



BIENNIAL REPORT

April 2015

Participant Local Government Advisory Council (PLGAC)

A decorative graphic at the bottom of the page consists of several overlapping, wavy, curved shapes in shades of light blue and white, creating a sense of movement and depth.

CONTENTS

<u>SECTION NAME</u>	<u>CHARTS & TABLES</u>
3 Chairman's Message	5 Governance Organizational Chart
3 Facts-at-a-glance	7 Participant Concentration Data
4 Introduction	9 2014 Money Market Fund Reform Summary
4 Fund Governance	10 Growth in Assets
6 Investment Overview	11 Historical Yields
6 Eligible Participants	13 Money Market Industry Fund Flows
8 Interest Rate Environment	13 Performance Benchmarking
8 Investment Management Policies	14 Historical Fund Performance
10 Asset Value Growth	15 Historical Participant Cash Flows
11 Participant Communications	16 Fund B Actual Returns
11 Education Center	17 Historical Fund B Distributions
12 Annual Participant Surveys	18 Government Investment Pool Benchmarking
16 Fund B Returns Full Principal	18 Annual Fund Flow Cycle
19 Review of Compliance	20 Cost Comparison
19 Principal Stability Rating	21 Historical SBA Administrative & Oversight Fees
20 Pool Expenses	21 Estimated Annual Expenses
22 Money Market Reforms	
23 Council Recommendations	
 <u>APPENDIX</u>	
24 Part IV, Chapter 218, Florida Statute Investment of Local Government Surplus Funds Act	

TRUSTEES

Governor Rick Scott
Chief Financial Officer Jeff Atwater
Attorney General Pam Bondi

PARTICIPANT LOCAL GOVERNMENT ADVISORY COUNCIL (PLGAC)

Gary Price, Chair
Doug Belden, Vice-Chair
Patsy Heffner
Amy Lovoy
Mark Peterson
Daniel Wolfson

SBA EXECUTIVE DIRECTOR & CHIEF INVESTMENT OFFICER (CIO)

Ash Williams

SBA SENIOR OFFICER, INVESTMENT PROGRAMS & GOVERNANCE

Michael McCauley

SBA CORPORATE GOVERNANCE ANALYST

Hugh Brown

CHAIRMAN'S MESSAGE

On behalf of the Participant Local Governance Advisory Council (PLGAC), we are proud to present the 2015 Florida PRIME Biennial Report. We are honored to represent local governments across Florida and appreciate the confidence and trust you have placed with us. We will continue to make recommendations that are in the best interest of our local governments.

As the highest performing, lowest cost government investment pool in the State of Florida, Florida PRIME offers exceptional service and value for its participating investors. The pool has continued to outperform all peer funds over the period of this report. Additionally, Florida PRIME's investment performance exceeds that of most other short-term investment alternatives.

Florida PRIME continues to offer participants exceptional service, including expanded reporting, enhanced web functionality, improved customer service, and strengthened investment guidelines.

Gary Price, Partner, Fifth Avenue Advisors
Chairman, Participant Local Government Advisory Council (PLGAC)

FLORIDA PRIME[™] STATISTICS

(As of December 31, 2014)

TOTAL PARTICIPANTS

846

TOTAL MARKET VALUE

\$7,880,588,161

TOTAL NUMBER OF ACCOUNTS

1,657

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, 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 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.

2015 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.

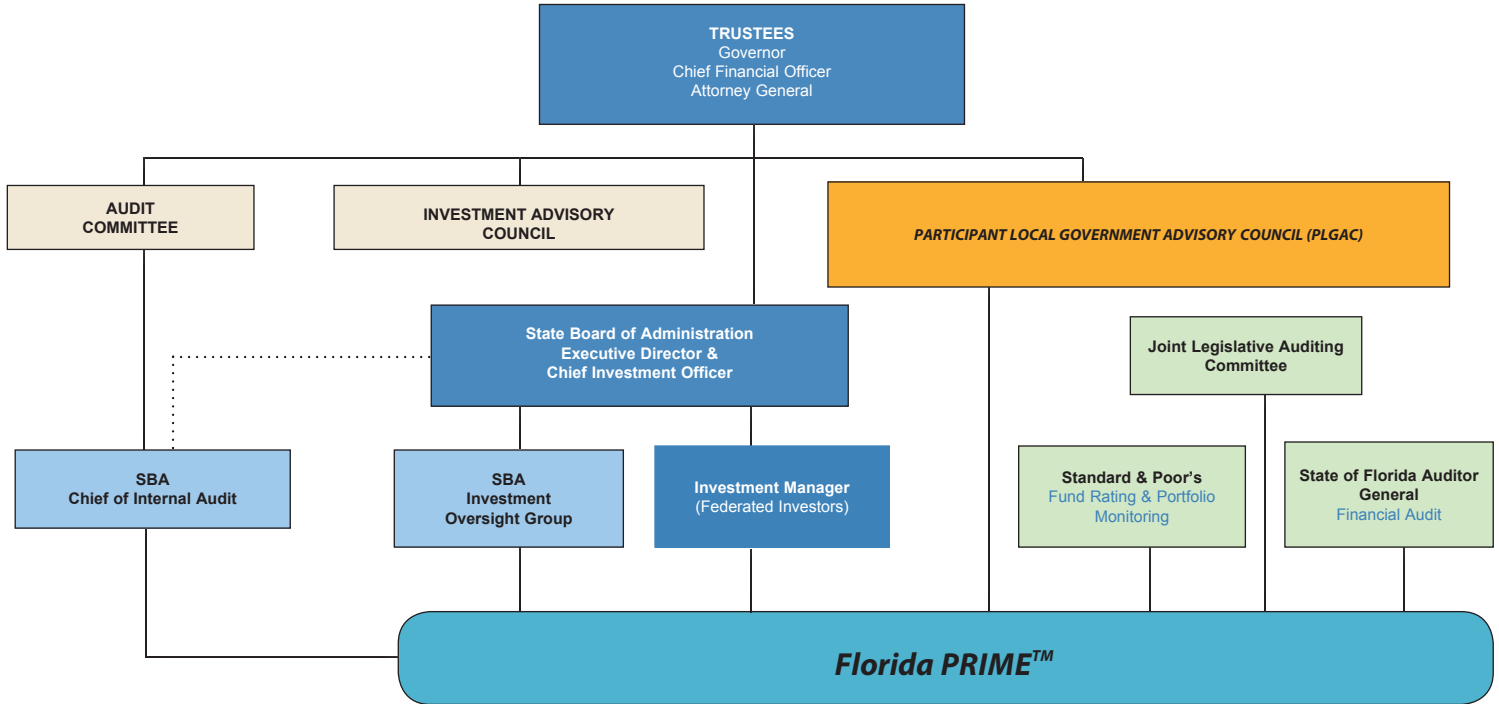
This report provides an overview of the numerous investment and operational improvements made since the Council’s last Biennial Report in early 2013. In addition to this report, we invite readers to review the Florida PRIME website for additional information regarding the annual compliance and legal reviews, as well as all materials from historical Council meetings.

