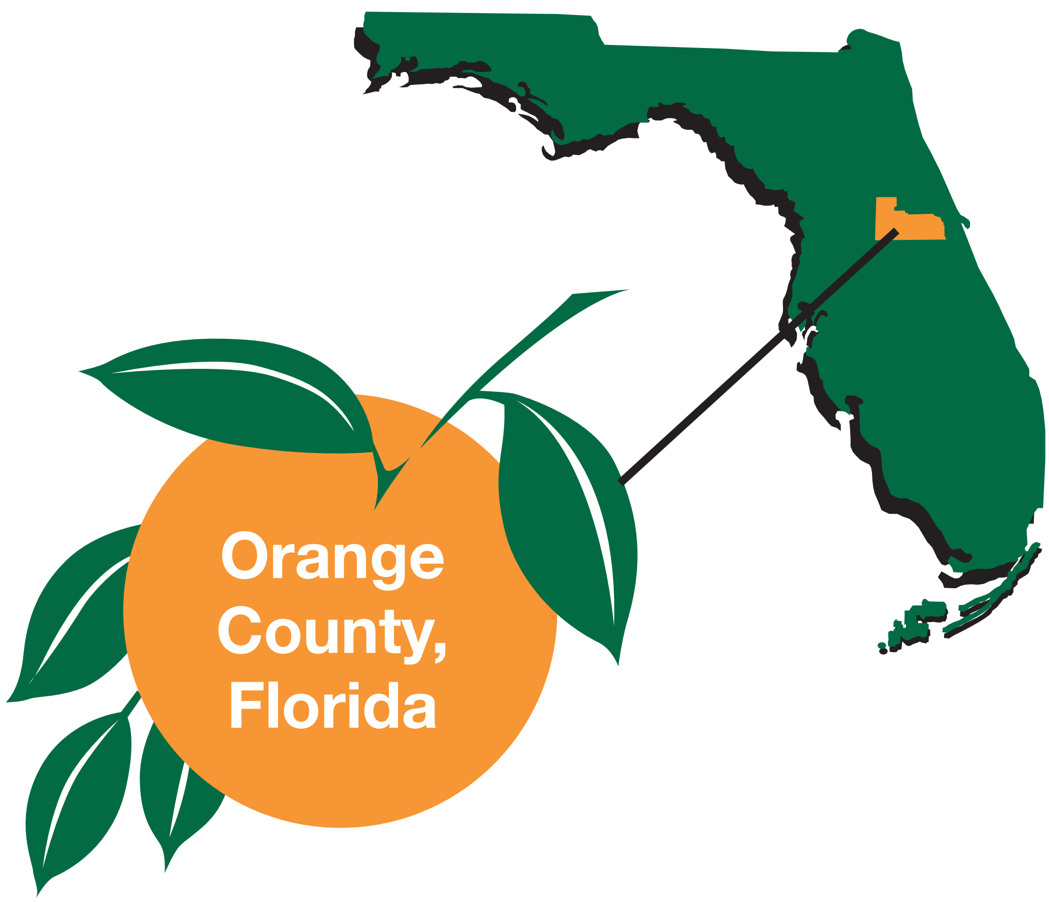
ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011



Prepared by:
MARTHA O. HAYNIE, CPA
COUNTY COMPTROLLER

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EXECUTIVE SUMMARY

The portfolio earned $11.5 million for an effective rate of return of 0.87% on an average daily balance of $1.33 billion in fiscal year 2011. Investments were made in compliance with the Investment Policy's permitted investment types, composition limits and allowable maturities. The Federal Reserve Board (Fed) kept the overnight lending rate near zero due to slow economic growth and high unemployment. Market interest rates for securities with maturities of one year or less remained at extraordinarily low levels throughout the year. The 3-month Treasury had an average yield of 0.08% and the 1-year Treasury had an average yield of 0.22% in 2011. Approximately 66.8% of the County's portfolio was invested in the current operating sub-portfolio, which has a maximum maturity of 13 months. The noncurrent operating sub-portfolio, 25.6% of the overall portfolio, generated the majority of the County's earnings. This five-year laddered portfolio benefited from investments made in prior years when interest rates were higher. In addition, securities added to the noncurrent sub-portfolio in 2011 generated substantially higher yields than short-term alternatives due to an upwardly sloping yield curve that was in effect all year. The debt service reserve sub-portfolio represented 7.0% of the total portfolio and the project construction sub-portfolio accounted for 0.6% of investments.

The economy expanded at modest pace in the first quarter of the year but economic growth stalled in the second quarter. The rate of economic growth, though moderate, trended upward in the second half of the year. The portfolio was almost entirely invested in Treasuries and money market mutual funds comprised of Treasuries and Treasury-backed repurchase agreements. Actual interest income was $6.1 million lower than the amount budgeted and $1.4 million lower than actual interest earnings in 2010. The decline in interest earnings reflects persistently low market interest rates and a $40 million decline in the average portfolio balance. However, the effective rate of return exceeded all benchmarks.

Section 218.415 (15), Florida Statutes, requires the Orange County Comptroller 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 is presented below as of September 30, 2011.

Summary Table of Portfolio Performance

Investment Type	Book Value September 30, 2011	Market Value September 30, 2011	Interest Earned Fiscal Year 2011
U.S. Treasuries	$1,039,810,043	$1,054,301,162	$11,493,000
Fixed Income Money Market Mutual Funds	196,652,426	196,652,426	34,904
Federal Instrumentalities			8,508
Totals	$1,236,462,469	$1,250,953,588	$11,536,412

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ORANGE COUNTY, FLORIDA

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government with the ability to conduct investment activity outside the framework of that Statute that is consistent with a written plan adopted by the local governing body. Orange County's (County) investment activity is authorized by the Investment Policy (Policy) adopted by the Board of County Commissioners (BCC). The Policy applies to all investment activities and financial assets of the BCC excluding funds invested in the Orange County Retiree Health Care Benefit Trust, which was created solely to provide funding and payment of post-retirement benefits to beneficiaries. The Investment Committee reviewed the Policy during the year and recommended a minor revision. The Policy was revised by the Orange County Comptroller (Comptroller) to reflect the new name of the state's local government investment pool, Florida PRIME. The BCC adopted the revised Investment Policy on August 23, 2011.

The County's investment activity was conducted in accordance with written procedures and internal controls.

II. INVESTMENT COMMITTEE

The Committee was established by the Comptroller to formulate investment strategies, provide short-range direction, and monitor the performance and structure of the County's portfolio. The Committee consists of Comptroller staff and two other qualified individuals with financial or investment expertise who are independent of employment and business relationships with the County. The two outside members of the Committee are John M. Cheney, D.B.A., retired Associate Professor of Finance, University of Central Florida, a member since 1997; and Edward J. Manning, retired managing partner of Ernst & Young, Certified Public Accountants, a member since 2001.

III. 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. The portfolio is managed in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this objective, investments are diversified across a variety of securities offering independent returns and maturities. In fiscal year 2011, more than 99% of portfolio assets were invested in Treasuries and money market mutual funds comprised of Treasuries and Treasury-backed repurchase agreements due to continued instability in financial markets. Treasuries are considered to have the lowest default risk of any security type because they are guaranteed by the full faith and credit of the United States Government.

The second objective is to maintain sufficient **liquidity**. The County's funds are invested to match maturities with forecasted expenditures for operating, payroll, and capital needs. Liquidity also encompasses the ability to sell an investment when necessary, with minimal delay and minimal loss of principal. The portfolio's investments are held to maturity, unless circumstances require otherwise, avoiding the potential for a sale generated capital loss.

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

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 include the types of investments permitted, allowable maturities, liquidity requirements, domestic monetary policy, sensitivity of asset values to changes in market conditions, local economic activity (the dollars available to be invested) and the investment operation.

The portfolio earned $11.5 million for an effective rate of return of 0.87% on an average daily balance of $1.33 billion in fiscal year 2011. For comparison, the portfolio earned $12.9 million for an effective rate of return of 0.95% on an average daily balance of $1.37 billion in fiscal year 2010.

This report discusses in detail each of the factors influencing portfolio performance. The report also discusses the County's depository banking relationships.

V. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's excess funds are invested according to Orange County Code Section 17-5, which authorizes the Comptroller to invest in specific permitted investment types. The permitted investments are restricted by the Policy's composition limits and maximum allowable maturities. The Policy also restricts the investment maturities of current operating funds to not more than 13 months, the investment maturities of noncurrent operating funds to not more than 60 months, and the investments of bond reserves, construction funds and other non-operating funds to a term appropriate to the need for the funds. Following is 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
Florida PRIME (SBA)	40 %	NA
Treasuries	100 %	10 Years
Instrumentalities	45 %	10 Years
CDs & Savings Accounts	30 %	One Year
Repurchase Agreements	20 %	30 Days
Bankers' Acceptances	15 %	270 Days
Commercial Paper	15 %	270 Days
Municipal Obligations	10 %	Three Years
Money Markets	25 %	NA

A. Florida Local Government Surplus Funds Trust Fund, also known as Florida PRIME

Florida PRIME is administered by the Florida State Board of Administration (SBA) for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving capital. On February 13, 2008, the Trustees of the SBA hired Federated Investors to manage the pool. Federated began managing the pool on March 1, 2008. As of October 1, 1997, the SBA had converted the pool to a "2a-7 like" investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). The SBA generally intends to maintain a weighted average maturity of 60 days or less; to invest at least 50% of pool assets in securities rated A-1+ or deemed of comparable quality; and to have no more than 25% of assets in a single industry sector, except the financial services industry. On September 30, 2011, Florida PRIME was invested in fixed rate and floating rate bank instruments, repurchase agreements, fixed rate and floating rate corporate commercial paper, floating rate corporate notes, money market mutual funds and asset backed commercial paper. A maximum of 40% of the portfolio may be invested in Florida PRIME but when combined with money market mutual funds, may not exceed 50% of the portfolio.

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 10 years, and Treasury bonds have maturities of more than 10 years. The prices of the longer maturities are more volatile because they are more sensitive to interest rate fluctuations. Treasury yields are typically lower than yields on debt issued by federal agencies sponsored by the U.S. Government.

C. Federal Agency Securities (Instrumentalities)

Instrumentalities are securities issued by federal agencies 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 Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac). Instrumentalities vary in maturities. Yields on Instrumentalities are typically greater than yields of similar Treasuries. The Policy further restricts investments in any one agency to 15% of the portfolio.

D. Certificates of Deposit and Savings Accounts (CDs/Savings)

The Comptroller may invest in nonnegotiable, interest bearing CDs 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 issuing bank must not be listed with any nationally known credit watch organization. There is some liquidity risk with CDs because they are subject to penalties for early withdrawal. The Policy further restricts CDs/Savings in any one bank to 5% of the portfolio.

E. Repurchase Agreements (Repos)

A Repo is a financial transaction in which the 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 Repos. 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 less than five years and having a market value of 102% during the term. The County will enter into a Repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Comptroller. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for overnight Repos.

F. Bankers' Acceptances (BAs)

BAs 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 a 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 that has an uninsured and unguaranteed obligation rating of at least P-1 and A by Moody's Investors Service, and A-1 and A by Standard & Poor's, and ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 5% of the portfolio.

G. Commercial Paper (CP)

CP 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. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's, and, if backed by a letter of credit, the long-term debt of the credit provider must be rated at least A by two nationally recognized rating agencies. The credit provider must also be ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 2.5% of the portfolio.

H. Municipal Obligations

For situations necessary to comply with arbitrage regulations, the Comptroller may invest in taxable and tax-exempt debt, and general obligation and revenue bonds issued by state and local governments. Long-term debt must be rated at least Aa by Moody's Investors Service and AA by Standard & Poor's. Short-term debt must be rated at least MIG-2 by Moody's Investors Service and SP-2 by Standard & Poor's. The Policy further restricts the investment with any one issuer to 3% of the portfolio.

I. 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 in Treasuries and Treasury-backed repurchase agreements. 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 Florida PRIME may not exceed 50% of the portfolio. The Policy further restricts the investment with any one fund to 10% of the portfolio.

VI. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision for 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 upon receipt and immediately become part of the portfolio.

The portfolio provides cash for daily 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. Average daily payment for operating and capital expenditures fell to $4.4 million from $4.6 million in fiscal year 2010. Average biweekly payments for payroll expenditures were unchanged from the prior fiscal year at $12.9 million. Total debt service payments increased to $116.0 million from $115.0 million in 2010.

VII. DOMESTIC MONETARY POLICY AND NATIONAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, and liquidity requirements, portfolio performance is influenced by domestic monetary policy and national economic activity. The Policy provides that the Comptroller will utilize federal funds rates, Treasury yield curves, and major U.S. economic barometers in making investment decisions. Yields usually fall or remain stable when monetary policy and economic indicators point to declines in inflationary pressure. Yields usually rise when the economy shows signs of increasing inflation. Domestic monetary policy and economic activity significantly influence the County's portfolio performance.

The Federal Reserve Board (Fed) conducts domestic monetary policy. The Fed controls monetary policy through open market operations, the discount rate, and bank reserve requirements. The Fed's Board of Governors administers the discount rate and bank reserve requirements, and the Federal Open Market Committee (FOMC) conducts open market operations. Open market operations have the most significant impact on the County's portfolio performance. The FOMC reviews economic and financial conditions, assesses risks to the economic outlook, and attempts to alter the federal funds rate through monetary policy. The federal funds rate is the interest rate at which banks lend to other banks overnight. Changes in federal funds rates trigger events that affect other short-term interest rates and, ultimately, a range of economic variables.

In our report for fiscal year 2010, we described the FOMC's monetary policies that left the fed funds target range unchanged at 0% to 0.25% for the entire year. The FOMC maintained loose monetary policy in response to the slow pace of economic recovery, slack in resource utilization and tame inflation. In fiscal year 2011, the range for the fed funds target rate remained unchanged at 0% to 0.25%. Rates were kept at extraordinarily low levels due to slow economic growth. The pace of economic expansion was curbed by high rates of unemployment, low rates of growth in consumer spending and a depressed housing market.

Yields on Treasury bills and short-term Treasury notes are strongly influenced by the federal funds rate, as well as anticipated changes in this rate. The 2011 average Treasury yields shifted downward across the curve from 2010 averages as follows: 3-month, four basis points; 6-month, six basis points; 1-year, 12 basis points; 2-year, 29 basis points; 5-year, 47 basis points; 10-year, 37 basis points; and 30-year, 10 basis points. The sharpest decline occurred in the 5-year section of the curve, where monthly investments are added to the 5-year ladder of the noncurrent operating portfolio. The County made $81 million of investments in the noncurrent operating portfolio during fiscal year 2011.

The yield curve shifted downward and flattened as long-term rates declined more than short-term rates. The spread between the average yield on the 5-year Treasury over the 3-month Treasury was 158 basis points in 2011 compared with 201 basis points in 2010. Significant rate declines also occurred in the 10-year sector of the curve, while 30-year rates fell modestly. Demand for Treasuries surged in the second half of fiscal year 2011 on the European sovereign debt crisis. Investors sought the relative safety of Treasuries in May as Greece continued to struggle with austerity plans, Italy's outlook was cut to negative from stable, and Spain's ruling party was soundly defeated in local elections. Treasuries continued to rally through the end of the year despite S&P's downgrade of the U.S. credit rating to AA+ in August. Yields across the curve fell to annual lows in September on an escalating financial crisis in Europe and a Federal Reserve stimulus plan.

In September, the credit crisis in Europe intensified on deteriorating financial conditions. Renewed fears that Greece could default on its debt had investors piling into Treasuries in a flight to quality. Investor concerns about the financial stability of Italy and Spain also began to rise in September, which was reflected in higher yields on their bonds. Financial turmoil in these markets is more troubling because both economies are regarded as too big to bail out. On September 20th, S&P downgraded Italy's rating to A from A+. The crisis had spread across countries in fiscal year 2011 and European finance ministers were concerned that the credit contagion could infect the banking sector.

