ANNUAL INVESTMENT REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011

PREPARED BY
BOB INZER
CLERK OF COURTS

LEON COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT

Fiscal Year Ended September 30, 2011
Leon County, Florida

EXECUTIVE SUMMARY

The County's investment Portfolio continued to perform 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 are established to reduce volatility with respect to investment returns. The portfolio earned $2,771,536 of interest and realized gains of $371,518 for a total income of $3,143,054 for the fiscal year ended September 30, 2011. This total income provided an effective rate of return of 1.48% on an average daily balance of $212,524,114 in fiscal year 2011. For comparison, the portfolio earned $4,988,617 of interest and realized gains of $836,219 for total income of $5,824,836 for the fiscal year ended September 30, 2010. This total income provided an effective rate of return of 2.48% on an average daily balance of $235,249,514 in the fiscal year 2010. The total income for fiscal year 2011 is lower than that for fiscal year 2010 because expenditure of funds for capital construction projects reduced the cash available for investment and market conditions.

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, 2011.

Table I Portfolio Ending Balance and Total Income Earned

Fiscal Year Ended September 30, 2011

Investment Type	Amortized Book Value	Market Value		Total Income Earned During FY 2011
Cutwater Asset Mgmt	74,580,740	75,017,358		1,549,747
Fl Municipal Investment Trust 0-2	49,721	49,721		76,881
FL Municipal Investment Trust 1-3	37,278,254	37,278,254		272,873
Fl Local Govt Investment Trust	37,277,715	37,277,715		179,328
Fl State Treasury SPIA	36,422,926	37,038,474		1,050,210
Wachovia Cash	8,329,792	8,329,792		14,014
Total Cash and Investments	193,939,148	194,991,314		3,143,054

Table II Average Daily Balance and Total Return

Investment Type	FY 2010 Ave Daily Balance	Total Return	FY 2011 Ave Daily Balance	Total Return
Cutwater Asset Mgmt.	71,831,468	3.52%	74,414,966	1.57%
Fl Municipal Investment Trust 0-2	35,905,623	2.14%	16,660,955	0.40%
FL Municipal Investment Trust 1-3	32,442,441	0.81%	32,586,061	0.90%
Fl Local Govt Investment Trust	29,494,884	2.84%	29,353,596	0.79%
Certificates of Deposit	4,328,767	0.83%		
Fl State Treasury SPIA	44,528,085	2.54%	54,217,652	2.41%
Money Market-Various	2,907,342	0.05%		
Wells Cash Pool	13,810,904	0.40%	5,290,883	0.28%
Total Daily Average	235,249,514		212,524,114	
Table I Income / Table II Ave. Daily Bal		2.48%		1.48%

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 more frequent meetings. Meetings are

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noticed; open to the public and minutes of each meeting recorded. The IOC consists of the Clerk; the County Administrator Designee, Deputy County Administrator Alan Rosenzweig; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. They are Stan Barnes, Managing Partner, Allen Mooney & Barnes Investment Advisors, LLC, Marvin M. Garland, EVP and COO of the LSCU Service Corporation, and Michael Kramer, COO of Desloge Home Oxygen.

During the fiscal year ending September 30, 2011, the portfolio was managed within the guidelines and limitations of the Investment Oversight Committee recommendations and the Commission approved policy without exception. Due to volatility in the markets, the Investment Oversight Committee approved several changes after its annual review of County's Investment Policy on September 22, 2011. Although the policy authorizes changes in investment percentages from time to time based on market conditions, the limit for investment in the Florida Treasury Special Purpose Investment Account was increased to 50% of the portfolio. There were several other minor changes made to the policy which was adopted by the Board on October 11, 2011.