FUND GOVERNANCE

Florida PRIME is overseen by several governing bodies, including the State Board of Administration Board of Trustees (Governor, Attorney General, and Chief Financial Officer), the Participant Local Government Advisory Council, the Investment Advisory Council, and the Florida Legislature. 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

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



GOVERNANCE ORGANIZATIONAL CHART

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 (the “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 fund also undergoes independent annual financial audits, performed by the Auditor General’s Office.

The Council, comprised of investor representatives, oversees the operational and investment related activities of the fund. Both the Council and the SBA’s Investment Advisory Council (or “IAC”) 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 IAC reviews investments made by the staff of the SBA and makes recommendations regarding investment policy, strategy, and procedures. The IAC meets on a quarterly 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. 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.

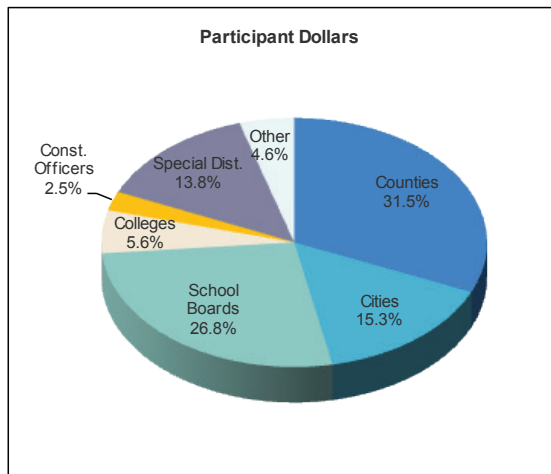
ELIGIBLE PARTICIPANTS

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, public authority, board, government-sponsored corporations, or any other political subdivision or direct support organization of the state. As of December 31, 2014, Florida PRIME consisted of 1,657 investor accounts on behalf of 846 total participants.

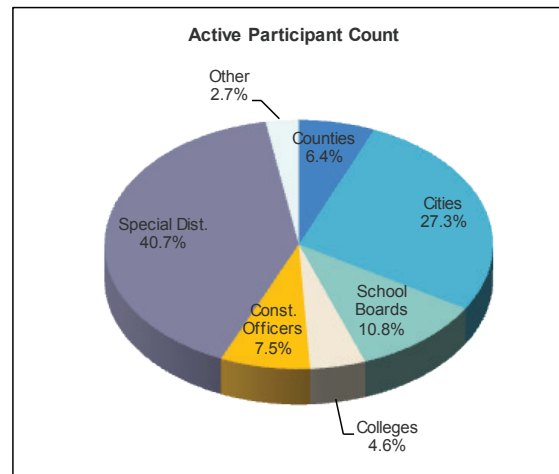
Florida PRIME provides eligible participants a cost-effective investment vehicle for their surplus funds. Its investment strategy emphasizes, in order of importance, preservation of capital (safety), liquidity, and competitive yield.

PARTICIPANT CONCENTRATION DATA - AS OF DECEMBER 31, 2014

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	5.6%	4.6%
Top 10	36.9%	1.2%	Top 10	5.0%	1.2%
\$100 million or more	54.1%	2.5%	\$100 million or more	2.4%	0.1%
\$10 million up to \$100 million	37.7%	11.6%	\$10 million up to \$100 million	2.5%	1.0%
\$1 million up to \$10 million	7.4%	19.1%	\$1 million up to \$10 million	0.7%	1.4%
Under \$1 million	0.8%	66.9%	Under \$1 million	0.01%	2.1%
Counties	31.5%	6.4%	Constitutional Officers	2.5%	7.5%
Top 10	24.9%	1.2%	Top 10	1.2%	1.2%
\$100 million or more	22.7%	1.0%	\$100 million or more	0.0%	0.0%
\$10 million up to \$100 million	8.2%	1.6%	\$10 million up to \$100 million	1.8%	0.6%
\$1 million up to \$10 million	0.5%	1.0%	\$1 million up to \$10 million	0.6%	1.7%
Under \$1 million	0.0%	2.7%	Under \$1 million	0.1%	5.1%
Municipalities	15.3%	27.3%	Special Districts	13.8%	40.7%
Top 10	9.1%	1.2%	Top 10	9.2%	1.2%
\$100 million or more	4.8%	0.4%	\$100 million or more	4.2%	0.2%
\$10 million up to \$100 million	8.2%	3.1%	\$10 million up to \$100 million	7.7%	2.5%
\$1 million up to \$10 million	2.1%	6.0%	\$1 million up to \$10 million	1.5%	4.7%
Under \$1 million	0.3%	17.8%	Under \$1 million	0.3%	33.3%
School Boards	26.8%	10.8%	Other	4.6%	2.7%
Top 10	22.5%	1.2%	Top 10	4.0%	1.2%
\$100 million or more	18.4%	0.6%	\$100 million or more	1.5%	0.1%
\$10 million up to \$100 million	6.8%	1.9%	\$10 million up to \$100 million	2.6%	0.9%
\$1 million up to \$10 million	1.4%	3.2%	\$1 million up to \$10 million	0.5%	1.0%
Under \$1 million	0.1%	5.1%	Under \$1 million	0.0%	0.7%



Total Fund Value: \$7,880,588,161



Total Active Participant Count: 803

Note: Active accounts include only those participant accounts valued above zero.

INTEREST RATE ENVIRONMENT

The Federal Reserve's (Fed) quantitative easing ("QE") program came to an abrupt halt in October 2014, after a controversial start in 2009 as a way to restart a fragile US economy. However, the end of quantitative easing as we know it did not erase the lasting effects of a low interest rate environment. The Fed's policy to keep interest rates at an all-time low—near zero—pushed investors to take on tactical strategies as they sought yield during the 2008 to 2014 period. The Fed espoused in its October 2014 statement, that although the asset purchases have ended, rates will remain low for a "considerable time," leaving investors wondering when and how quickly interest rates will begin to rise.

As investment managers constantly work to manage expectations and market reactions, the Fed's ambiguity about interest rate moves have left money market funds in a precarious position. During the two year period of 2013-2014, money market funds continued to struggle as quality bond inventories became stressed by a flight to quality and the overhang of the Fed toying with overnight rates on Reverse Repurchase Agreements (RRP). At times yields were favorable, but often pushing the limits of duration in portfolios and additional risks onto the institutional investor.

Money market fund flows have steadily declined since 2008, with a slight uptick in 2013 before falling to previous support levels. That trend was slightly reversed going into 2014, but ended on lower levels by the end of 2014. Florida PRIME successfully navigated the interest rate environment during this period and experienced an increase in assets, contradicting the larger decline among regulated money funds. Florida PRIME maintained an average thirty (30) day yield of 0.17 percent between January 2013 to the end of December 2014. Florida PRIME continues to hold high credit quality securities that provide liquidity, diversification, and access to capital.

As of December 31, 2014, Florida PRIME had a net asset value of \$7.9 billion, comprising assets held in 1,657 investor accounts on behalf of 846 participants. During the fiscal year, the fund's assets decreased by approximately \$87 million, representing a 1 percent decrease in net asset value.

Florida PRIME 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.

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 the risks that 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 2014, there were no changes made to the Florida PRIME IPS. In 2013, the IPS received minor grammatical amendments, and language was added to specify the frequency of manager reporting reconciliation.