Longer-term yields also fell in late September after the Federal Reserve announced a new stimulus plan, Operation Twist. The plan calls for the Fed to buy $400 billion of Treasuries with maturities ranging from six years to 30 years, and selling an equal amount of Treasuries with maturities of three years or less. The plan is designed to drive long-term interest rates down by increasing demand for Treasuries. The lower interest rates would encourage individuals and businesses to borrow, thereby stimulating the economy.

The County's portfolio was almost entirely invested in Treasuries and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Yields on the Money Markets dropped to three basis points or lower, while the average yield on Treasuries with maturities of one year or less was 18 basis points. The overall portfolio benefited from returns on longer-term investments in the noncurrent operating portfolio. The returns on this 5-year laddered portfolio were enhanced by the normal, or upwardly sloping, yield curve and investments made over the past few years when interest rates were higher. These noncurrent operating portfolio investments were the primary reason the rate of return on the portfolio exceeded the fed funds intended and effective rates by an appreciable margin.

Shown on the next page in Chart 1 are the average 30-year Treasury yield curves for fiscal years 2007 through 2011, followed by Chart 2, which compares the monthly portfolio rates of return to the monthly intended and effective federal funds rates for the same period.

Chart 1 - Average U.S. Treasury Yield Curves

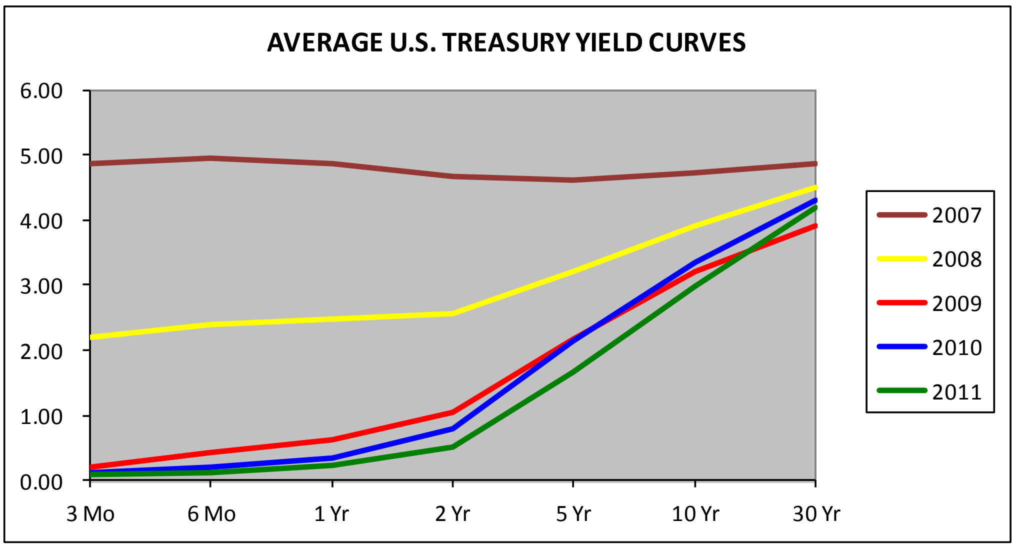
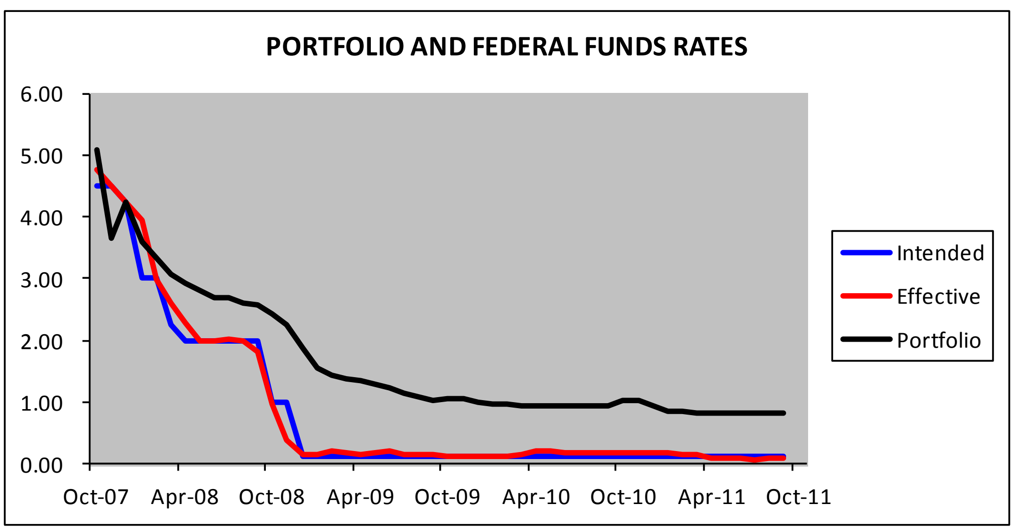
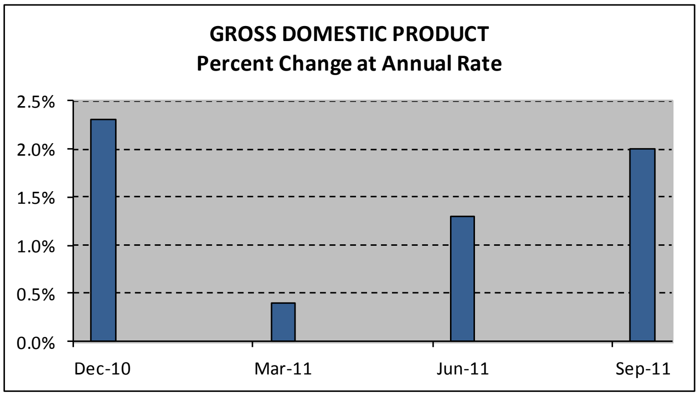


Chart 2 -Portfolio and Federal Funds Rates



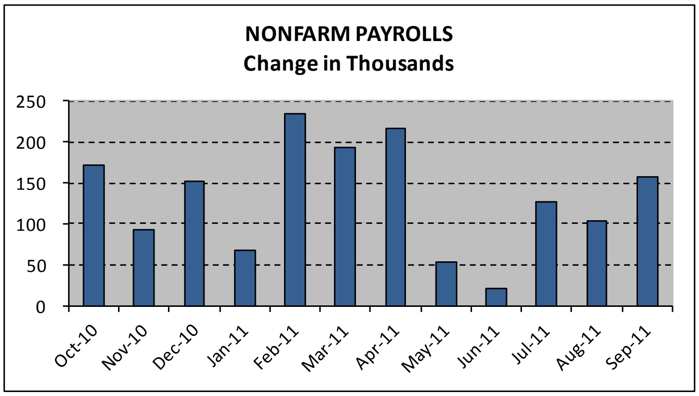
Barometers measure national economic activity by various economic variables. Those variables significantly influence interest rates on most government and corporate securities nationwide. Shown below in Charts 3 through 13 are the barometers followed by the Comptroller's Office in developing investment strategy during the fiscal year, together with a brief explanation of each.

Chart 3 – Gross Domestic Product



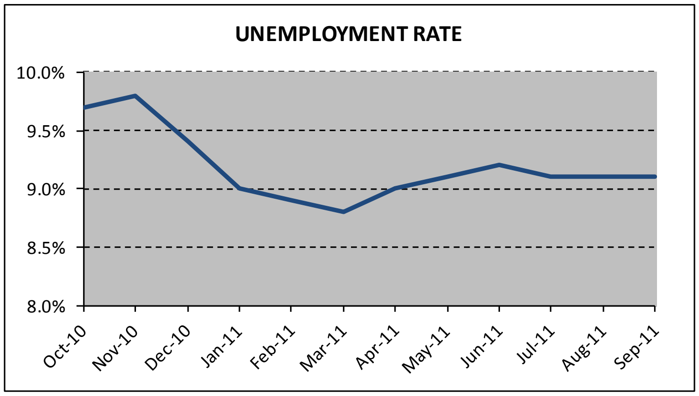
Gross domestic product (GDP) is a measure of the total value of goods and services produced in the United States for a given time period. Quarterly percent changes in the chain price index provide a broad-based estimate of GDP at constant, or inflation adjusted, dollar prices. GDP is the most comprehensive economic scorecard because it is the broadest measure of aggregate economic activity including personal consumption expenditures, investment, net exports, and government expenditures. Changes in the GDP chain price index are a widely followed, market-moving indicator. GDP is published by the U.S. Department of Commerce.