Economy

During the September 20, 2011, meeting of the Federal Open Market Committee (FOMC), members reviewed information which indicated that the pace of economic growth remains slow. The minutes from the meeting indicate that the FOMC voted to maintain the target range for the federal funds rate at 0 to 0.25 percent and continues to anticipate that economic conditions, are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The FOMC also approved the maturity extension program and reinvestment policy as major actions to provide additional monetary policy accommodation to support the economic recovery. The FOMC reported that it will continue to monitor the economic outlook and financial developments and is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate.

Investment Managers

The investment portfolio end of month balances ranged from $186 million to $261 million during the year, with higher balances during the winter as taxes are received from the Leon County Tax Collector. The portfolio was allocated among the following government pools: Florida Treasury Special Purpose Investment Account, Florida Local Government Investment Trust (FLGIT) and the Florida Municipal Investment Trust (FMIvT). The external manager from Cutwater Asset Management invested 34% of the portfolio in slightly longer term investments.

Currently, the dollars under management by Cutwater are approximately $75 million. Intermediate fixed income portfolios have durations of 1.5-1.8 years. The established benchmark for Cutwater is the Merrill Lynch 1-3 year Government Index.

The Clerk is currently in the process of bidding its banking relationships pursuant to a competitive selection process and the new contract is expected to be awarded by March 31, 2012. The current earnings credit earned on balances is 30 basis points.

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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 Commissioners. The portfolio has been managed within the guidelines and limitations of the Investment Oversight Committee recommendations and Commission approved policy without exception. On September 22, 2011, the Board adopted revisions to the Policy to provide the flexibility to manage the portfolio in the volatile market environment.

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 County Administrator Designee, Deputy County Administrator Alan Rosenzweig; and three qualified individuals with financial or investment expertise who are independent of employment and business relationships with Leon County. During most of the fiscal year the IOC was comprised of Stan Barnes, Managing Partner, Allen Mooney & Barnes Investment Advisors, LLC, Marvin M. Garland, EVP and COO Leverage, the LSCU Service Corporation, and Michael Kramer, COO of Desloge Home Oxygen.

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. Since there was little change in the markets, the Investment Oversight Committee approved only minor changes after its annual review of County's Investment Policy. The revised policy was adopted by the Board on September 22, 2011.

IV. INVESTMENT OBJECTIVES

The Policy states that the primary objectives of all investment activities for the County should be safety of principal, maintenance of adequate liquidity and finally, return maximization.

Safety of principal is the foremost investment objective. Investment transactions should seek to keep capital losses to a minimum, whether the result of security defaults or erosion of market value. This is best insured by establishing minimum acceptable credit ratings, limiting the portfolio's overall duration, setting maximum exposures by sector, defining appropriate levels of diversification and authorized transactions and limiting exceptions.

The second objective is the provision of sufficient liquidity. A portion of the County's overall portfolio should be maintained very liquid in order to meet operating, payroll and ongoing capital requirements. Maintaining a core level of assets with the government pools such as the Treasury Special Purpose Investment Account (SPIA) or other short-term entities is viewed as the best way of maintaining secure asset values with sound investment practices. The remainder of the overall portfolio should be managed in such a manner that funds can be liquidated in a reasonable amount of time, recognizing that there are other sources for day-to-day liquidity and that this portfolio is primarily available for income generation within the constraints of this policy.

Maximizing yield on the portfolio is of least importance compared to the safety and liquidity objectives above. Return maximization is to be guided by the predefined and acceptable levels of risk as defined in this policy.

IV. PORTFOLIO PERFORMANCE

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.

The portfolio earned $2,771,536 of interest and realized gains of $371,518 for a total income of $3,143,054 for the fiscal year ended September 30, 2011. This total income provided an effective rate of return of 1.48% on an average daily balance of $212,524,114 in fiscal year 2011. For comparison, the portfolio earned $4,988,617 of interest and realized gains of $836,219 for total income of $5,824,836 for the fiscal year ended September 30, 2010. This total income provided an effective rate of return of 2.48% on an average daily balance of $235,249,514 in the fiscal year 2010.