2014 Money Market Fund Reform Summary

Floating NAV

- Institutional prime and tax-exempt municipal money market funds must operate a fluctuating NAV based on the current market value of securities held and priced at four decimal places.
- Funds in this category cannot use the amortized cost method (or penny rounding) and cannot maintain the \$1.00 NAV classification.

Stable Value NAV

- Government and retail money market funds would be allowed to maintain a \$1.00 NAV valuation and continue to use the amortized cost basis.
- Retail money market funds must be limited to investors classified as “natural persons” in order to operate as stable or constant \$1.00 NAV money market funds.

Redemption Restrictions & Liquidity Fees

- All non-government money market funds are subject to redemption restrictions and liquidity fees.
- Money market fund boards are allowed to impose a liquidity fee of up to 2% of redemptions if the weekly liquid assets are less than 30% of total assets, and a fee of up to 1% of redemptions if the weekly liquid assets are less than 10% of total assets.
- Money market fund boards are permitted to impose redemption restrictions (or gating) and suspend withdrawals if deemed in the best interest of the fund. Redemption restrictions cannot extend beyond 10 days and cannot be imposed for more than 10 days over a 90-day period.

Enhanced Disclosures

- The 2014 changes further tighten disclosure such as daily website posting of a fund’s liquidity levels, presence of gates and fees, daily NAV, portfolio holdings, and support structures. Enhanced diversification and stress testing requirements were also defined.
- The SEC noted that fluctuating NAV money market funds can be reported as cash equivalents. During times of liquidity and credit risks, investors will need to assess whether such funds are still valid cash equivalents.
- The Department of the Treasury and the IRS released tax guidance related to fluctuating NAVs, including a simplified tax accounting for gains and losses and relief from “wash sale” rules for losses.

Source: Moody's Investor Service, "2015 Outlook - Money Market Funds." December 12, 2014

Florida PRIME adheres to the investment requirements embedded in SEC Rule 2a-7, categorized as an “2a-7 like” government investment pool.

ASSET VALUE GROWTH

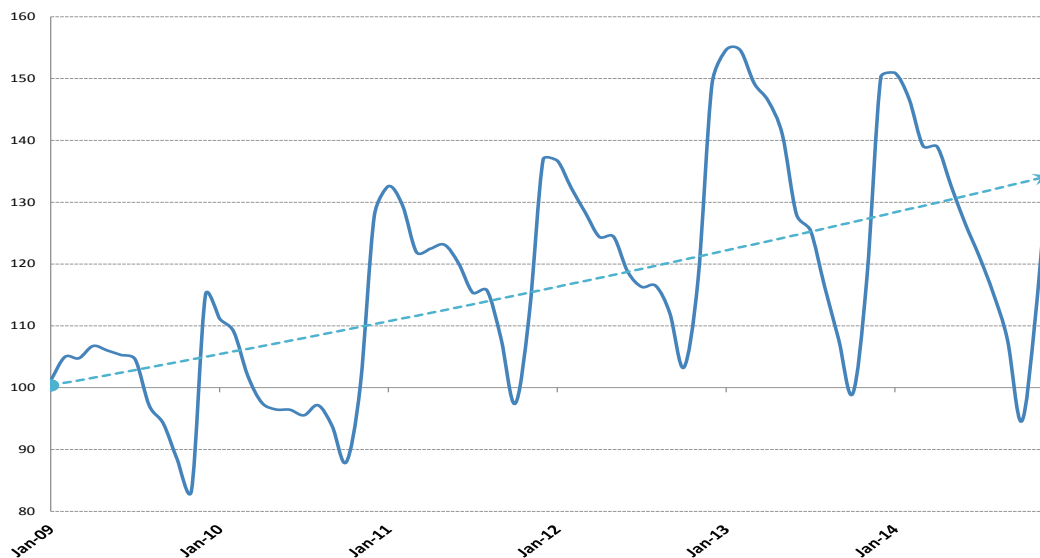
For the fiscal year ended June 30, 2014:

- Net asset value as of June 30, 2014 totaled \$7.2 billion.
- Participant contributions increased 1.0 percent compared with the prior fiscal year, while participant withdrawals increased 5.1 percent, resulting in net withdrawals of \$200.1 million.
- Net income from investing activity decreased \$6.5 million over the prior fiscal year; resulting in an average participant yield for the fiscal year of 0.17 percent, which was lower than the average participant yield of 0.25 percent of the prior fiscal year. The decrease in net income from investing activity was due to the continuing lower investment yields experienced throughout the fiscal year, and a slight decline in average participant balances.
- The number of active participants grew by 1.4 percent, increasing to 862 from 850.

For the prior fiscal year ended June 30, 2013:

- Net asset value as of June 30, 2013 totaled \$7.3 billion.
- Participant contributions declined 2.3 percent compared with the prior fiscal year, while participant withdrawals decreased 5.6 percent, resulting in net participant contributions of \$361.4 million.
- Net income from investing activity decreased \$1.1 million over the prior fiscal year, resulting in an average participant yield for the fiscal year of 0.25 percent, which was lower than the average participant yield of 0.28 percent of the prior fiscal year. The decrease in net income from investing activity was due to the lower investment yields experienced mainly throughout the second half of the fiscal year. Average daily participant balances increased 9 percent over the prior fiscal year, and remained about 9 percent higher at June 30, 2013, over the prior fiscal year-end.
- The number of active participants grew by 0.8 percent, increasing from 850 to 843.

GROWTH IN ASSETS - INDEXED NET ASSET VALUE - 12/31/08 TO 12/31/2014



PARTICIPANT COMMUNICATIONS

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

During 2013 and 2014, Federated staff, and less frequently staff of the SBA, continued to attend various conferences, continued sponsorships, and presentation of exhibits. Federated continued formal participant outreach and has applied 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. Frequently, the SBA will distribute "eNotices" via e-mail listserv covering significant operational or market events and announcements. In addition, a monthly eNotice was sent to each participant in Fund B communicating the amount and scheduled availability of dollar transfers made to Florida PRIME. The monthly eNotices to Fund B participants have been discontinued as a result of the full return of original principal to all participants in early September 2014.

EDUCATION CENTER

In April 2012, the SBA created a customized training portal for Florida PRIME participants. The "Education Center" is conveniently accessible through the Florida PRIME website, utilizing two well-established online training development organizations, Intuition and Bisk Education, each of which offer over 300 financial courses. The avail-

Florida PRIME™ - Yields for Periods Ending June 30, 2014

	Net Participant Yield ¹	Net-of-Fee Benchmark ²	Actual Over (Under) Bmk.
One Year	0.17%	0.05%	0.12%
Three Years	0.23%	0.07%	0.16%
Five Years	0.26%	0.11%	0.14%
Ten Years	1.86%	1.70%	0.16%
Since 1/96	2.96%	2.77%	0.21%

Note: Net asset value at month end: \$7,191.5 million, which includes investments at market value, plus all cash, accrued interest receivable and payables.

1. Net of fees. Participant yield is calculated on a 365-day basis and includes adjustments for expenses and other accounting items to reflect realized earnings by participants.
2. The net-of-fee benchmark is the S&P AAA/AA Rated GIP All 30-day Net Index for all time periods.