Chart 4 – Nonfarm Payrolls



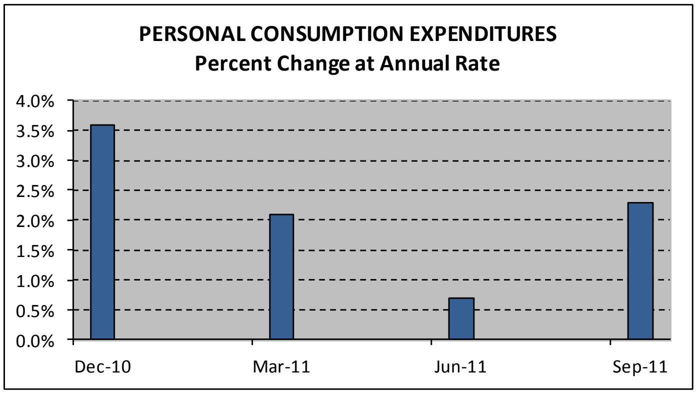
Nonfarm payrolls (NFP) measure the number of jobs in the nonagricultural economy. Monthly changes reflect the changes in actual numbers of paid employees in business and government establishments. NFP is a coincident indicator of the level of economic activity. Changes are closely watched because they are representative of the state of the economy. NFP is published by the U.S. Department of Labor.

Chart 5 – Unemployment Rate



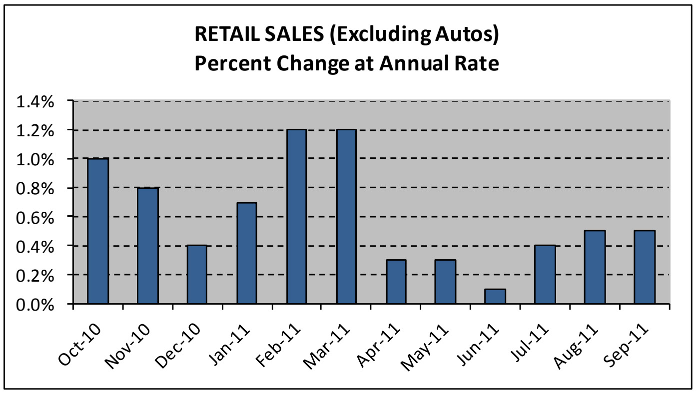
The unemployment rate is the ratio of the total number of unemployed to the total labor force. The labor force consists of those working and those seeking employment. Monthly changes in this rate and NFP are widely regarded together as the primary monthly economic indicator because the combined data helps forecast other important economic barometers. The unemployment rate is published by the U.S. Department of Labor.

Chart 6 – Personal Consumption Expenditures



Personal consumption expenditures (PCE) is a measure of goods and services purchased by persons in the United States. PCE is the most important and typically the most stable of the four components that comprise GDP. PCE normally represents more than two-thirds of GDP. The three sectors of PCE are durable goods (expected to last three years or more), nondurable goods (less than three years) and services. Services account for more than 65% of PCE. The U.S. Department of Commerce publishes PCE.

Chart 7 – Retail Sales (Excluding Autos)



Retail sales is a measure of consumer spending for a given month. This reading is used to help forecast PCE and GDP. The Department of Commerce uses the control component, retail sales excluding autos, to measure the growth rate in the non-service component of PCE. Retail sales excluding autos typically represent about 30% of PCE. This indicator is hard to forecast and the market is often sensitive to large, unexpected readings. The U.S. Census Bureau of the Department of Commerce publishes retail sales.

Chart 8 – Consumer Sentiment

Consumer sentiment is a measure of how consumers view prospects for their own financial condition, how they view prospects for the general economy in the near term, and their view of the economy over the long term. Monthly levels of consumer sentiment are included in the Conference Board's Index of Leading Economic Indicators and are associated with consumer spending. The University of Michigan and Thomson Reuters publish the report on consumer sentiment.

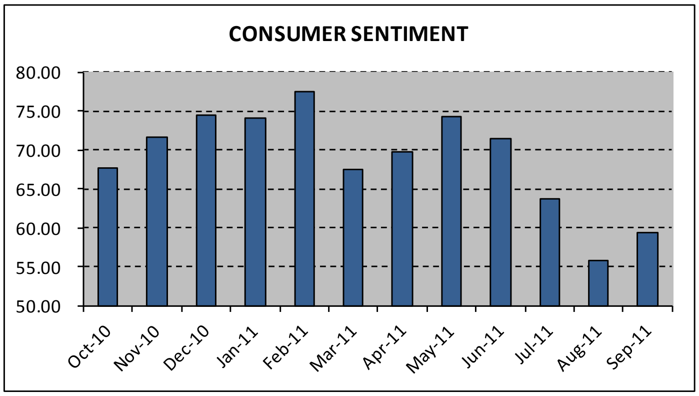


Chart 9 – Consumer Price Index

The consumer price index (CPI) is a measure of the average price of a fixed basket of goods and services that consumers in the U.S. buy on a regular basis. Monthly percent changes in the index reflect the average change in consumer prices. The CPI is widely followed and regarded by many as the measure of inflation. CPI is published by the U.S. Department of Labor.

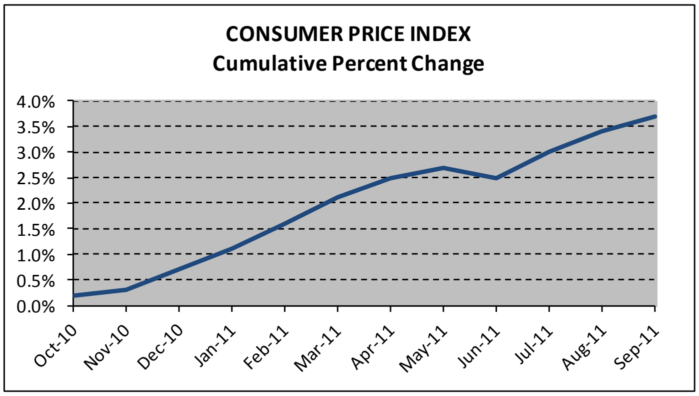


Chart 10 – Core Consumer Price Index

Core CPI excludes food and energy costs from the CPI. The core CPI rate is believed by many to be a better approximation of underlying inflation than the CPI because it removes items that are subject to large, temporary price changes. Economists and market analysts monitor core CPI for its greater monthly stability. Core CPI is also published by the U.S. Department of Labor.

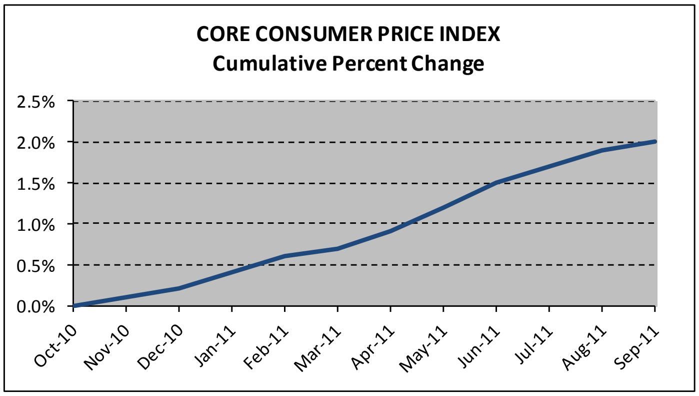


Chart 11 – Producer Price Index

The producer price index (PPI) is a measure of the average level of prices of a fixed basket of goods received in primary markets by producers. Monthly percent changes reflect the rate of change in such prices. Changes in the PPI are widely followed as a significant indicator of commodity inflation trends. PPI is published by the U.S. Department of Labor.