The total income for fiscal year 2011 was lower than that for fiscal year 2010 because expenditure of funds for capital construction projects reduced the cash available for investment. In addition, there was less spread compression in fiscal year 2011 than in fiscal year 2010. Returns in 2010 benefitted from spread compression as interest rates drove lower. By example, yields on 2-year Treasury notes compressed from 0.95% to 0.40% in 2010, a difference of 0.55%. In 2011, 2-year notes declined by only 0.15% to 0.25%. As fixed income spreads compress, the market value of the portfolio will rise and thereby increase the gains and the income in the portfolio. Finally, due to the historically low interest rate environment, maturities and cash continue to be invested at lower rates which are affecting the returns in the portfolio.

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

Leon County's investment portfolio managed by Cutwater outperformed its comparative benchmark, the Merrill Lynch 1-3 Year Government Index, for the fiscal year ending September 30, 2011. The external portfolio produced a total return, net of fees, of 1.57% compared to the Index return of 1.23%, which includes no fee charges.

Third Quarter 2011 Review

The third quarter of 2011 was fraught with market volatility and the re-pricing of risk assets. Investment grade corporate credit, for example, had its third worst month in 25 years versus US Treasuries. August excess returns for this sector underperformed Treasuries by 3.1 percent, its worst performance behind September and October 2008[1]. Underpinning this volatility was an erosion of investor confidence bought on by a few key and well-known events. At first, investor confidence was shocked by the apparent ineptitude and process around the US raising the debt ceiling. Not only did Congress come dangerously close to not meeting its deadline, but it also failed to prevent a downgrade to "AA+" by Standard and Poor's. Congress also left the door open to further volatility resulting from a voting process that will continue through the year.

Federal Reserve meetings during the quarter further eroded investor confidence despite the Fed's unprecedented actions intended to stimulate the economy. The August 9th meeting replaced the expectation of low rates for "an extended period" with the reality of low rates until "mid-2013." Three voting members dissented to the new language and the market reacted to the perception that the economy is slowing further from already low or below-trend expectations. August and September economic data additionally supported the slowing thesis. Nonfarm payrolls grew by 85,000 in July but added *zero* jobs in August. The August Philadelphia Fed Business survey disappointed markets and the housing market stabilization remains tepid at best.

Following the US downgrade and weakening economic fundamentals, waning investor confidence eventually reached its nadir after the September 21st FOMC meeting. Chairman Bernanke unveiled his new strategy for easing monetary policy further, despite zero interest rates. The FOMC announced its plan, known as "Operation Twist", to purchase $400 billion in long-dated assets through active sales and maturity reinvestment. Furthermore, the new program is set to reinvest an estimated $200 billion in upcoming agency mortgage-backed maturities back into the sector in an attempt to lower mortgage lending rates. The market anticipated the Fed's plan, but was surprised by the assets targeted for reinvestment. The language used by the Chairman to justify the Fed's change in policy roiled the markets. Mr. Bernanke's admission that "there are significant downside risks to the economic outlook, including strains in global financial markets" was particularly troubling to investors.

Mr. Bernanke's statement that the "global financial markets" may ultimately impact growth was his first significant public acknowledgement that the European sovereign debt crisis is becoming problematic for the US. The eventual defaults of Greece and Portugal is the likely scenario, but the ripple effects to the banking system and to other leveraged sovereigns like Italy and Spain threaten the sustainability of the European Monetary Union (EMU). The International Monetary Fund (IMF) and the European Central Bank (ECB) have only forged temporary solutions by providing liquidity and preventing a disorderly default. Meanwhile, EMU members have been unable to agree on a long-term sustainable solution and most market participants agree that it will take a "Lehman-like moment" in order for the EMU to coalesce behind a solution. There exists no fund or liquidity mechanism large

[1] (Deutsche Bank, "History Repeats – So What's Next?", 9/1/11)