Almost 40 percent of all survey respondents indicated they would maintain an account balance in excess of \$1 million if such funds were offered as an future investment option.

able 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 2014, utilization rates remain relatively low with approximately one dozen pool participants participating in either the Intuition or BiskCPEasy education courses.

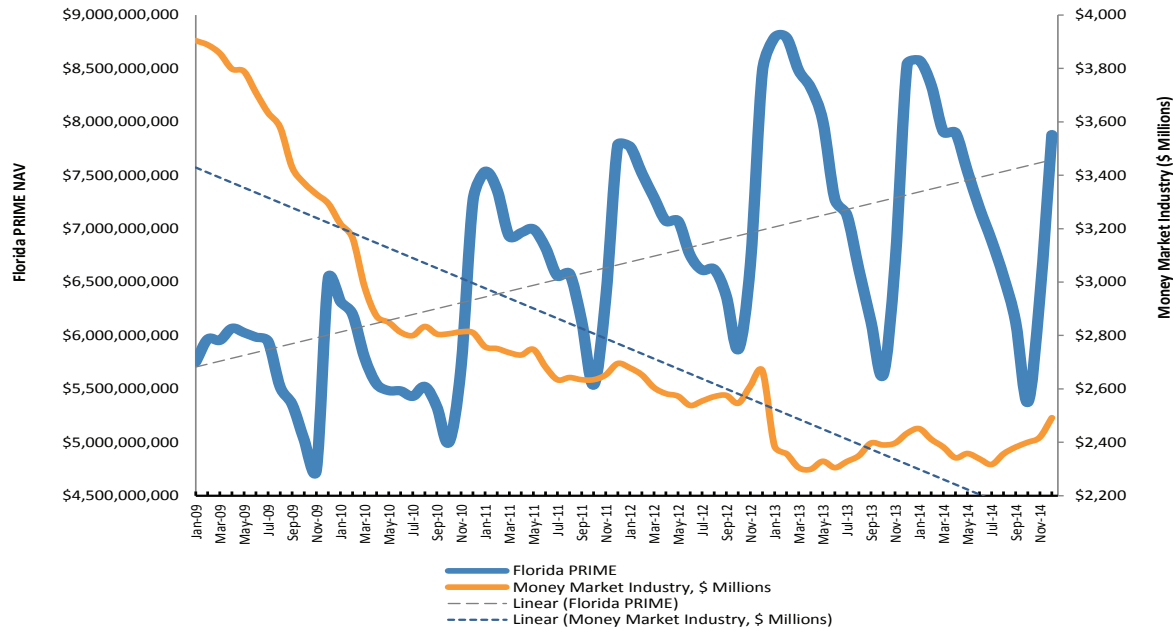
impressive 65 percent of respondents rated the Florida PRIME website as very easy to use. The survey revealed that the SBA service representatives are called or emailed infrequently; however, when utilized, a large majority of respondents found them to be very helpful, knowledgeable, and responsive. Notably, almost 40 percent of survey respondents revealed maintaining over 50 percent of their total surplus funds in Florida PRIME. Survey respondents also indicated a medium to high level of interest for investing with new additional investment vehicles offered by the SBA in the future. Almost 40 percent of all respondents indicated they would maintain an account balance in excess of \$1 million if such funds were offered as an option.

ANNUAL PARTICIPANT SURVEYS

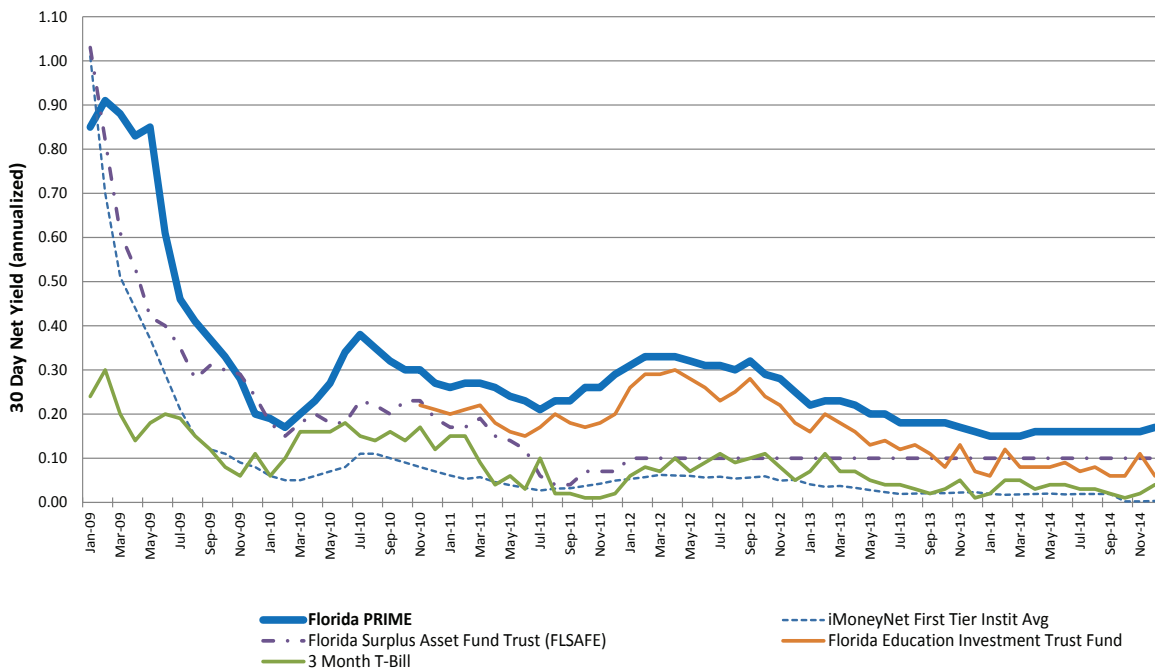
The SBA conducts annual surveys of Florida PRIME participants to gain a better understanding of overall investor satisfaction, gauge interest in various enhancements contemplated for Florida PRIME, and obtain information on investors' usage of the website and other resources. The 2014 participant survey attracted 84 respondents, representing an approximate 10 percent response rate, in line with the level of survey completion achieved for the 2013 survey. A diversified group of governmental units responded to both the 2014 and 2013 surveys, ranging from colleges and universities, constitutional officers, counties, municipalities, school boards, and school districts.