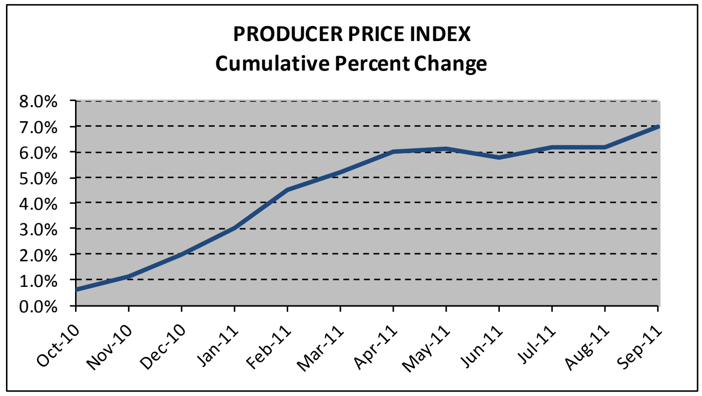


Chart 12 – Housing Starts

Housing starts is a measure of the number of residential units on which construction has begun each month. The level of housing starts is widely followed as a significant indicator of residential construction trends and demand for furniture, home furnishings, and appliances. Housing starts is published by the U.S. Department of Commerce.

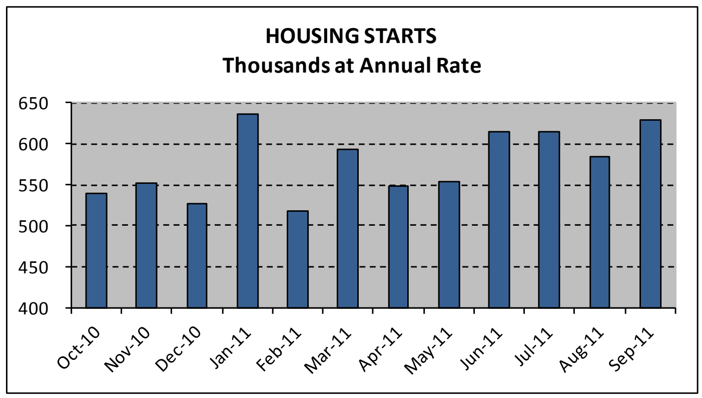
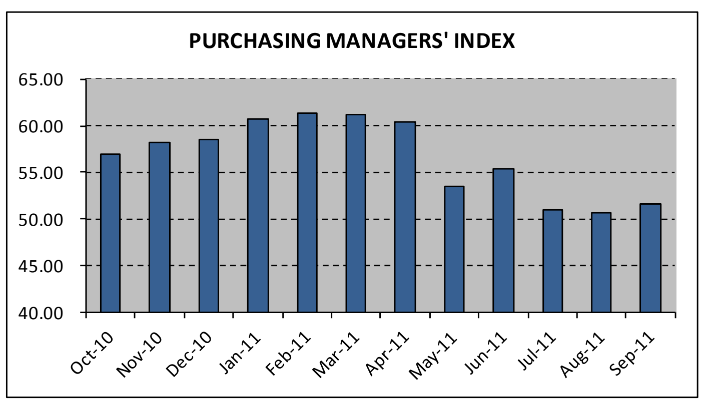


Chart 13 – Purchasing Managers' Index

The purchasing managers' index (PMI) is derived from surveys of purchasing managers about the general direction of production, orders, inventories, employment, vendor deliveries and prices. The levels indicate overall factory sector trends. Historically, readings above 50 are associated with generally expanding manufacturing activity; readings over 42.7 indicate that the overall economy is expanding. Readings below 50 are typically associated with contractions in manufacturing and readings below 42.7 indicate that the overall economy is contracting. PMI is widely followed because it gauges momentum in manufacturing and corporate earnings. The Institute for Supply Management publishes PMI.



The fiscal year 2010 report described an economy poised for moderate growth in fiscal year 2011. According to a Bloomberg survey, GDP was expected to average roughly 2.65% in 2011. The economy was benefiting from gradual increases in consumer spending but was restrained by high unemployment, minimal wage growth and tight credit conditions. Federal Reserve Chairman Ben Bernanke believed persistently high unemployment was the primary risk factor that could drive the economy into another recession. However, despite that risk factor, the economy was not expected to slip back into recession nor was it projected to expand rapidly.

Indicated in Charts 3 through 13, the barometers reflect varying economic conditions throughout the fiscal year. According to GDP, the economy was growing at an annual rate of 2.3% in the first quarter of the fiscal year compared with a revised final reading of 2.5% in the fourth quarter of the previous year. Economic growth was driven by consumer spending, business fixed investment and positive trends in net exports. However, forecasts for economic growth were pared back in December. Economists expected consumer spending to be pressured by rising oil prices due to unrest in the Middle East and disruptions to the supply of goods from Japan following the Tohuku earthquake and tsunami. The high rate of unemployment, 9.4% in December, was also expected to be a drag on the economy.

The GDP annual growth rate plunged to 0.4% in the quarter ended March 31, 2011. The decline was attributable to a lower rate of growth in consumer spending, a sharp increase in imports, a deceleration in business spending and reduced government spending. Consumer sentiment fell to 67.5 at the end of the second quarter from 74.5 at the end of the first quarter due to higher food and gasoline prices. The higher prices for food and gas were reflected in the largest increases in CPI during the year. CPI rose 0.5% in both February and March, but increases in core CPI, which excludes food and energy, were relatively moderate. Despite the spate of negative data, the employment situation showed signs of improvement. The U.S. economy added nearly 500,000 new jobs during the second quarter and the unemployment rate fell to 8.8%

GDP increased to an annual growth rate of 1.3% in the quarter ended June 30, 2011. The increase in GDP was driven by a deceleration in imports, increased federal government spending and growth in business fixed investment. However, nonfarm payrolls increased by only 20,000 jobs in June, the low for the year, and the unemployment rate climbed to 9.2% at the end of the quarter. The weak labor market had an adverse impact on the consumer. Growth rates in personal consumption expenditures and retail sales (less autos) fell to annual lows of 0.7% and 0.1%, respectively. According to inflation indicators, the cost of living dropped in June 2011. CPI decreased 0.2% and PPI declined 0.3% in June on lower energy costs. Core CPI, on the other hand, peaked with 0.3% increases in both May and June due to higher prices for non-energy items such as automobiles, clothes and hotel stays.

For the quarter ended September 30, 2011, GDP increased at an annual rate of 2.0%. The growth in GDP primarily reflected positive contributions from consumer spending, nonresidential fixed investment and net exports. Consumer spending rebounded to a 2.3% annual growth rate and retail sales (excluding autos) increased 0.5% in both August and September. Although Americans were more willing to spend during the quarter, consumers remained pessimistic. The Thomson Reuters/University of Michigan consumer sentiment index fell to annual lows in the fourth quarter of the County's fiscal year. Consumer sentiment bottomed-out at 55.7 in August and the second-lowest reading of 59.4 was recorded in September. High unemployment, 9.1%, continued to weigh on the U.S. consumer at the end of fiscal year 2011.

Going into fiscal year 2012, economists are projecting below trend growth for the next year. According to a Bloomberg survey, GDP is projected to average roughly 2.2% in 2012. This forecast falls below the long-term GDP growth rate of 2.7%. Economic headwinds include high unemployment, low consumer confidence, tight credit conditions and a depressed housing market. The U.S. economy is also exposed to potentially serious shocks if either the European financial crisis or political turmoil in the Middle East intensify. The Federal Reserve plans on maintaining accommodative monetary policy to promote economic growth, while keeping inflation stable. The economy is expected to grow at a gradual pace but the outlook is very uncertain.

VIII. LOCAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, liquidity requirements, and domestic monetary policy and national economic activity, the portfolio's effective rate of return is influenced by the local economy. The County derived approximately 82% of its fiscal year 2011 revenues from 12 revenue sources including several taxes, user fees and charges, state-shared revenues and investment income. Shown in Table 2 are the County's 12 major revenues received in fiscal years 2011 and 2010.

