ANNUAL INVESTMENT REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006

PREPARED BY
BOB INZER
CLERK OF COURTS

LEON COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT
for the Year Ended September 30
Leon County, Florida

EXECUTIVE SUMMARY

The County's investment Portfolio continued to perform generally, as expected. The Commission approved Investment Policy provides for a very conservatively managed portfolio. Policy controls related to portfolio duration, credit quality, liquidity and instrument selection effectively eliminates both the upside and downside surprises with respect to investment returns. The portfolio is primarily managed externally using the State Board of Administration Local Government pool (the SBA) and Voyageur Asset Management for slightly longer term investments. The balance of the portfolio is invested pursuant to our banking relationship.

Interest Rate Environment

During the summer of fiscal year 2003, the Federal Funds rates fell to 1% (the lowest level in over 40 years). Interest rates remained at this level through the summer of 2004. In an effort to stem increasing inflation pressures, the Federal Reserve began increasing interest rates. Since then interest rates have been on almost a continuous climb. On June 29, 2006 the Fed raised short-term interest rates by a 25 basis points to 5.25%. The move marked the seventeenth tightening in 2 years and gets the Fed closer to its goal of removing the accommodative monetary policy that has been in place since June 2003 (when Fed funds were 1%). The Fed has chosen during its last three meetings to not adjust the Federal Funds rate and the market consensus, at this time, is that the Fed is at or near the peak in the current interest rate tightening cycle. As a result, in August and September interest rates actually declined slightly.

Investment Oversight Committee

The Board of County Commissioners in their Investment Policy provides for an Investment Oversight Committee to work with the Clerk of the Court in the investment of the portfolio. The Committee meets quarterly unless interim issues require a more frequent meeting. Meetings are noticed, open to the public and minutes of each meeting recorded. The membership of the Committee is:

Randy Pople, Chairman
John Lawrence
John Cooper
Alan Rosenzweig
Bob Inzer

Investment Managers

During this past year, all funds in the portfolio were externally managed and the Clerk's office did not purchase any individual security. The largest manager in the portfolio was the State of Florida, State Board of Administration. The State created a commingled investment fund for local government units. The fund is not a registered fund, and is managed to a slightly longer duration than registered money market funds (Money market funds average duration is 20-45 days. SBA average duration is 180 days). The fund has assets of approximately $22 billion and over 800 local government participants. It does not have a credit quality rating by any of the nationally recognized rating agencies (Moody's Investor Services, Standard and Poor's, etc..) but is generally considered to be of high quality.

The County through an RFP selected Voyageur to manage a separately managed intermediate term fixed income portfolio. Currently, the dollars under management are approximately $62,000,000 and is less than the $66,000,000 managed last year. This is reflective of the Committee's decision to reduce the average duration of the portfolio discussed later in this report. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established benchmark for Voyageur is the Merrill Lynch 1-3 year Government Index.

The Clerk established its banking relationships pursuant to a competitive selection process. Contained in the contract was an investment option that requires the bank to invest each night all excess funds at an indexed rate. This relationship also is a time saver for staff in that each night we are not required to move money into and out of the bank in order for funds to be invested.

Portfolio Return

The portfolio earned $9,452,388 for an effective rate of return of 4.5% on an average daily balance of $208,707,650 in the fiscal year 2006. This year market interest rates increased significantly. Accordingly, the County's portfolio participated in this market interest rate adjustment and saw a significant increase with the average portfolio return for Fiscal Year 2006 increasing from 2.6% to 4.5%.

Aggregate investment earnings increased in FY2006 by $4,979,360 over FY2005. This increase was attributable to both higher interest rates and an increase in the size of the portfolio. The portfolio's average daily balance invested increased from $171,577,108 to $208,707,650.

Investment Policy

During this past year, the Investment Advisory Committee did not recommend any changes to the County's Investment Policy. The portfolio has been managed within the guidelines and limitations of the Commission approved policy without exception.

