversification is sufficiently high to justify the additional costs they are incurring. Over the last few years, there

has been a significant shift away from using a single-sourced cash investment vehicle. Historically, it was not uncommon for many participants in the SBA’s investment pool to deposit all of their available cash with little regard for diversification among money market vehicles. Since the credit and liquidity crises in 2007 and 2008, and participant experiences in 2007, many public sector money market investors have implemented restrictions on the amount of cash that may be allocated to any one investment pool or money market fund. These changes have normally been made through revisions to their cash management investment policy guidelines, whereby a maximum percentage ownership threshold is applied to their 2a-7 and/or governmental investment pool allocation. Several governmental entities in Florida have specifically carved out maximum holding allocations for Florida PRIME.

As noted in the 2010 *Florida PRIME Best Practices Review*, Ennis Knupp (now Hewitt Ennis Knupp) observed that, “... having more than one cash-like investment fund does not provide the investor with much greater diversification, given that most short-term fixed income and cash managers are investing in similar securities and will often have significant overlap

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%
01/18/08	\$ 50,000,000	\$ 50,000,000	\$ 1,959,451,941	2.5%
02/11/08	\$ 518,000,000	\$ 568,000,000	\$ 1,441,451,941	28.3%
03/18/08	\$ 210,550,000	\$ 778,550,000	\$ 1,230,901,941	38.7%
04/21/08	\$ 106,000,000	\$ 884,550,000	\$ 1,124,901,941	44.0%
06/19/08	\$ 291,500,000	\$ 1,176,050,000	\$ 833,401,941	58.5%
06/26/08	\$ 150,500,000	\$ 1,326,550,000	\$ 682,901,941	66.0%
07/07/08	\$ 34,700,000	\$ 1,361,250,000	\$ 648,201,941	67.7%
08/06/08	\$ 10,400,000	\$ 1,371,650,000	\$ 637,801,941	68.3%
09/05/08	\$ 9,300,000	\$ 1,380,950,000	\$ 628,501,941	68.7%
10/07/08	\$ 11,750,000	\$ 1,392,700,000	\$ 616,751,941	69.3%
11/07/08	\$ 8,700,000	\$ 1,401,400,000	\$ 608,051,941	69.7%
12/04/08	\$ 20,500,000	\$ 1,421,900,000	\$ 587,551,941	70.8%
01/09/09	\$ 7,900,000	\$ 1,429,800,000	\$ 579,651,941	71.2%
02/09/09	\$ 6,800,000	\$ 1,436,600,000	\$ 572,851,941	71.5%
03/09/09	\$ 5,800,000	\$ 1,442,400,000	\$ 567,051,941	71.8%
04/09/09	\$ 6,600,000	\$ 1,449,000,000	\$ 560,451,941	72.1%
05/08/09	\$ 8,200,000	\$ 1,457,200,000	\$ 552,251,941	72.5%
06/08/09	\$ 7,500,000	\$ 1,464,700,000	\$ 544,751,941	72.9%
07/09/09	\$ 7,100,000	\$ 1,471,800,000	\$ 537,651,941	73.2%
08/07/09	\$ 8,150,000	\$ 1,479,950,000	\$ 529,501,941	73.6%
09/04/09	\$ 10,000,000	\$ 1,489,950,000	\$ 519,501,941	74.1%
10/07/09	\$ 8,050,000	\$ 1,498,000,000	\$ 511,451,941	74.5%
11/06/09	\$ 6,750,000	\$ 1,504,750,000	\$ 504,701,941	74.9%
12/08/09	\$ 6,250,000	\$ 1,511,000,000	\$ 498,451,941	75.2%
01/08/10	\$ 34,800,000	\$ 1,545,800,000	\$ 463,651,941	76.9%
02/08/10	\$ 8,575,000	\$ 1,554,375,000	\$ 455,076,941	77.4%
03/08/10	\$ 6,100,000	\$ 1,560,475,000	\$ 448,976,941	77.7%
04/08/10	\$ 5,550,000	\$ 1,566,025,000	\$ 443,426,941	77.9%
05/07/10	\$ 7,175,000	\$ 1,573,200,000	\$ 436,251,941	78.3%
06/07/10	\$ 13,725,000	\$ 1,586,925,000	\$ 422,526,941	79.0%
07/09/10	\$ 8,425,000	\$ 1,595,350,000	\$ 414,101,941	79.4%
08/06/10	\$ 6,650,000	\$ 1,602,000,000	\$ 407,451,941	79.7%
09/08/10	\$ 5,600,000	\$ 1,607,600,000	\$ 401,851,941	80.0%
10/07/10	\$ 5,675,000	\$ 1,613,275,000	\$ 396,176,941	80.3%
11/05/10	\$ 5,375,000	\$ 1,618,650,000	\$ 390,801,941	80.6%
12/08/10	\$ 4,450,000	\$ 1,623,100,000	\$ 386,351,941	80.8%
12/22/10	\$ 23,000,000	\$ 1,646,100,000	\$ 363,351,941	81.9%

among their portfolios. Having more than one cash manager can, however, provide some organizational diversification. We believe that, if a local government should be investing in cash, that one local government investment pool, and especially the Florida PRIME for Florida participants, is an appropriate investment vehicle.”