Table 2 – Orange County's 12 Major Revenue Sources

Revenue	FY 2011	FY 2010
Ad Valorem Tax	$542,081,767	$621,593,318
Tourist Development Taxes	175,854,576	147,757,970
Water Utilities System Operations	155,242,891	146,037,125
Half-Cent Sales Tax	124,823,259	115,978,290
Public Service Tax	92,091,369	95,932,910
Mandatory Refuse Fees	44,977,744	44,884,293
Convention Center Operations	48,108,085	42,328,137
Fuel Taxes	38,539,707	39,669,995
Solid Waste Tipping Fees	27,399,187	27,743,275
State Revenue Sharing	27,820,309	26,687,879
Impact Fees (excl. School Impact Fees)	21,212,897	17,359,434
Interest Earnings	**11,536,412**	**12,937,153**
Totals	$1,309,688,203	$1,338,909,779

IX. INVESTMENT OPERATIONS

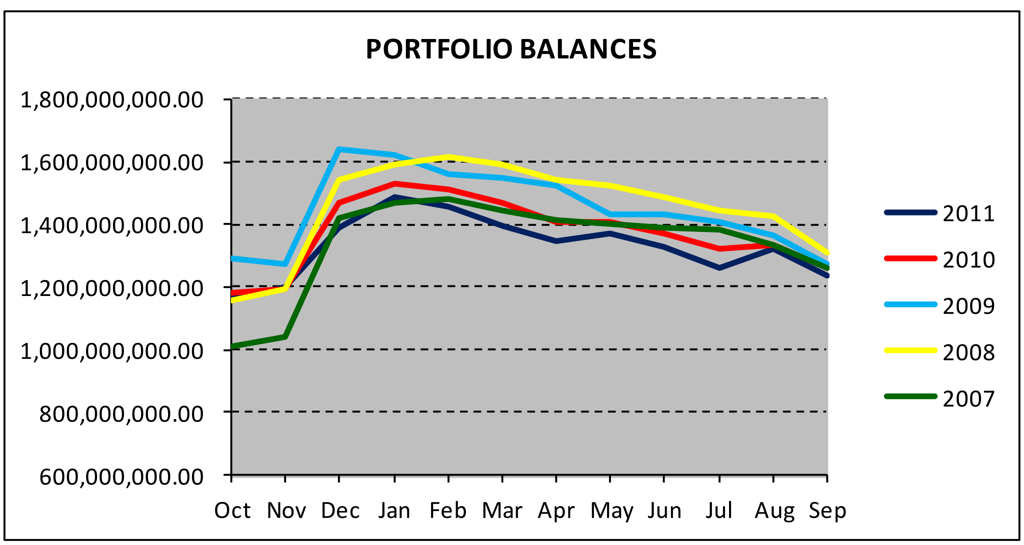
Qualified professionals in the Comptroller's Office conduct investing activities in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to management of the Comptroller's Office, management of the BCC and the Investment Committee. Regular meetings of the Committee are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The Comptroller's Office uses 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 domestic monetary policy and national economic activity are considered in purchasing investments.

A. Portfolio Balances

The portfolio's opening balance for fiscal year 2011 was $1.264 billion, down $10 million from the opening balance of fiscal year 2010. The portfolio's average daily balance was $1.33 billion, down $40 million from the prior year. The portfolio's ending balance for fiscal year 2011 was $1.236 billion, down $28 million. Expenditures from the portfolio fell to $1.55 billion from $1.61 billion in 2010. This decline was almost entirely due to a reduction in operating and capital expenditures. Debt service payments were up marginally and payrolls were flat. Shown in Chart 14 are the portfolio balances as of the end of each month in fiscal years 2007 through 2011.

Chart 14 – Portfolio Balances



B. Portfolio Composition

As of September 30, 2011, the portfolio was fully invested in permitted investments within allowable composition limits. As shown in Chart 15 below, the portfolio contained Treasuries and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Chart 16, September 30, 2010 Portfolio Composition by Investment Type, is presented for comparative purposes.

Chart 15 – September 30, 2011 Portfolio Composition by Investment Type

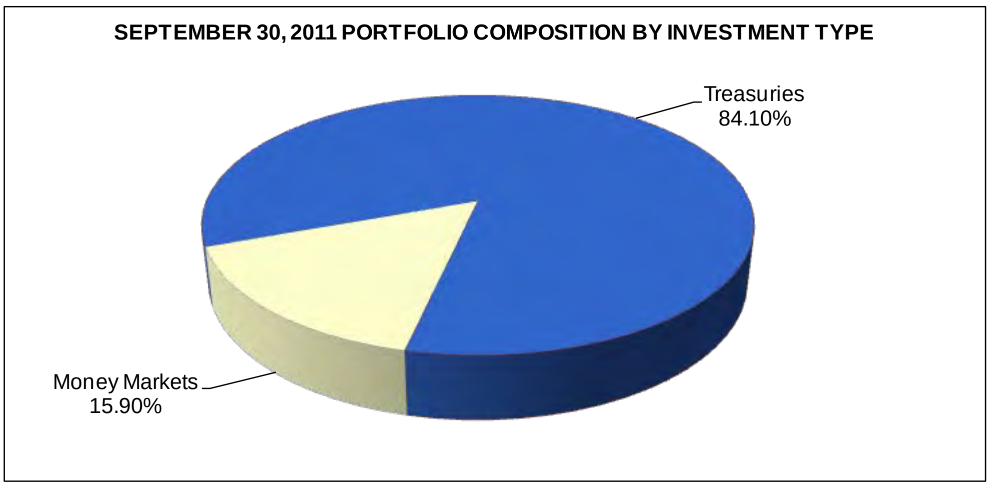
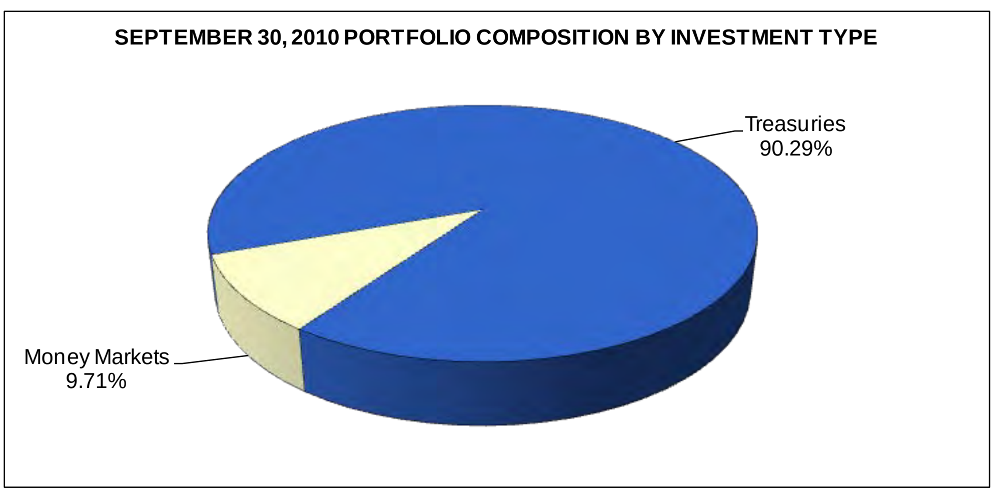


Chart 16 – September 30, 2010 Portfolio Composition by Investment Type



The portfolio was managed in compliance with the Policy, which requires the portfolio to be diversified by investment type; however, Treasuries may represent 100% of the portfolio because they are backed by the full faith and credit of the United States Government. During fiscal year 2011, the average composition of the portfolio shifted to Money Markets from Treasuries. Small investments were also made in Instrumentalities. Changes in the average portfolio composition can be seen in Charts 17 and 18.