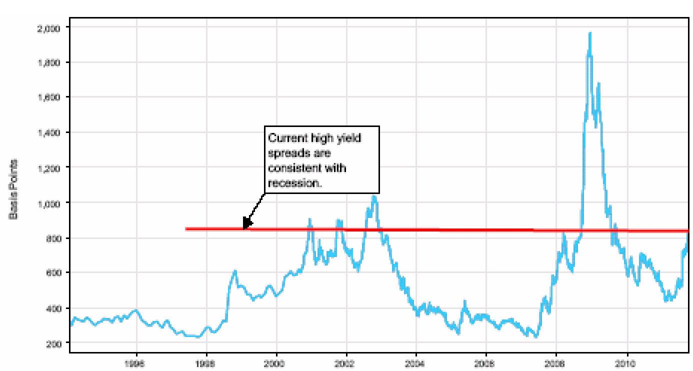
enough to bailout Italy or Spain; and the idea of reliving the dark days of 2008 erodes any last bit of confidence the market may cling to for support.

Market Performance & Outlook

The combination of Operation Twist and market uncertainty sent long-term Treasury yields to record lows during the third quarter. Ten-year Treasury yields ended the quarter at 1.92 percent, which is lower than where ten-year yields ended December 2008. Thirty-year Treasury bond yields finished at 2.91 percent with long-dated Treasuries generically returning over 18 percent for the quarter! Put simply, anything other than Treasury securities underperformed. Investment grade and high yield corporate credit lagged by 4.75 percent and 10.35 percent respectively, commercial mortgage-backed securitizations underperformed by 3.52 percent[2]. The S&P 500 has now lost over 8.6 percent for the year, gold has re-traced 12 percent from its highs and the US dollar has recouped over 8 percent from its lows. Despite the downgrade, the United States certainly remains the flight to quality asset of preference.

Our efforts through the second and third quarters focused on reducing risk and volatility in portfolios to achieve modest sector over-weights versus Treasuries. This risk-reduction proved timely, but unfortunately the severity of the re-pricing punished these allocations regardless of their modesty. Peering beyond this moment to the future reminds us that the balance sheets and cost of financing for the best corporations have never been more favorable. Too big to fail banks remain troubled by headline risk, litigation risk and investor fickleness, yet their systemic importance still affords them unprecedented access to liquidity beyond retail and wholesale sources of funding. Even if one disagrees with the check marked-shaped recovery thesis and believes that the US and global economies are already in a recession, asset prices may have already achieved spreads consistent with recessions where the margin of safety upon investment has been greatest (Figure 1.)

Figure 1. Cheaper High Yield Spreads.



In conclusion, we believe that credit spreads and their resulting prices have once again become more attractive from a long-term perspective. Yet we also believe that market confidence will only be restored with a permanent solution to the European debt crisis. Our approach during the fourth quarter will emphasize opportunities in those investments capable of weathering the sovereign crisis. At some point prior to the ultimate solution of the crisis prices and yields will justify the associated risks and it will become prudent to add to existing allocations. Our definition of the "abnormal normal" and its expectation for higher volatility has come to fruition—and there is certainly more to come.

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V. 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 0.5 years 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	Max Maturity/ WAL Limit
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
CDs (Financial Deposit Instruments insured by FDIC)	30%, 10% any one issuer	2-Year, 1-Year Avg
Agencies	100%, 20% any one issuer	5-Year
Instrumentalities	45%, 15% any one issuer	5-Year
Corporate Debt	25%, 3% any one issuer	5-Year
Municipal Bonds	35%, 3% any one issuer	5-Year
Mortgage Backed Securities	35%, 5% any one issuer	5-Year WAL
Asset Backed Securities	10%, 1.5% any one issuer	5-Year WAL
Commercial Mortgage Backed Securities	8% , 3% any one issuer	5-Year WAL
Treasuries	100%	10-Year
FLGIT, FMIT 0-2, and FMIT 1-3	15% each	NA
SBA. SPIA	50%	NA
Money Markets	100%	NA