For the 2014 survey, approximately 73 percent of respondents indicated that they employ less than 1,000 employees. Almost 80 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, accessing Monthly Summary Reports. An

MONEY MARKET INDUSTRY FUND FLOWS (1/1/09 THROUGH 12/31/14)

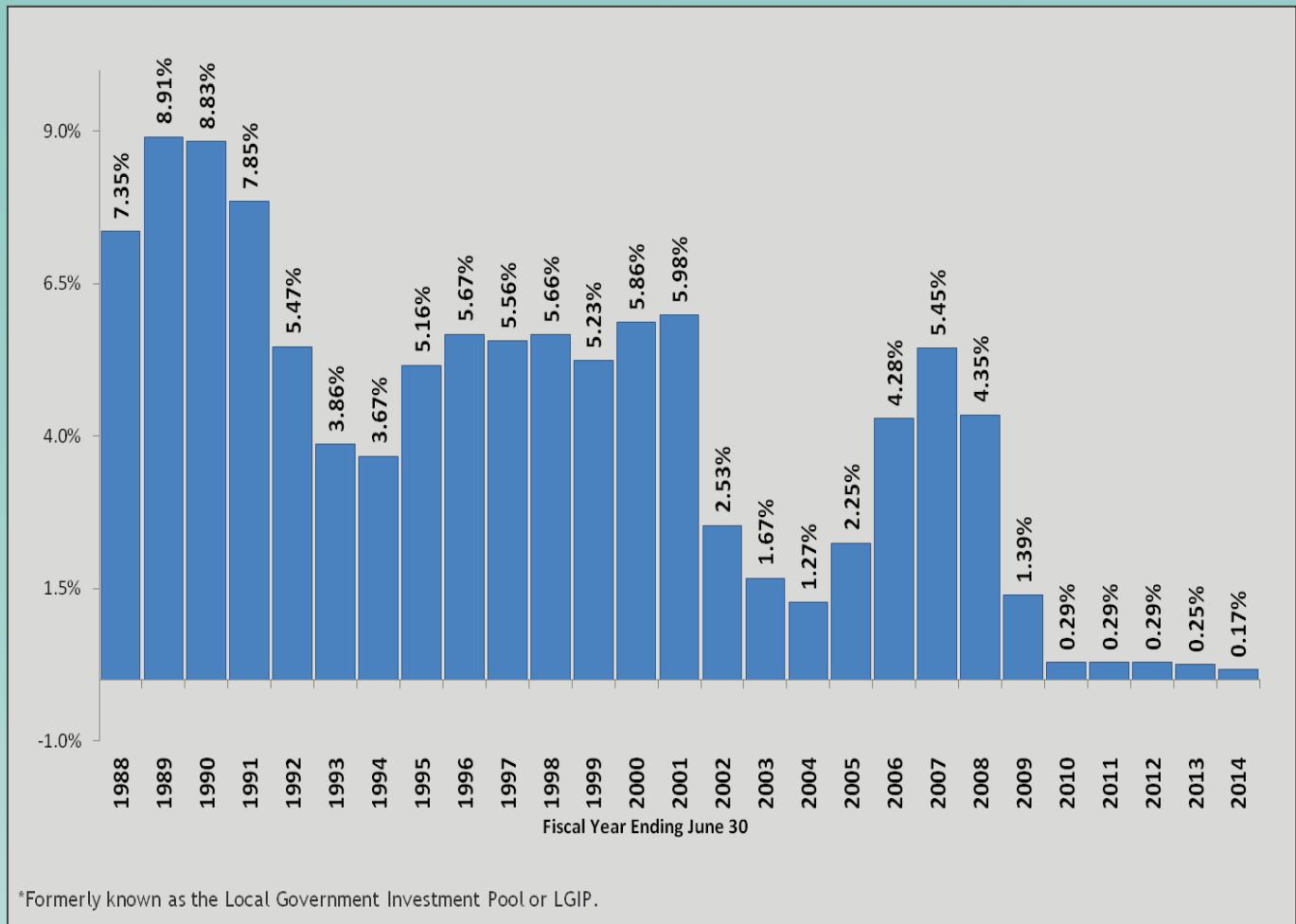


PERFORMANCE BENCHMARKING - FLORIDA PRIME™ COMPARED TO COMPETING FUNDS & MONEY MARKET INDICES



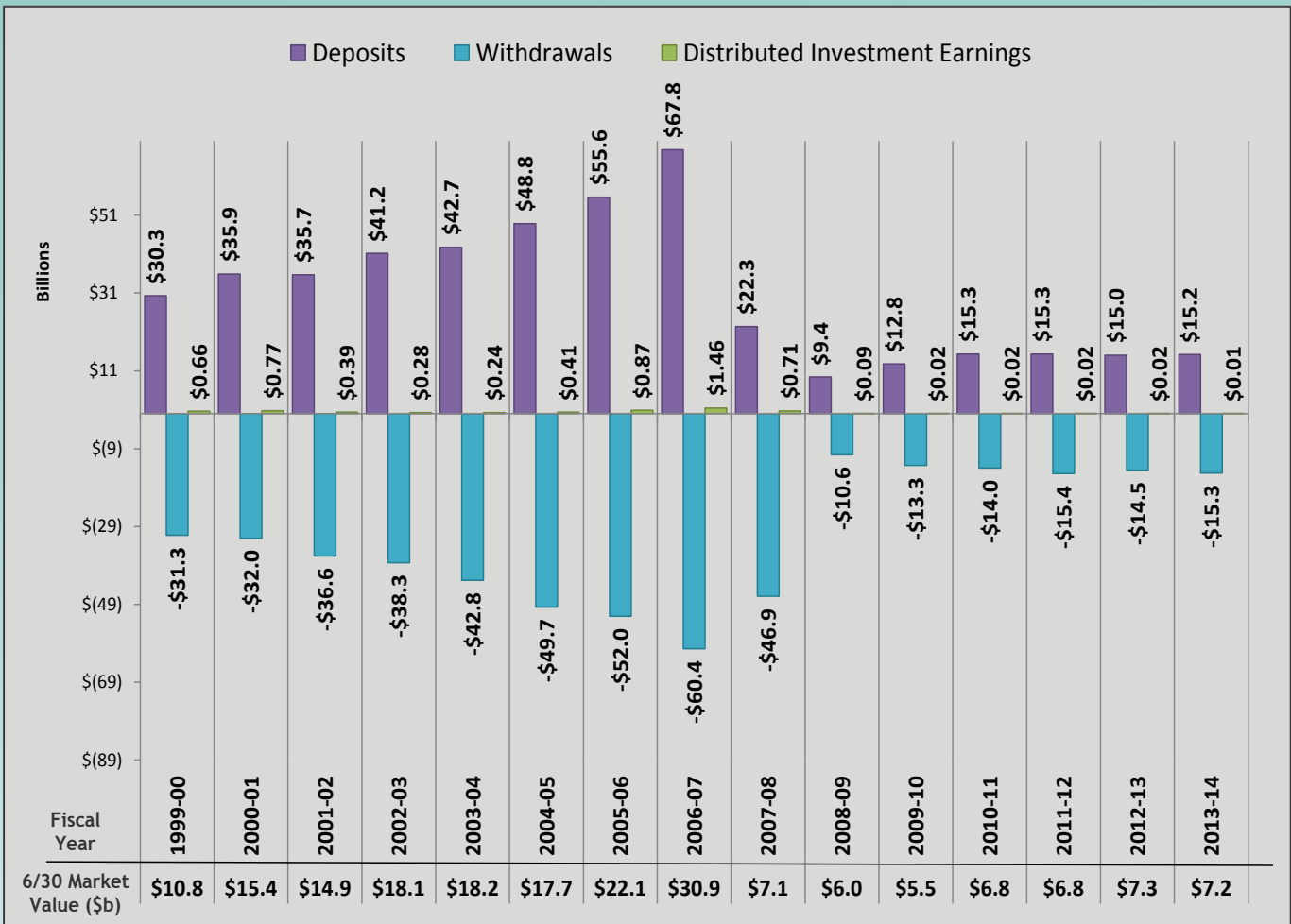
HISTORICAL FUND PERFORMANCE - ACTUAL YIELDS BY FISCAL YEAR

For the fiscal year ending June 30, 2014, Florida PRIME™ delivered an aggregate \$14.3 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, 2014, Florida PRIME™ generated excess returns (performance above the pool's benchmark) of approximately 12 basis points (0.12%) over the last 12 months, 16 basis points (0.16%) over the last three years, and 14 basis points (0.14%) over the last five years. By historical standards, absolute returns have been low over the past five years, reflecting the near-zero Federal Funds rate strategy employed as part of the stimulative monetary policy of the Federal Reserve Board of Governors.