Chart 17 – FY 2011 Average Portfolio Composition by Investment Type

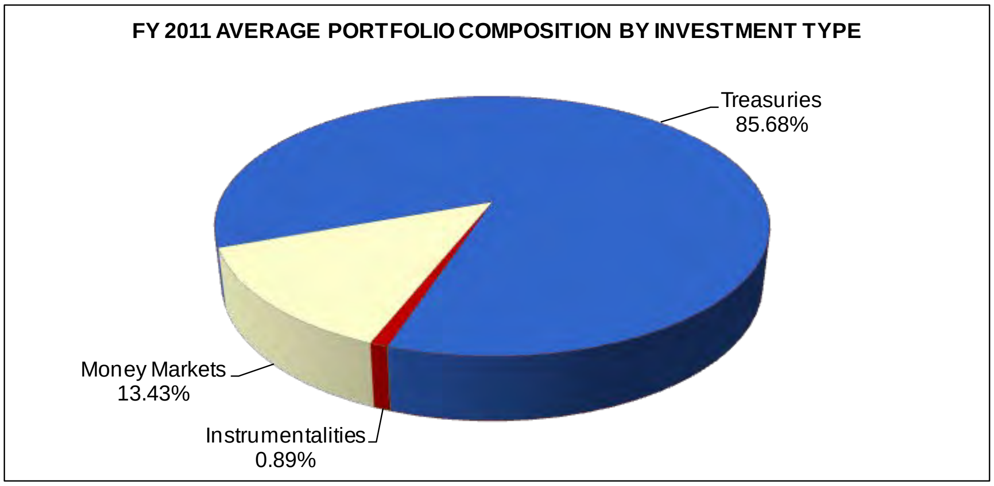
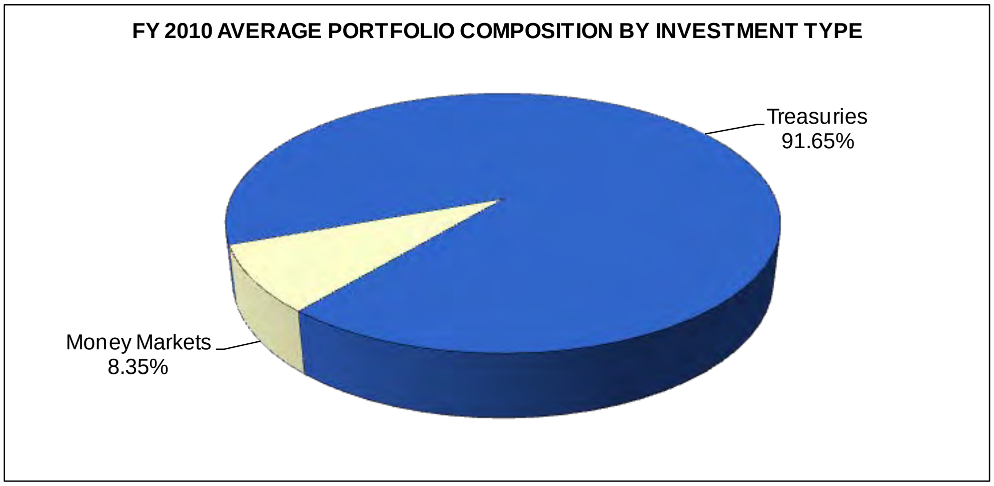


Chart 18 – FY 2010 Average Portfolio Composition by Investment Type



The portfolio is comprised of four sub-portfolios: current operating, noncurrent operating, debt service reserve and project construction. The current operating portfolio has a maximum maturity of 13 months and is managed to meet operating, payroll and debt service requirements. The noncurrent portfolio is comprised of a 5-year ladder designed to meet longer term funding requirements. Investments in the debt service reserve portfolio are governed by the County's bond covenants. The project construction portfolio is comprised of funds raised through the issuance of debt for large projects such as building construction and real estate acquisitions. The Policy requires debt service reserve and project construction investments to have terms that coincide with the expected use of the funds and in accordance with debt covenants, but not to exceed 10 years. The September 30, 2011 Portfolio Composition by Sub-portfolio is presented below. Chart 20, September 30, 2010 Portfolio Composition by Sub-portfolio, is presented for comparative purposes.

Chart 19 – September 30, 2011 Portfolio Composition by Sub-portfolio

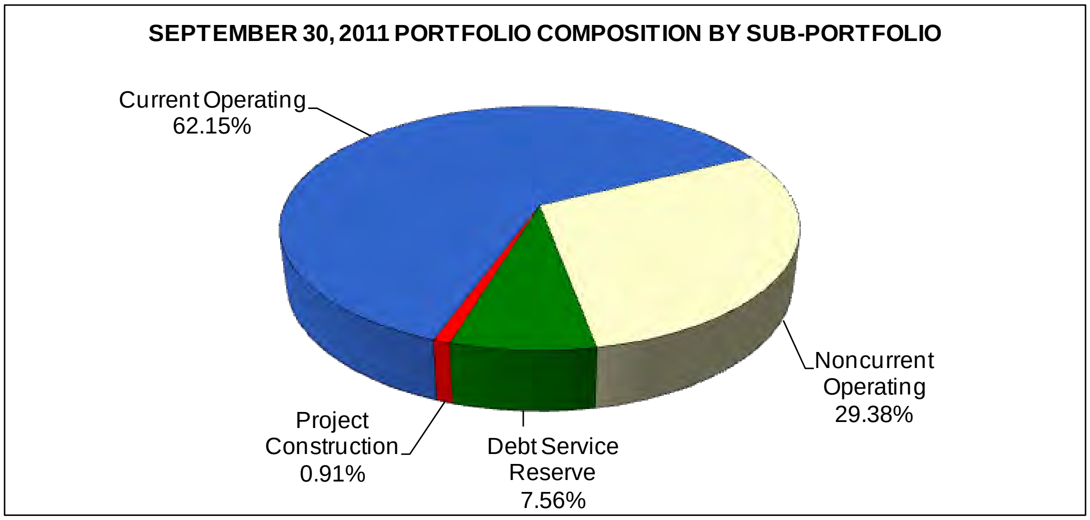
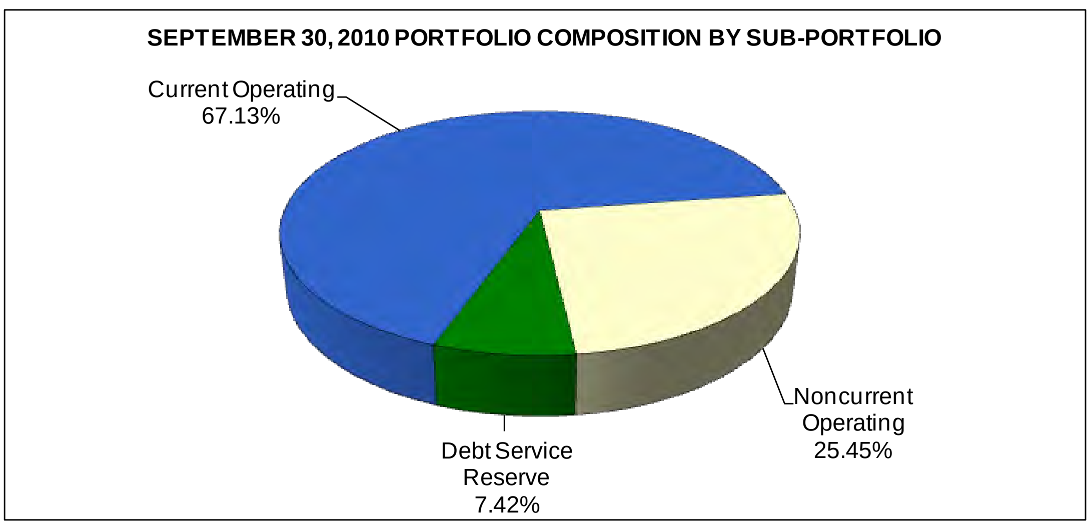


Chart 20 – September 30, 2010 Portfolio Composition by Sub-portfolio



The average composition of the portfolio shifted moderately to noncurrent operating, debt service reserve and project construction funds. The percentage of the portfolio invested in the noncurrent operating sub-portfolio increased due to efforts to extend investment maturities out of low yielding short-term investments into higher yielding long-term securities. The change in the average composition by sub-portfolio is presented below in Charts 21 and 22.