Through discussions with former and current Florida PRIME participants, many local governments have made the decision to allocate their short-term cash

REVIEW OF FUND B

Fund B’s primary objective 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, 2010, their remaining amortized cost was \$565 million, or 55.5 percent more than remaining participant positions in Fund B. Conversely, the current estimated liquidation (market) value of these

GOVERNMENT INVESTMENT POOL BENCHMARKING (stable value funds)

Name of Pool	Inception Date	Fund Type	Assets (\$ Billions) 12/31/10 (or most recent)	Investment Benchmark	Total Fee (bps)	Unit Value	Transaction Cutoff Time	# of Participants
Florida PRIME (Local Government Surplus Funds Trust Fund)	10/01/77	2a-7 Like	\$7.27	S&P AAA/AA Government Investment Pool (GIP) Net of Fees	2.5	\$1.00	1pm EST	815
Florida Trust (Day to Day Fund)	01/12/09	Non 2a-7	\$0.51	none publicly reported	15	\$1.00	11am EST	12
Florida Surplus Asset Fund Trust (FLSAFE)	02/07/08	Non 2a-7	\$0.19	S&P LGIP Index	20 8	\$1.00	1pm EST	25
Florida Education Investment Trust Fund (FEITF)	03/01/10	IRC Section 115 Qualified Trust	none publicly reported	none publicly reported	none publicly reported	none publicly reported	none publicly reported	none publicly reported

across duplicative investment pools and numerous money market vehicles. As a direct result, some Florida PRIME participants, who are particularly sensitive to organizational diversification, may be paying higher overall investment expenses and achieving lower levels of interest earnings (yield) than otherwise would be the case. Furthermore, Florida PRIME maintains a highly diversified portfolio, and invests in several SEC-registered 2a-7 money market funds within its overall investment allocation, subject to the fund’s own diversification requirements.

securities is pegged at \$283 million or 77.9 percent of remaining participant positions.

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 investment have undergone some level of restructuring, and have been 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 paydowns 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. Through the end of December 2010, investors cumulatively received distributions from Fund B totaling almost \$1.65 billion or approximately 82 percent of their original balances.

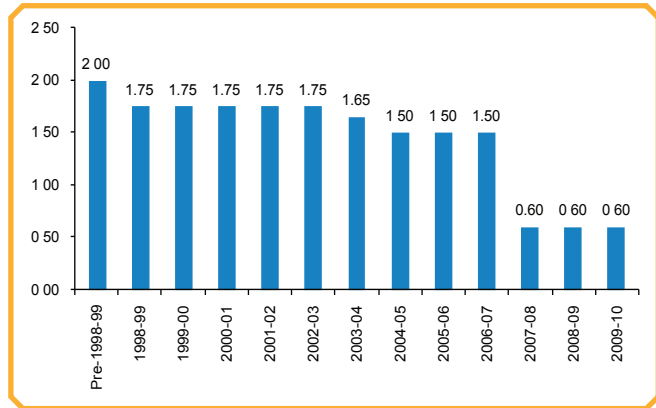
FUTURE INVESTMENT AND OPERATIONAL RECOMMENDATIONS

As part of the 2010 best practice review by Hewitt EnnisKnupp, a recommendation was made by the external consultant to continue to evaluate future implementation of an, “enhanced service model.” In the Spring of 2010 the SBA, in conjunction with Hewitt EnnisKnupp, conducted a full review, complete with an onsite visit, of Federated’s record keeping, client service, and online reporting capabilities. As part of the annual investor survey in the Spring of 2010, participants were asked about their views and desire for the SBA to provide additional services (associated with increased pricing). The results of the survey indicated that while most participants were very pleased with how PRIME is currently operating, there was some concern about possible alterations to PRIME’s existing service model. Overall, the survey results reflected participant aversion to any related fee increases.

The Council has directed the SBA to further consider additional enhancements for Florida PRIME investors, including both Federated’s service capabilities, as well as those of the SBA or other third party vendor(s). An enhanced service model may offer increased overall value and effectiveness of the pool to its participants.

Developing new investment pools was another issue

HISTORICAL SBA FEES
(in basis points)



identified by the pool’s external consultant in both the 2009 and 2010 best practice reports. The Council has directed the SBA to explore the possibility of expanding the lineup of investment options available to participants. Offering participants a single investment vehicle, with one attendant level of risk, may restrict the investment options of governmental investors.

The SBA could develop similar funds to Florida PRIME with lower or higher levels of interest rate and credit risk exposure. Additional funds could build on the existing investment system and administrative foundation, albeit with incrementally higher or lower levels of expected earnings. New investment pools could be developed with similar reporting and participant functionality as Florida PRIME.

As part of the annual 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 suggested for adoption.

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**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 govern-

ment, 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 invest-

ment 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 participa-

tion. 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 pro-

cess 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 par-

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."

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TRUSTEES

Governor Rick Scott, Chairman
Chief Financial Officer Jeff Atwater, Treasurer
Attorney General Pam Bondi, Secretary

**SBA EXECUTIVE DIRECTOR &
CHIEF INVESTMENT OFFICER**

Ash Williams

**PARTICIPANT LOCAL GOVERNMENT
ADVISORY COUNCIL (PLGAC)**

Patsy Heffner, Chairman
Karen Nicolai, Vice-Chairman
MaryEllen Elia
Mark Peterson
Daniel Wolfson
Roger Wishner



STATE BOARD OF ADMINISTRATION

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

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