A. U.S. Government 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.

B. 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 bonds, debentures or notes issued or guaranteed by United States Government agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities are limited to the following: Small Business Administration, United States Department of Agriculture, United States Export-Import Bank, direct obligations or fully guaranteed certificates of beneficial ownership, Farms Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, General Services Administration Participation Certificates, United States Maritime Administration Guaranteed, Title XI Financing, New Communities Debentures, United States Government guaranteed debentures, U. S. Public Housing Notes and Bonds, U.S. Government guaranteed public housing notes and bonds, U. S. Department of Housing and Urban Development 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 any one agency and an aggregate of up to 100%.

C. 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, debentures or notes issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies limited to the following: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank or its district banks (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) including participation certificates, Tennessee Valley Authority (TVA). 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.

D. Financial Deposit Instruments Insured by FDIC (Certificates of Deposit)

Investments may be made in Financial Deposit Instruments Insured by FDIC in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes and provided that the bank is not listed with any recognized credit watch information service. A maximum of 30% of the portfolio may be invested in Financial Deposit Instruments insured by FDIC.

E. 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 Clerk's Office. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for one-business day repos, with total repos to a maximum investment of 15%.

F. Bankers' Acceptances (BAs)

Bankers' Acceptances are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A bankers' acceptance 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 bankers' acceptances which are inventory based and issued by a bank, which has at the time of purchase, an unsecured, uninsured and un-guaranteed obligation rating of at least "Prime-1" and "A" by Moody's and "A-1" and "A" by Standard & Poor’s. The Policy further restricts the investment with any one financial institution to 5% of the portfolio and an aggregate of 15% of the portfolio.

G. 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.

H. Municipal Obligations (Munis)

Investments may be made in notes or bonds issued by governmental entities or territorial boundaries of the United States, provided that such instrument is rated A or better by at least one NRSRO. The Policy further restricts the investment with any one issuer to 3% and an aggregate of 35% of the portfolio.

I. Constant Net Asset Value Money Market Mutual Funds

Money markets are pools of securities providing income and liquidity. The Policy enables the Clerk to invest in SEC qualified constant net asset value fixed income money market mutual funds rated AAAm or AAAg comprised of only those investment instruments as authorized in this Section XIV, Portfolio Composition, provided that such funds do not allow derivatives. The average maturity of the underlying investments may not exceed one year. A maximum of 100% of the portfolio may be invested in money markets.

J. The Florida Local Government Investment Trust Government Fund (FLGIT)

The FLGIT is a local government investment pool created by the Florida Association of Court Clerks and Controller, and the Florida Association of Counties 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. Investments in this pool are limited to a maximum of 15% of the portfolio.

K. First Municipal Investment Trust (FMIT) 1- 3 Year High Quality Bond Fund.

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. The 1 to 3 Year High Quality Bond Fund is designed to provide an investment pool alternative to those Members that have excess funds and that have an investment horizon greater than that of money market instruments. The investment objective is: 1) to preserve capital; 2) achieve a total rate of return that exceeds the return of T-Bills by 1% per year over rolling three-year periods; and 3) exceed the return of the Merrill Lynch One-to Three-year Government Index over three-year periods. The Portfolio will generally invest in securities with greater potential returns and risk than those offered by money market type instruments. Due to the fact that the Portfolio will be investing in securities with an average maturity of approximately two years, increases in interest rates will cause declines in the net asset value of the Portfolio. Therefore, the Portfolio may be an inappropriate investment for funds required to meet short-term needs. Investments in this government pool are limited to a maximum of 15% of the portfolio.