The Investment Advisory Committee did adjust the asset allocation of the portfolio in recognition of the interest rate environment. Specifically, the Committee voted in May 2005 to instruct Voyageur (the County's intermediate fixed income manager) to begin shortening the average duration of the portfolio. This was accomplished by instructing them to reinvest certain maturity proceeds from Voyageur to the State Board of

Administration and reinvesting other proceeds in duration neutral or shorter securities. As a result of this action the duration of the portfolio drifted in from 1.6 years in May of 2005 to 1.2 years as of September 30, 2006. This allowed the portfolio to reinvest proceeds as securities matured at higher interest rates on a more frequent basis. This contributed to Voyageur exceeding its benchmark performance measures for the past two years.

At the fall Investment Advisory Committee meeting wherein the 2006 year end report was reviewed, the IOC voted to direct Voyageur to allow the portfolio to begin moving back to the benchmark duration. Also during the coming year the committee will be reevaluating the overall asset allocation to determine if the overall portfolio should be managed to a slightly longer duration.

Section 218.415(15), Florida Statutes requires Leon County Clerk of Courts to provide an annual report to the Board of County Commissioners of the securities in the portfolio by investment type, book value, market value and income earned. This information included below in Table I is as of September 30, 2006.

Portfolio Performance

Following is a schedule of the various sub-portfolio's performance for this past year. This schedule provides information regarding the distribution of the portfolio, realized and unrealized gains or losses, interest earnings, and duration.

Table I

Summary Table of Portfolio Performance as of September 30, 2006

Investment Type	Book Value	Market Value	Unrealized/ Gain/Loss (current year)	Realized Gain/Loss	Interest	Total Income
Voyageur Asset Mgmt	$59,622,340	$59,297,169	$381,233	$(433,704)	$2,614,847	$2,562,376
SBA	106,873,387	106,873,387			5,798,161	5,798,161
SBA (Landfill)	5,706,274	5,706,274			263,110	263,110
Wachovia Money Market	336,791	336,791			94,995	94,995
Wachovia Cash Pool	16,785,959	16,785,959			733,746	733,746
Total Cash and Investments	$189,324,751	$188,999,580	$381,233	$(433,704)	$9,504,859	$9,452,388

ANNUAL INVESTMENT REPORT
for the Year Ended September 30
Leon County, Florida

Table II

Average Portfolio Balance and Return for the Year Ended September 30

	FY 2002		FY 2003		FY 2004		FY 2005		FY 2006	
Investment Type	Average Daily Balance	Total Return	Average Daily Balance	Total Return	Average Daily Balance	Total Return	Average Daily Balance	Total Return	Average Daily Balance	Total Return
Voyageur Portfolio Manager Account (Fixed Income Securities)	$61,290,160	5.08%	$63,292,388	2.90%	$65,412,933	1.23%	$66,163,038	1.48%	$62,211,926	4.04%
State Board of Administration Pool	31,923,783	2.08%	71,259,714	1.52%	62,200,255	1.42%	93,492,220	2.72%	129,126,804	4.97%
Wachovia Cash Pool	24,812,608	1.78%	24,232,873	1.48%	19,192,379	0.88%	11,101,482	2.62%	15,280,203	4.80%
Wachovia Money Market	40,677,964	1.86%	548,884	0. 52%	494,022	0.10%	820,368	1.41%	2,088,717	4.55%
Bank of New York Repurchase Agreement	5,133,133	7.21%	5,133,304	7.21%	5,133,304	7.21%	0	0	0	0
Totals	$163,837,648	3.58%	$164,467,163	2.506%	$152,432,893	1.933%	$171,577,108	2.6%	$208,707,650	4.5%

ANNUAL INVESTMENT REPORT
for the Year Ended September 30
Leon County, Florida

TABLE OF CONTENTS

ANNUAL INVESTMENT REPORT
for the Year Ended September 30
Leon County, Florida

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government the ability to adopt a written investment plan to govern the investment of their investment portfolio. The Leon County Board of County Commissioners on September 17, 2002 adopted an investment policy. It provides for among other things, an annual report to be presented to the Board of County Commissions. The Florida Constitution provides that the Clerk of the Court will be responsible for the investment of County funds and this report is being submitted by the Clerk as provided by the Board's Investment Policy. All investment activity is conducted in accordance with written procedures and internal controls.