HISTORICAL PARTICIPANT CASH FLOWS - ANNUAL CHANGE IN TOTAL FUND VALUE BY SOURCE

During the fiscal year ending June 30, 2014, participant deposits totaled \$15.2 billion and participant withdrawals totaled \$15.3 billion, for a net decrease of approximately \$100 million in the pool's net asset value.



FUND B RETURNS FULL PRINCIPAL

As a result of the liquidity crisis beginning in the late summer of 2007, specific securities held within the local government investment pool (LGIP) became distressed and/or defaulted and were transferred to a newly created “Fund B” portfolio. The new Fund B represented approximately 14 percent of the total LGIP fund’s value. At the time of Fund B’s creation on December 1, 2007, the total original participant balances (or liability) equaled \$2,009,451,941.

The primary objective of the Fund B Surplus Funds Trust Fund (or “Fund B”) has been to maximize the present value of distributions from the Fund. The securities held within Fund B were legacy investments tied to four issuers whose financial circumstances gave rise to the November 2007 run (in addition to overnight instruments temporarily holding fund earnings).

Fund B’s liquid cash holdings have been distributed as they have become available from maturities, sales, investment interest and other income received from the assets in Fund B. All distributions that have occurred to date (including any principal payments, interest payments, asset sales, and any other liquid proceeds) have been treated as a return of Fund B participants’ original principal balances.

In September 2014, the fund returned 100 percent of original participant principal to its investors. On September 5, 2014, the SBA transferred \$6,316,941 from Fund B to Florida

PRIME, representing the final portion of original principal for all fund participants. These funds were transferred in proportion to participants’ original adjusted Fund B balances. Since its inception in December 2007, and including the September 2014 monthly distribution, the total accumulated distribution from Fund B has amounted to \$2,009,451,941, or 100 percent of the original participant principal. Fund B participants did not realize any losses on their original principal balances.

Unlike Florida PRIME, Fund B is accounted for as a fluctuating NAV pool, not a 2a-7-like money market fund. Therefore, accounting valuations reflect estimates of the market value of securities rather than their amortized cost. Following the inception of Fund B on December 7, 2007, and as a result of market stress and illiquidity beginning in the summer of 2007 and extending through late 2008, all of the investments in Fund B were restructured, renamed and converted to distinct legal entities - Florida East and West were restructured from KKR, Florida Funding I was restructured from Ottimo (Issuer Entity), and Florida Funding II was restructured from Axon Financial Funding. All cash from pay downs on securities in Fund B were invested in overnight securities, repurchase agreements, overnight time deposits or commercial paper prior to monthly distribution to participant accounts in Florida PRIME.

Pursuant to current Florida Law, all funds remaining after the original principal has been returned to participants and all financial activity is completed must be transferred back to Florida PRIME. The SBA has conducted a legal review of

Fund B Surplus Funds Trust Fund Actual SBA Returns for Periods Ending June 30, 2014

One Year	10.18%
Three Year	16.09%
Since Inception	8.6%

- All returns are annualized for periods indicated through June 30, 2014.
- As a liquidating fund, this portfolio does not have a market-based benchmark. The Fund B investment objective is to maximize the present value of distributions to participants.
- Inception of the Fund was December 2007.

Florida law affecting Fund B in order to determine the statutory requirements related to final distribution of remaining assets and self-liquidation of the fund. The legal review determined, pursuant to statutory requirements, any remaining reserve above the value of the original principal balance must be returned to the fund from which initial reserves were transferred (i.e., Florida PRIME), and requires that SBA Trustees determine the timing of such transfer.

Any remaining reserve funds will be held within Fund B until all expenses (including tax, audit, legal, etc.) have been estimated, accrued, and paid. Section 218.421 (1)(a), F.S., states, “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.”

During the quarterly meetings in September 2014, the Council and SBA Trustees reviewed the SBA’s legal memo and discussed various options for the distribution of any remaining reserve held within Fund B. Several alternative distribution options were discussed at the September 18th meeting of the Council. However, only a direct transfer from Fund B to Florida PRIME, with a subsequent distribution to pool participants, is viewed as legally compliant with Florida Statutes. As a result of these discussions and related legislative initiatives to provide for an equitable distribution of any remaining reserves, the SBA expects all remaining funds held within Fund B to be distributed in accordance with statutory requirements on or around July 1, 2015. Once all expenses related to the termination of Fund B have been estimated and accrued, and in compliance with statutory requirements, the Fund B Trust Fund itself will be terminated.

HISTORICAL FUND B DISTRIBUTIONS

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
Dec. 5, 2007	\$ 0	\$ 0	\$ 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%
CY 2012	\$ 58,915,000	\$ 1,762,440,000	\$ 247,011,941	87.7%
CY 2013	\$ 152,330,000	\$ 1,914,770,000	\$ 94,681,941	95.3%
CY 2014	\$ 94,681,941	\$ 2,009,451,941	\$ 0	100.0%

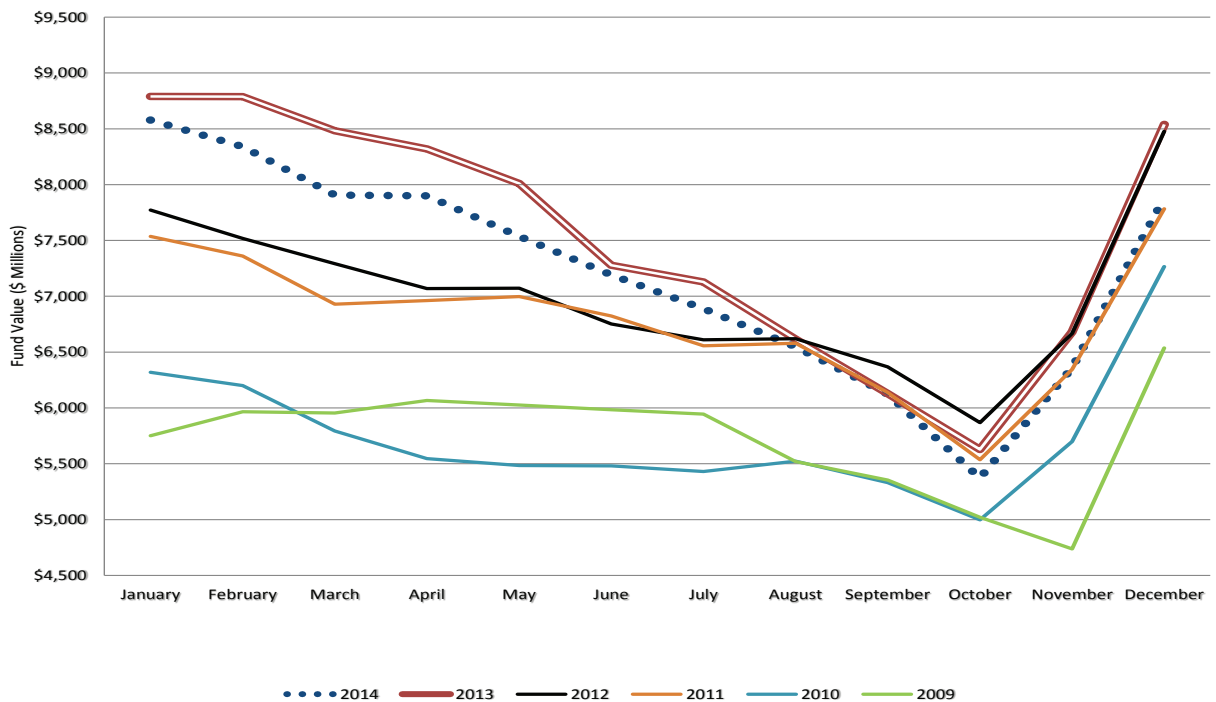
As a result of legislative initiatives to provide for an equitable distribution of any remaining reserves, the SBA expects all remaining funds held within Fund B to be distributed in accordance with statutory requirements on or around July 1, 2015.