L. First Municipal Investment Trust (FMIT) 0 - 2 Year High Quality Bond Fund

During the fiscal year, the County reallocated a portion of investments from money markets to this Bond Fund also operated by the Florida League of Cities. This Fund which was established in April 2009 invests in Government and high quality securities while maintaining an average maturity of approximately one year. The performance of the portfolio is measured against the Merrill Lynch 1 Year Treasury Note Index. The portfolio is managed by Atlanta Capital Management. Investments in this government pool are limited to a maximum of 15% of the portfolio.

M. 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 September 22, 2011, to permit up to 50% 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).

The Treasury Investment Pool (Pool) earned $40,727,566.92 in September 2011. For the month of September, these earnings resulted in a gross effective interest rate (annualized) of 2.8632%. The Pool's fair value factor was 1.0169 for September. A factor greater than 1.0000 provides that the market value of the Pool's investments is greater than the funds invested in the Pool. For more information relating to the Treasury Investment Pool, please visit the website at www.fltreasury.org.

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VI. 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.

VII. 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 2011 was $194,991,314 while the ending balance for 2010 was $213,494,076, a decrease of $18,502,762. The decrease in year-end balances from fiscal year 2011 to 2010 is attributable primarily to the expenditure of funds for capital construction projects.

B. Portfolio Composition

As of September 30, 2011, the portfolio was fully invested in permitted investments within allowable composition limits. The Clerk or the Clerk's designee (Finance Director shall have the option to further restrict or increase investment percentages from time to time based on market conditions. Any changes to the portfolio composition guidelines or limits must be in writing from the Finance Director directed to the appropriate parties and discussed at each quarterly Investment Oversight Committee meeting. The portfolio was managed in compliance with the Policy which requires the portfolio to be diversified by investment type.

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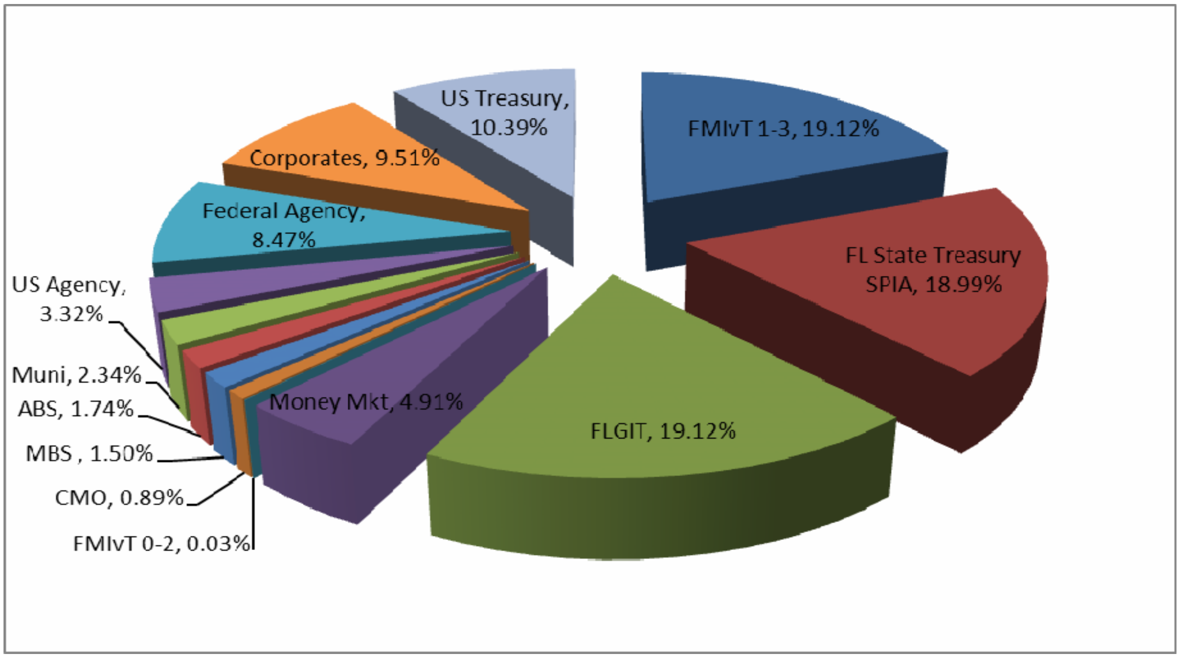