II. INVESTMENT OVERSIGHT COMMITTEE

The Investment Oversight Committee (IOC) was established by the Leon County Clerk of Courts (Clerk) to formulate investment strategies, provide short-range direction and monitor the performance and structure of the County's portfolio. The IOC consists of the Clerk, the Director of OMB and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are Mr. Randy Pople, IOC Chairman, President of Capital City Trust Company; Mr. John Lawrence, retired Public Administrator; and Charles Cooper, Real Estate and Tax Attorney, Partner at Cooper and Byrne.

III. ACTIVITIES OF THE INVESTMENT OVERSIGHT COMMITTEE

The Investment Oversight Committee (IOC) scheduled periodic meetings to discuss issues relating to the investments of the County.

During this past year, the Investment Advisory Committee did not recommend any changes in the County's Investment Policy. The portfolio has been managed within the guidelines and limitations of the Commission approved policy without exception.

The Investment Advisory Committee did adjust the asset allocation of the portfolio in recognition of the interest rate environment. Specifically, the Committee voted in May 2005 to instruct Voyageur (the County's intermediate fixed income manager) to begin shortening the average duration of the portfolio. This was accomplished by instructing them to reinvest certain maturity proceeds from Voyageur to the State Board of Administration and reinvesting other proceeds in duration neutral or shorter securities. As a result of this action the duration of the portfolio drifted in from 1.6 years in May of 2005 to 1.2 years as of September 30, 2006. This allowed the portfolio to reinvest proceeds as securities matured at higher interest rates on a more frequent basis. This contributed to Voyageur exceeding its benchmark performance measures for the past two years.

At the fall Investment Advisory Committee meeting wherein the 2006 year end report was reviewed, the IOC voted to direct Voyageur to allow the portfolio to begin moving back to the benchmark duration. Also during the coming year the committee will be reevaluating the overall asset allocation to determine if the overall portfolio should be managed to a slightly longer duration.

IV. INVESTMENT OBJECTIVES

The Policy describes three specific objectives to be applied in managing the County's investments. The primary objective is **safety** of the County's funds. Safe investments are those that ensure minimum credit risk, the risk that the principal will not be repaid. Safe investments are also those that carry minimum market risk, the risk that the principal value will not decrease over the life of the investment. This objective also considers methods to **control risks and diversify** the portfolio by security types, maturities and financial institutions.

The second objective is the provision of sufficient **liquidity**. The County's funds are invested so that the County can meet its expenditures of operating, payroll, and capital needs when they become due. Liquidity is also the ability to sell an investment when necessary, with minimal delay and minimal loss of principal. The portfolio's investments are held to maturity, when possible, to avoid selling the investment prior to maturity and risking a capital loss.

Maximizing yield on the portfolio is the County's third investment objective. This objective is only sought after the County has met its first two investment objectives.

V. PORTFOLIO PERFORMANCE

The portfolio earned $9,452,388 for an effective rate of return of 4.5 % on an average daily balance of $208,707,650 in the fiscal year 2006. Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance are the types of permitted investments and allowable maturities, liquidity requirements, overall interest rate environment, cash flows, and the investment manager's performance.

For comparison, the portfolio earned $4,473,028 for an effective rate of return of 2.6 % on an average daily balance of $171,577,108 in the fiscal year 2005. The effective rate of return for fiscal year 2006 is higher than that for fiscal year 2005 because of the increase in interest rates and cash available to invest during the fiscal year.

The Following is an Overall Market and Portfolio Specific Commentary Provided by the County's Investment Advisor Voyageur Asset Management, Inc.

Leon County's investment portfolio outperformed its comparative benchmark, the Merrill Lynch 1-3 Year Government Index for the fiscal year ending September 30, 2006. The portfolio produced a total return, net of fees, of 4.04% compared to the Index return of 3.82%. This performance follows a very strong year of performance ending 9/30/2005, in which Voyageur also outperformed the portfolio's benchmark index by 40 basis points. On an annualized 3-year rolling return basis, the portfolio also outperformed the Index by 24 basis points, returning 2.24% net of fees.

During the course of the past year, Voyageur added securities to the Leon County investment portfolio that provide incremental yield above Treasuries. In the process, the portfolio's holdings of Treasury securities declined from 52% of the portfolio's market value at the beginning of the year, to approximately 13% by yearend. Reallocation of these Treasury holdings was invested in high quality, but also higher-yielding mortgage-backed securities and taxable municipal issues. At the end of the fiscal year, the portfolio carried a market yield that was more than 40 basis points higher than its respective benchmark.