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	\$8.5	S&P AAA/AA Government Investment Pool (GIP) Net of Fees	2.9	AAAm	1pm EST	851	Federated Investors	State Board of Administration (SBA)
Florida Trust (Day to Day Fund³) [01/09]	Non 2a-7	\$0.6	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)	\$0.3	none publicly reported	13 ¹	AAAm	2pm EST	10	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 ^{1,2}	AAAm	1pm EST	25	Prudent Man Advisors, Inc.	Florida Management and Administrative Services (FMAS)

¹ Net fund expense, including all temporary fee waivers. ² Fund expense excluding custody, rating, and other operating charges not disclosed by fund. ³ Fund's website went dark in February 2014, with limited fund disclosures since that time.

FLORIDA PRIME ANNUAL FUND FLOW CYCLE



PRINCIPAL STABILITY RATING

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 assessment 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 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.

REVIEW OF COMPLIANCE

The Local Government Surplus Funds Trust Fund is governed by Part IV of Chapter 218, Florida Statutes [see Appendix for full statutory content]. During fiscal years 2013 and 2014, 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 IAC and Council meetings in June 2013 and June 2014, and are posted on 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, in accordance with Governmental Auditing Standards issued by the Comptroller of the United States, reports on the fairness of the presentation of the financial statements prepared by the SBA. The Auditor General also reports on its consideration of the SBA’s internal control over financial reporting relating to Florida PRIME and on compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The audits are conducted in net positions. The most recent financial audit, covering the 2014 fiscal year, was completed in December 2014 and sent directly to each participant by the Auditor General’s office and posted on the Florida PRIME website.

Since December 2007, Florida PRIME has maintained a “AAAm” fund rating from Standard & Poor’s (S&P), the firm’s highest principal stability fund rating. As part of this rating, S&P conducts weekly surveillance of the Florida PRIME portfolio and its ongoing investment characteristics.

POOL EXPENSES

As the lowest-cost investment pool in the state, Florida PRIME offers the best value for governmental investors, with total fees that 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 in-state competitor, are by far the lowest of any similar 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. At the end of calendar year 2014, the fee charged to Florida PRIME investors was 3.0 basis points (or 0.03 percent) of account value. The rate changes monthly to cover the cost of investment management, security custody, accounting, wire/banking services, fund record keeping, legal compliance,

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, total US money market fund assets ended calendar year 2014 with their biggest one-year increase in three years, rising 1.8 percent to \$2.753 trillion. The overall rise of \$47.74 billion reflected a \$57.73 billion boost in taxable fund assets (\$2.492 trillion, up 2.4 percent) which offset a \$9.99 billion decline in Tax-Free fund assets (\$260.21 billion, down 3.7 percent), according to final iMoneyNet[™] monthly data.

Within the broader institutional and retail marketplace, money market funds have increasingly relied on fee waivers to retain fund participants. 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. According to iMoneyNet[™], charged expenses for taxable and tax-free money-market funds set record lows as use of fee waivers among all 1,414 taxable and tax-free funds surveyed by Money Fund Expense Report[™] during the third quarter settled at 98.8 percent for the second straight quarter. That was down slightly from a 99.1 percent level of some fee forgiveness seen in September 2013.

According to iMoneyNet[™] data, the average fee level for all taxable and tax-free, registered money market funds, excluding government-sponsored investment pools, stands at 11 basis points. The average expense ratio among all “prime” institutional money market funds equaled 11 basis points (actual charges) and 61 basis points (fees incurred but not charged), indicating a high proportional amount of fund expenses being temporarily waived. Unweighted charged expenses for taxable funds descended to 0.11 percent from a steady 0.12 percent dating back to September 2013. Tax-free fund expense ratios plunged to 0.09 percent from 0.12 percent reported in late 2014. The 0.11 percent charged-expense level for all money funds tied an all-time low first recorded in the first quarter of 2014.

No fund has waived 100 percent of its fees and expenses during late 2014. That last happened in the first quarter of 2011. Prime institutional funds’ waiver participation dropped from 95.3 percent one year ago to 93.5 percent in late 2014. The third-quarter expense-ratio average for all funds on an asset-weighted basis was 0.12 percent for the third consecutive quarter, down from 0.13 percent recorded in both the third and

COST COMPARISON	Total Cost
Industry Average ¹	20.6
Industry Average (Net of Fee Waivers) ²	11.0
Government Investment Pools (GIPs) in FL ³	15.0
National GIPs ⁴	7.6
Florida PRIME	3.0

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

² Average net-of-waiver charge of all regulated money market funds, reported by iMoneyNet.

³ Average basis point charge of all money market GIPs operating in the State of Florida.

⁴ Average basis point charge of all government investment pools nationwide, reported by iMoneyNet.

maintenance of a fund rating, and fiduciary oversight of the investment pool by the SBA. The actual pool fees charged to Florida PRIME investors are disclosed in each Monthly Summary Report. The SBA’s portion of the fee is calculated based on the net-asset-value (“NAV”) of the investment pool at the end of each month, so the actual fee will rise or fall depending on the level of assets invested in the pool. The SBA’s portion of the fee equals 1 basis point (or 0.01 percent).