C. Portfolio Maturities

Portfolio management was also accomplished in compliance with the Policy that requires ensuring sufficient liquidity as well as diversity in maturities. Shown in Table 4 are the average terms of each investment type acquired in fiscal years 2011 and 2010. 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 externally managed portfolio was invested for a weighted average term of approximately 773 days in fiscal year 2011, as compared with a weighted average term of 712 days in fiscal year 2010.

Table 3 – Average Term by Investment Type

Investment Type	FY 2011	FY 2010
Mortgages	776 days	902 days
Treasuries	1,030 days	636 days
Cml/Multi	475 days	463 days
Corporates	757 days	817 days
ABS	1,203 days	1,285 days
Financial Deposit Instrument (CDs)	90 days	90 days
Agencies	704 days	621 days
Taxable Munis	1,051 days	719 days
Florida Municipal Inv. Trust	NA	NA
Fl Local Govt. Inv. Trust	NA	NA
Fl. Special Purpose Inv. Acct	NA	NA
Money Markets	NA	NA

Leon County, Florida

D. Earnings and Yields

The portfolio earned $2,771,536 of interest and realized gains of $371,518 for a total income of $3,143,054 for the fiscal year ended September 30, 2011. This total income provided an effective rate of return of 1.48% on an average daily balance of $212,524,114 in fiscal year 2011. During this fiscal year the Federal Funds Rate ranged between 0.00 % and 0.25% and is expected to remain at this level for the foreseeable future. As a result of the low interest rates, the County's average portfolio return for Fiscal Year 2011 decreased from 2.48% to 1.48%.

The dollar amount of earnings is used in historical and budgetary comparisons, and in cash flow analysis. Actual interest earnings totaled $2,771,536 in fiscal year 2011 and $4,988,617 in fiscal year 2010. Actual earnings were less than the budget in fiscal year 2011 by $110,564 and exceeded the budget in fiscal year 2010 by $949,731 as shown in Table 4.

Table 4 - Budget and Actual Income

	FY 2011	FY 2010
Actual	$2,771,536	$4,988,617
Budget	2,882,100	4,038,886
Variance	$ (110,564)	$ 949,731

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.
- Total income was below that of the prior fiscal year due to less spread compression in 2011, lower interest rates and less cash to invest due to capital expenditures.
- The economic environment continued to be highly volatile.

Investment Oversight Committee

The IOC met quarterly to oversee the performance of the external manager. The Investment Policy was reviewed and recommended changes were approved by the Board of County Commissioners for adoption on October 30, 2011.

Pursuant to investment policy requires staff to notify the IOC at any time holdings drop below the minimum credit ratings required by the policy. The IOC will then consider the market environment and make recommendations to hold and continue to monitor the investments or liquidate the investments. Accordingly, throughout the fiscal year the IOC continued to monitor closely the performance of four asset backed securities and was provided detailed reports from the external manager.

Because of various factors including the performance of collateral to date, absence of losses to date, presence of mid-tier insurance wrap, positive characteristics of the underlying collateral, or severe liquidity penalty currently being applied in the market, the external manager continues to

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recommend holding the four remaining securities. As of the September 30, 2011 the difference between original cost totaling $978,950 and current market of $685,617, for the remaining four securities is about $293,333 which represents less than half of one percent of the $75 million dollar externally managed portfolio.

On December 1, 2011 the IOC met to review and approve this annual report recapping the performance of the portfolio and the external manager.

Presented by:

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Stan Barnes, Chairman	Bob Inzer, Clerk of the Circuit Courts
Investment Oversight Committee	Leon County, Florida