There were several aspects of the portfolio structure that contributed to the positive returns compared to the benchmark. As indicated above, a substantial portion of the portfolio's out performance during the previous twelve months was the result of its yield advantage. In addition to the higher level of nominal yield, the portfolio's option adjusted spread and convexity measures also exceeded that of the benchmark and were additive to performance. In addition to the income advantage, the portfolio's shorter duration measure also provided an incremental performance benefit compared to the benchmark.

Security selection during the year focused on the use of taxable municipal securities as opposed to corporate bonds to achieve some high quality exposure to the credit markets. This sector tightened over the course of the year, as more investors began to use these as a substitute for corporate exposure. In fact, this sector has become expensive enough on a relative value basis, that we slowed our additions to the portfolio in recent months.

In the structured product sector we were overweight high quality, convex securities like hybrid adjustable-rate mortgages (ARMs) and commercial mortgage-backed securities (CMBS). We were underweight the benchmark in traditional mortgage pass-through exposure. However, for much of the past year, traditional mortgage pass-through securities and the more convex asset classes, like the securities the portfolio owned, traded performance places, not really benefiting our style. We continue to look for convex structures for our portfolios, believing in their long-term diversification and performance advantages.

For much of the past year, the portfolio enjoyed a positive performance advantage from its modest Treasury Inflation Protected Securities (TIPS) holdings. Performance of this allocation in the portfolio during the first half of the period was attributive to performance. However, TIPS underperformed marginally in the second quarter of the fiscal year and followed up in the third quarter with outright poor performance compared to nominal Treasuries. Over the course of the year, the portfolio's 2% position underperformed nominal Treasuries by about 0.875%.

Market Outlook

During the final quarter of the fiscal year, the Fed left rates unchanged based on its consensus view that the economy was slowing and that "inflation pressures seem likely to moderate over time." Almost as if in concert, data throughout the quarter seemed to validate the Fed's decision. Among the most newsworthy releases was the dramatic decline in oil and commodity prices in general, the decline in housing starts, a drop in both industrial production and capacity utilization and, most importantly, a decline in core producer prices in August.

An inactive Fed and supportive economic releases allowed the fixed income markets to speculate as to when the targeted funds rate would first be reduced. Market participants pushed yields lower during the final quarter by approximately 40-50 basis points, except for yields inside of one year. Yields beyond one-year declined in nearly parallel fashion across the curve. Futures markets have recently begun indicating the fixed income market's belief that there is a reasonable chance for a Fed ease sometime early in the first quarter. Whether the market's push toward lower interest rates during the third quarter is validated, will most likely hinge on whether the economy experiences a soft or hard landing. Currently, other than the uncertainty in the housing sector, nothing seems to support the hard landing theory.

Bond and equity markets appear to be telling different stories. Equity market prices have moved 8-10% higher since the end of June. Interest rates are materially lower during that same timeframe. Both cannot be right. The rallies in both markets appear, to some extent, predicated on future expectations for further interest rate declines during 2007. And, recent economic data seems to support the equity market's view. While data is weaker than earlier this year, consumer confidence, employment and spending seem to be holding up reasonably well. Business outlays for capital goods and commercial construction also remain healthy. Both lower energy prices and mortgage rates should also be supportive of economic growth in the future.

The fixed income market's push toward much lower yields and the incorporation of a Fed easing in the first quarter of 2007 appear somewhat ahead of economic reality. Recently, several Fed officials have specifically warned that the market's optimism may be premature. This makes the fixed income markets vulnerable to a more realistic alignment with both Fed comments and current economic data. This would suggest that the recent bond market rally is unlikely to persist much longer and an upward adjustment to yields might occur during the final quarter of 2006.

In keeping with the Federal Open Market Committee's (FOMC) stated risk assessment, recent comments by Fed officials and current data, we expect to see a moderating economy and less pressure on resources. The data on the economy should allow the Fed the opportunity to consider easing interest rates, but we expect that inflation, at above-acceptable levels will keep them from following through with lower interest rates anytime soon.