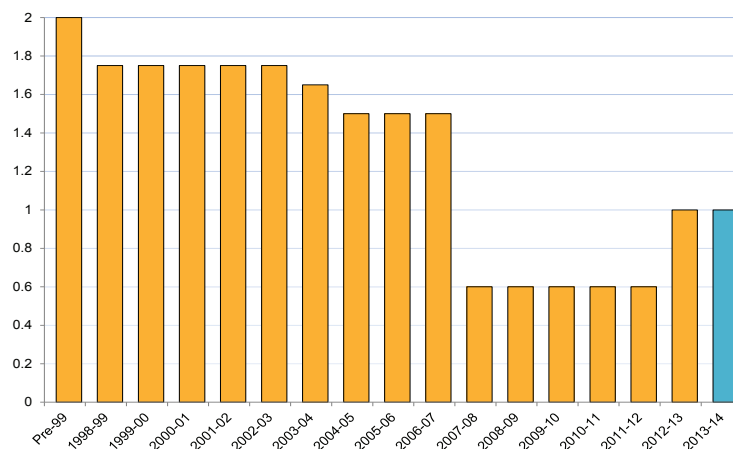
According to a recent iMoneyNet[™] report on GIPs, the average total cost for all types of money market funds was 14.39 basis points. The average fee for GIPs classified as money market funds was 7.59 basis points. These fee levels, approaching three to six times the cost of Florida PRIME, are roughly commensurate with other statewide GIPs available to local

final quarters of 2013. The number of funds reporting to iMoneyNet™ declined in the third quarter of 2014 by 10 to 1,414. That compared to 1,434 funds in the first quarter and 1,427 in the year-ago quarter—for a year-over-year decline of 13 funds. Assets of funds surveyed by iMoneyNet™ in the third quarter of 2014 totaled \$2.604 trillion. The year-ago total was \$2.614 trillion, for a one-year decline of \$9.59 billion or 0.3 percent.

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 industry has consolidated marginally among the largest institutions.

Industry observers forecast the number of institutional cash managers in the US. to decline significantly over the next five years. In the US, the top three money managers are Federated Investors, J.P. Morgan Asset Management and Fidelity; and in Europe the top 3 are Amundi, DB Advisors and Goldman Sachs Asset Management.

**HISTORICAL SBA ADMINISTRATIVE & OVERSIGHT FEES
(BASIS POINTS)**



ESTIMATED ANNUAL EXPENSES as of January 1, 2015

	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}	\$1,190,000	1.60
	BNY Mellon Custody ¹	\$80,000	0.11
	BNY Accounting Fees	\$37,000	0.05
	BOA Wire & Banking Services ³	\$60,100	0.09
<i>Fixed Costs</i>	Standard & Poor's (S&P) Rating Maintenance	\$40,000	0.06
	AON Hewitt (Annual Investment Review)	\$47,551	0.07
	Legal Compliance Review	\$15,000	0.02
	TOTAL INVESTMENT & MANAGEMENT FEES	\$2,169,651	3.00

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).

MONEY MARKET REFORMS

The money market industry continues to face challenges including the most recent set of Rule 2a-7 reforms from the Securities & Exchange Commission (SEC) approved in mid 2014. As part of AON Hewitt's Best Practice Review in 2014, continuing to stay apprised of 2a-7 reforms was a key forward looking recommendation, aimed at keeping participant needs and best interests at the forefront of any future investment policy statement or operational changes. Because Florida PRIME is a government investment pool and is not legally required to be operated as a registered money market fund, it has the flexibility to adopt changes that are beneficial to participants and reject any that are not.

On July 23, 2014, the SEC adopted numerous amendments to the rules that govern registered money market mutual funds. The amendments are designed to reduce the risks of an investor run on money market funds, while seeking to preserve the benefits of these funds.

eliminate the first-mover advantage. The first-mover advantage commonly refers to the initial group of fund participants who withdraw assets from a fund, and thereby generally recover their full investment by harvesting the fund's liquidity. The investors remaining in the fund are then left to shoulder the fund's losses emanating from less liquid and/or impaired securities. Liquidity fees, similar to those imposed on pool participants during 2008, have the effect of providing capital to a money market fund and may lower the incentive to be the first investors to redeem fund shares.

On the heels of SEC reforms, Moody's Investor Services revised its outlook for money market fund ratings to negative from stable. Moody's expects money funds will, "struggle to maintain the highest credit and stability profiles in the face of an ongoing supply-demand imbalance," and experience other headwinds including low (to negative) fund net yields and increasing volatility in asset flows. Moody's expects the number of triple A rated funds ("Aaa-mf") to decrease in 2015, as the dearth of short-dated, high quality investments will

The 0.11 percent charged-expense level for all money market funds was an all-time low first recorded in early 2014. Industry fees are almost four times those charged by Florida PRIME.

The new rules became effective October 14, 2014, but have a two year implementation glide-path aimed at minimizing the money fund industry's transition to the new requirements.

The most significant elements of the 2014 amendments include: 1) institutional, prime money market funds will have a floating net-asset-value (or "NAV"), with portfolios valuing securities according to their current market value and redeeming shares based on the floating NAV; 2) non-government money market fund boards will now be able to impose liquidity fees and redemption gates to address investor runs; 3) expanded disclosure requirements, including the fund's level of daily and weekly liquid assets, net flows, and market-based NAV; and 4) enhanced diversification requirements and more stringent stress testing.

As noted by market observers, the redemption restrictions and liquidity fees are designed to deter runs and

induce funds to take on additional credit risk. Moody's stated, "rising investor demand globally for high quality short-term (overnight to 60 days) investments, combined with regulatory disincentives for financial institutions to rely on wholesale short-term funding will keep availability of money market supply tight, and short-term rates floored."

Although full implementation of the 2014 SEC reforms is not required until late summer 2016, the industry is already starting to make changes to fund offerings and portfolio disclosures. The 2014 changes include some of the most significant amendments to Rule 2a-7 since the 1970's, including floating net asset values (NAV) for prime and municipal money market funds held by institutional investors and the introduction of redemption gates and liquidity fees for all non-government money market funds in certain situations. Market observers have not seen any reform-related outflows from institutional prime money funds up to this point. However,

The SBA, Federated Investors and Florida PRIME participants continue to recognize the value of recent money market industry reforms. Through its commitment to follow SEC Rule 2a-7 cash management standards, Florida PRIME exhibits the best combination of portfolio risk controls and optimized earnings.

many industry observers expect some level of fund outflows to pick up through 2015 and into 2016.

A few fund sponsors have restructured their prime funds into government funds as this fund type is perceived by many to be the reinvestment of choice for investors redeeming money from prime funds. Moody's expects "alternative liquidity products such as separately managed accounts (SMAs), enhanced cash funds, ultra- and short-duration bonds will also be in higher demand, as cash investors seek to define the 'new safe' liquidity products. All in all, we would not be surprised to see reform-related outflows exceed 25% of total assets under management [sic] of institutional US prime funds between now and the third quarter of 2016 when the rules will be implemented."

As noted within the 2014 Best Practices Review, there are likely significant administrative impacts related to adoption of one or more of the SEC's reforms, requiring additional consideration by key stakeholders. 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 of the recent reforms and continues to earn Standard & Poor's "AAAm" rating—the highest quality rating assigned by Standard & Poor's.

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. In the time period following the last Best Practices review and most recent participant survey, no additional consideration has been given to developing any complementary investment vehicles. Also, the SBA and Federated Investors have continued to monitor various Rule 2a-7 reforms passed in mid-2014 and are actively evaluating such measures for application to Florida PRIME. Both of these topics are scheduled to be reviewed further during the 2015 and 2016 fiscal years. AON Hewitt noted that the Council has the flexibility to adopt changes that are beneficial to participants and reject any that are not.

COUNCIL RECOMMENDATIONS

The 2014 Best Practices Review by AON Hewitt included recommendations to: 1) postpone taking meaningful steps towards considering additional pool options;

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."



STATE BOARD OF ADMINISTRATION

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

www.sbafla.com/prime