Voyageur remains cautious on the fixed income markets and reflects these in the portfolio. First, we remain biased toward high quality holdings across the credit and structured portions of our portfolios. Spreads in both sectors are extremely narrow by almost any measure and seem to have been pushed to extremes by investors hungry for yield. Second, unlike many investors, we have not fully concluded that the next move by the Fed will be an ease. The Fed statements and those of several of its members have cautioned against this conclusion. We think interest rate levels appear lower than data and logic support. This is particularly true in the short-to-intermediate area of the curve, which appears vulnerable to a correction over the final quarter of the year. The current portfolio reflects a modest underweight in intermediate maturities. Finally, while we are less optimistic on the TIPS market in the immediate weeks ahead, we continue to look at TIPS as core holdings and look for appropriate entry points to add to this sector in our client portfolios.

VI. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's available funds are invested according to Leon County Investment Policy Section XIV, which authorizes the County to invest in specific permitted investment types. The permitted investments are restricted by the Policy in their composition limits and maximum allowable maturities. The portfolio was in compliance with all policy limits. The Policy permits maturities of the operating portfolio establishing a range of 60 days to 10 years. The actual portfolio will have a range of 60 days to 2.5 years, with an average duration of 1.5 years. Table 1 gives a brief description of each investment type. It is generally regarded that the following investment types are safe investments and meet the Policy's first objective: safety.

Table 1 – Permitted Investments

Investment Type	Composition Limit	Maximum Maturity
SBA	NONE	NA
Treasuries	100%	Ten Years
Agencies	45%, 15% any one issuer	Five Years
Instrumentalities	45%, 15% any one issuer	Ten Years
CDs & Savings Accounts	20%, 10% any one issuer	One Year
Repurchase Agreements	15%, 5% any one issuer	60 Days
Bankers' Acceptances	15%, 5% any one issuer	270 Days
Commercial Paper	20%, 5% any one issuer	270 Days, avg. 90 days
Municipal Obligations	10%	Three Years
Money Markets	25%	NA
FLGIT and/or FMIT	15% combined	NA
SPIA	18%	NA

ANNUAL INVESTMENT REPORT

for the Year Ended September 30
Leon County, Florida

A. Florida Local Government Surplus Funds Trust Fund Investment Pool (SBA)

The SBA is administered and invested by the Florida State Board of Administration for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving capital. As of October 1, 1997, the SBA had converted to a “2a-7 like” investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). Some of the pertinent investment constraints of a “2a-7 like” pool include weighted average maturities limited to 90 days, maximum maturities for government securities limited to 762 days, money market instruments limited to 397 days, and top tier credit ratings. At September 30, 2005, the SBA was invested in Treasury Bills 3%; federal agency obligations 17%; commercial paper 47%; and medium term and floating/variable rate notes 33%. At September 30, 2006 the allocation of assets was shifted in that a combined 16% of the amount invested in Federal Agency Obligations and Commercial Paper was reallocated to Medium Term Floating/Variable rate notes. This investment pool is subject to some market risk. However, since it operates as a “2a-7 like” pool, interest rate risk (the risk that interest rate fluctuations might impair the portfolio’s profitability or viability) is minimal. The average yield for SBA for the year ended September 30, 2005 was 2.95% and for September 30, 2006 was 4.97%.

B. U.S. Treasury Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury Bills have maturities of one year or less, Treasury Notes have maturities of two to ten years, and Treasury Bonds have maturities of more than ten years. The longer maturities share some market risk in that their prices may be more volatile due to interest rate fluctuations. Treasury yields are typically lower than yields of other U.S. Government securities. The investment policy allows the County to invest up to 100% of the portfolio in these investments.

C. Federal Agency Securities (Agencies)

Agencies are securities issued by agencies of, and are guaranteed directly by, the U.S. Government. The Policy limits Agency investments to direct obligations or guaranteed certificates of the Export-Import Bank, certificates of beneficial ownership of the Farmers Home Administration, discount notes of the Federal Financing Bank, Federal Housing Administration debentures, General Services

Administration participation certificates, Maritime Administration guaranteed Title XI financing, guaranteed Public Housing notes and bonds, and HUD project notes and local authority bonds. Agencies are typically longer term and not frequently traded, creating some liquidity risk. Agency yields are generally greater than Treasury yields of similar maturities. A maximum of 20% of the portfolio may be invested in agencies.

D. Federal Agency Securities (Instrumentalities)

Instrumentalities are also securities issued by agencies, which are sponsored by the U.S. Government. The Policy allows purchases of bonds, notes or debentures of the issuing agencies including Federal Farm Credit Banks, Federal Home Loan Bank or its district banks, Federal National Mortgage Corporation, and the Student Loan Marketing Association. Instrumentalities vary in maturities. Yields on Instrumentalities are typically greater than Treasury yields of similar maturities. The Policy further restricts investments in any one agency to 15% of the portfolio and an aggregate of 45% of the portfolio.

E. Certificates of Deposit and Savings Accounts (CD's/Savings)

The Comptroller may invest in nonnegotiable, interest bearing certificates of deposit and savings accounts in state or national banks located in Florida, and having their deposits secured by Chapter 280, Florida Statutes, known as the Florida Security for Public Deposits Act. The Policy provides that the issuing bank may not be listed with any nationally known credit watch organization. There is some liquidity risk in that this investment type is subject to penalties for early withdrawal. The Policy further restricts investments in any one bank to 10% of the portfolio with an aggregate limit of 20%.

F. Repurchase Agreements (Repos)

A repurchase agreement is a financial transaction in which Leon County exchanges cash for ownership of specific securities with a simultaneous agreement to sell back the securities. Overnight repos mature in one day. Other repos are written to mature in specific multi-day periods and are known as term repurchase agreements. Other repos are written as open transactions with indefinite terms subject to liquidation by either party. Yields tend to run close to the federal funds rate. The Policy calls for the specific securities to be only those Treasuries or Instrumentalities allowed by the Policy with maturities. The collateral held pursuant to a repurchase agreement shall have a maturity under five years and having a market value of 102% during the term. Leon County will enter into a repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Comptroller's Office. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for one-business day repos, with a maximum of 15%.

G. Bankers' Acceptances (BAs)

Bankers' Acceptances are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A BA is created from a letter of credit issued by an importer's bank to pay a foreign exporter for goods expected to be received. The exporter will normally present this letter of credit to its bank for a discounted payment. The exporter's bank then presents the letter of credit to an U.S. correspondent bank for payment at which time it is marked "Accepted". Upon acceptance, the BA becomes an irrevocable and unconditional obligation of the accepting bank and it is also an obligation of the importer and any endorser thereof. BAs typically have maturities of 180 days or less. Yields are generally greater than Treasuries and Instrumentalities of similar maturity. The Policy requires BAs to be inventory-based, issued by a domestic bank, rated Prime-1 and A by Moody's Investors Service and A-1 and A by Standard & Poor's, and ranked in the top fifty U.S. banks by the American Banker's yearly report. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 15% of the portfolio.

H. Commercial Paper (CP)

Commercial paper is unsecured short-term debt issued primarily by corporations to finance receivables and other short-term needs. CP has a maximum maturity of 270 days or less. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated Prime-1 by Moody's Investor's Service and A-1 by Standard & Poor's, and, if backed by a letter of credit, the credit provider must be ranked in the top fifty U.S. banks by the American Banker's yearly report. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 20% of the portfolio.

I. Municipal Obligations (Munis)

For situations necessary to comply with arbitrage regulations, the Clerk may invest in taxable and tax-exempt debt and general obligation and revenue bonds issued by states and local governments. Long-term debt must be rated at least AAAm or AAAg.

J. Fixed Income Money Market Mutual Funds (Money Markets)

Money markets are pools of securities providing income and liquidity. The Policy enables the Comptroller to invest in SEC qualified fixed income money markets with underlying investments only in Treasuries, Instrumentalities, Repos, Munis, CP and BAs. The average maturity of the underlying investments may not exceed one year. A maximum of 25% of the portfolio may be invested in money markets, but when combined with the SBA may not exceed 50% of the portfolio. The Policy further restricts the investment with any one fund to 3% of the portfolio.

K. The Florida Local Government Investment Trust Government Fund (FLGIT) or the First Municipal Investment Trust (FMIT).

The FLGIT is a local government investment pool created by the Florida Association of Court Clerks and Comptroller, and the Florida Association of County's for the purpose of providing public entities with an investment program that focuses on longer term securities with the highest credit ratings. The effective maturity of the underlying investments is five years or less. At year end, the FLGIT was invested in money markets, Treasury Notes, asset-backed securities, and Federal agency obligations. This investment type is subject to some market risk due to fluctuating prices and liquidity risk due to advance redemption notification requirements. However, it has a professional investment advisor and an investment advisory board, and provides diversity in the Fund's portfolio. The FLGIT maintains a credit rating of AAA by Standard & Poor's. The FMIT is a similar investment pool operated by the Florida League of Cities. Its rating, investment parameters and liquidity generally mirror those of the FLGIT.

L. Special Purpose Investment Trust (SPIA)

Effective July 1, 2004, Section 17.61(1), Florida Statutes was amended to permit organizations created by the Florida Constitution to participate in the existing State Treasury Investment Pool "Special Purpose Investment Account (SPIA)." Historically, SPIA participants have received higher earnings reflecting the higher risk associated with the longer maturities and lower credit quality. The Board of County Commissioners approved revisions to the County's Investment Policy effective January 11, 2005, to permit up to 15% of the County portfolio to be invested with the Treasury Special Purpose Investment Account (SPIA). The financial details and disclosures for the Treasury Investment Pool are made in Note 2 to the State of Florida Comprehensive Annual Financial Report (CAFR).

VII. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision of sufficient liquidity. On a regular basis, the County's receipts and disbursements are analyzed to determine trends in cash inflow and outflow. Cash inflows are invested immediately upon receipt and become part of the portfolio. The portfolio provides cash for weekly payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Debt service payments are funded through sinking funds held by the County.

VIII. INVESTMENT OPERATIONS

Investing activities are conducted by the investment advisor and qualified professionals in the Clerk's Office in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to management of the Clerk's Office, management of the BCC and the Investment Oversight Committee. Regular meetings of the IOC are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The investment advisor and Clerk staff use sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of national economic activity are considered in making asset allocation decisions.

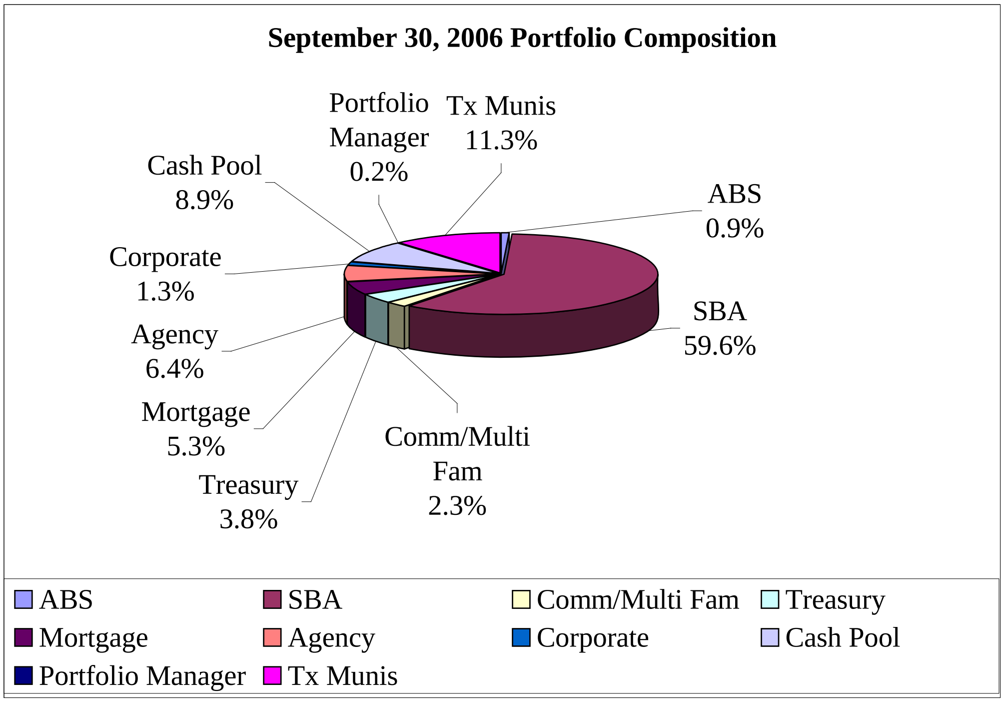
A. Portfolio Balances

The portfolio's ending balance for fiscal year 2006 was $188,999,580 while the ending balance for fiscal year 2005 was $169,208,052, an increase of $19,791,528. The increase in year-end balances from fiscal year 2005 to 2006 is attributable to several factors including unspent funds for capital assets and an increase in income from operations.

B. Portfolio Composition

As of September 30, 2006, the portfolio was fully invested in permitted investments within allowable composition limits. The portfolio was managed in compliance with the Policy which requires the portfolio to be diversified by investment type. The portfolio consisted of treasuries totaling $7.2 million or 3.8% of the portfolio. The investment in agencies totaled $11.9 million and this represents 6.4% of the entire portfolio. Mortgage backed obligations were in the amount of $9.9 million or 5.3% of the portfolio. Commercial and Multifamily mortgages were in the amount of $4.3 million or 2.3%. This year Voygeur invested in asset backed securities totaling $1.7 million or 0.9%. Corporate investments included $2.4 million or 1.3%. The remaining funds included $112.6 million invested in SBA representing 59.6%, the Wachovia cash pool with $16.7 million or 8.9%, and the Wachovia Portfolio Manager Fund with $ 0.3 million or 0.2 %.

Table 2



C. Portfolio Maturities

Table 3 – Average Term by Investment Type

Investment Type	FY 2006	FY 2005
Agencies	234 days	748 days
Treasuries	544 days	664 days
Mortgages	796 days	1062 days
Cml/Multi	821 days	785 days
Corporates	212 days	329 days
ABS	62 days	533 days
Taxable Munis	540 days	909 days
SBA	32 days	74 days

Portfolio management was also accomplished in compliance with the Policy that requires ensuring sufficient liquidity as well as diversity in maturities. The County's contributions to the SBA pool may be returned the same business day for requests made prior to 11 AM and the following business day for requests made after 11 AM. Shown in Table 2 are the average terms of each investment type acquired in fiscal years 2006 and 2005. Average term is the average number of days from purchase to maturity of the investment. Average terms greater than one year represent investments of non-current funds, including the non-current operating portfolio, and investments of bond proceeds and debt service reserve funds. The Voyageur managed portfolio was invested for a weighted average term of 510 days in fiscal year 2006, as compared with a weighted average term of 664 days in fiscal year 2005.

D. Earnings and Yields

The dollar amount of earnings is used in historical and budgetary comparisons, and in cashflow analysis. The portfolio earned $9,452,388 on its invested principal in fiscal year 2006. For comparison, the portfolio earned $4,473,028 on its invested principal in fiscal year 2005. Actual earnings exceeded budget in fiscal year 2005 by $2,626,146 and in fiscal year 2006 by $7,933,923 as shown in the following Table 4. Interest rates for fiscal year 2006 were higher overall than fiscal year 2005.

Table 4 - Budget and Actual Income

	FY 2006	FY 2005
Actual	$9,452,388	$4,473,028
Budget	2,068,920	1,846,882
Variance	$7,383,468	$2,626,146

IX. CONCLUSION

In conclusion, the results outlined in the Annual Investment Report are as follows:

- The investment portfolio is in full compliance with the Investment Policy.
- Overall portfolio risk has been reduced through improved asset quality.
- Total portfolio return was above that of last fiscal year due to rising interest rates and available cash.

ANNUAL INVESTMENT REPORT
for the Year Ended September 30
Leon County, Florida

The Investment Oversight Committee made recommendations to:

- The Investment Advisory Committee adjusted the asset allocation of the portfolio in recognition of the interest rate environment. Specifically, the Committee voted in May 2005 to instruct Voyageur to begin shortening the average duration of the portfolio. As a result of this action the duration of the portfolio drifted in from 1.6 years in May of 2005 to 1.2 years as of September 30, 2006. This allowed the portfolio to reinvest proceeds as securities matured at higher interest rates on a more frequent basis.

- At the fall Investment Advisory Committee meeting wherein the 2006 year end report was reviewed, the IOC voted to direct Voyageur to allow the portfolio to begin moving back to the benchmark duration. Also during the coming year the committee will be reevaluating the overall asset allocation to determine if the overall portfolio should be managed to a slightly longer duration.

Presented by:

Randy Pople, Chairman	Bob Inzer, Clerk of the Circuit Courts
Investment Oversight Committee	Leon County, Florida