Chart 21 – FY 2011 Average Portfolio Composition by Sub-portfolio

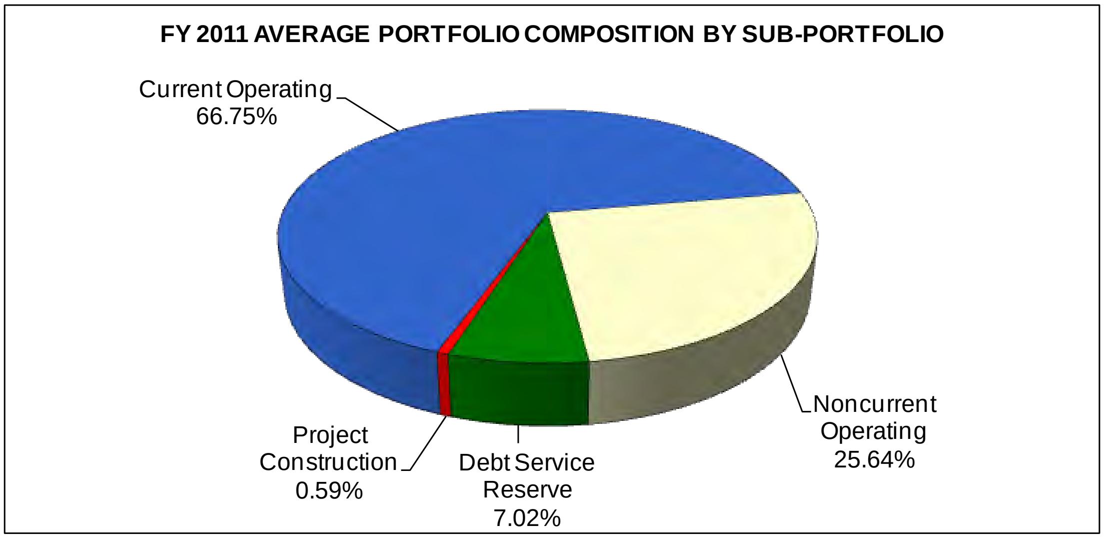
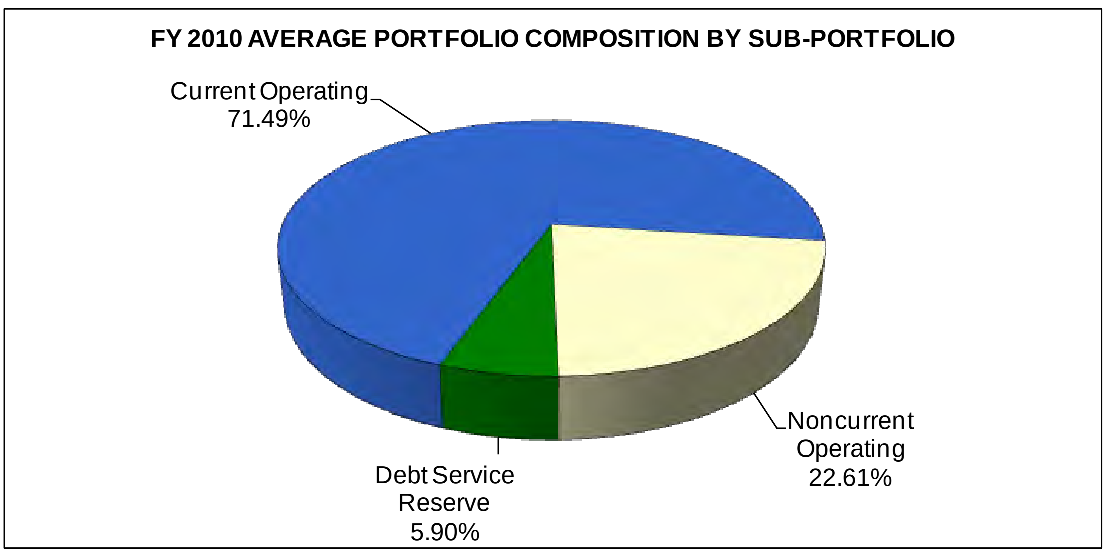


Chart 22 – FY 2010 Average Portfolio Composition by Sub-portfolio



C. Portfolio Maturities

Table 3 – Year-end Average Term by Investment Type		
Investment Type	FY 2011	FY 2010
Money Market Funds	1	1
Treasuries	817	713

The Policy requires sufficient liquidity and diversity in maturities. Shown in Table 3 are the average terms of each investment type at September 30, 2011 and 2010. Average term is the weighted average number of days from purchase to maturity of the investment. Average terms extend past 13 months in some cases due to the long-term investment of noncurrent operating funds, project construction funds and debt service reserve funds. The longer term of Treasury investments reflects efforts to extend maturities in a normal, or upward sloping, yield curve environment during the year.

Available balances were invested for an average term of 618 days in fiscal year 2011 compared with an average term of 590 days in fiscal year 2010. Table 4 below reports the average term of the portfolio for each month in fiscal years 2011 and 2010. The portfolio's average days to maturity was 330 days in fiscal year 2011 compared with 323 days in 2010. Average days to maturity is the average number of days remaining to maturity for the portfolio. Table 5 below reports the average days to maturity for each month in fiscal years 2011 and 2010. Both the average term and the average days to maturity increased as a result of efforts to move funds out of low yielding short-term investments into higher yielding longer-term investments.

Table 4 – Average Term

Period	FY 2011	FY 2010
October	680	589
November	645	591
December	591	545
January	578	547
February	573	554
March	584	573
April	593	601
May	591	590
June	616	602
July	648	630
August	633	616
September	687	644
Average	618	590

Table 5 – Average Days to Maturity

Period	FY 2011	FY 2010
October	334	304
November	317	324
December	325	325
January	337	333
February	328	328
March	328	329
April	315	340
May	310	316
June	322	315
July	340	329
August	333	315
September	374	323
Average	330	323

D. Interest Earnings and Yields

The dollar amount of interest earnings is used in historical and budgetary comparisons, and in cash flow analysis. The portfolio earned $11,536,412 on an average daily balance of $1,327,737,220 in fiscal year 2011. For comparison, the portfolio earned $12,937,153 on an average daily balance of $1,367,550,644 in fiscal year 2010. Actual interest income was $6,124,927 less than the budgeted amount in fiscal year 2011 due to extraordinarily low market interest rates. For comparison, actual interest income was $2,438,455 less than the budgeted amount in fiscal year 2010. Budgeted and actual interest earnings for both fiscal years are shown in Table 6 below.

Table 6 – Budget and Actual Interest Earnings

	FY 2011	FY 2010
Actual	$11,536,412	$12,937,153
Budget	17,661,339	15,375,608
Variance	$(6,124,927)	$(2,438,455)

Interest earnings and the effective rate of return on each sub-portfolio are shown below in Table 7. The fiscal year 2010 interest earnings and effective rate of return by sub-portfolio are provided in Table 8 for comparison.

Table 7 – FY 2011 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2011		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Current Operating	$1,743,956	0.20%
Noncurrent Operating	9,591,198	2.82%
Debt Service Reserve	200,472	0.22%
Project Construction	786	0.01%
Total	$11,536,412	0.87%

Table 8 – FY 2010 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2010		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Current Operating	$2,509,899	0.26%
Noncurrent Operating	10,247,768	3.31%
Debt Service Reserve	179,486	0.22%
Total	$12,937,153	0.95%

The decline in the rate of return on the noncurrent operating portfolio was due to the reinvestment of maturing securities with higher yields into lower yielding securities at the end of the five-year ladder. The average yield on the 5-year Treasury fell to 1.66% in 2011 from 2.13% in 2010. The average yield on the five-year Treasury was 4.69% in 2006, when most of the maturing noncurrent investments were purchased. Nevertheless, the noncurrent operating portfolio was the best performing sub-portfolio. The return on the 5-year Treasury exceeded the return on shorter maturities throughout the year, and the average yield spread of the 5-year Treasury over the 3-month Treasury was 158 basis points. The return on the current operating portfolio fell by six basis points due to the decline in interest rates on securities with maturities of one year or less. Project construction proceeds were invested in a Money Market comprised of Treasuries and Treasury-backed repurchase agreements. This class of fund typically generated yields of one or two basis points in 2011.

The dollar amount of earnings by itself has little meaning as a measurement of portfolio performance. A better gauge of portfolio performance is the effective rate of return, which is measured in percent and can be compared to rates in prior years and to comparable investments. For fiscal year 2011, the portfolio's effective rate of return was 0.87%. In fiscal year 2010, the portfolio's effective rate of return was 0.95%. Shown below in Table 9 are the effective rates of return for the permitted investment types during fiscal years 2011 and 2010.

Table 9 – Average Portfolio Effective Rate of Return by Investment Type

Investment Type	FY 2011	FY 2010
Treasuries	0.99%	1.03%
Instrumentalities	0.07%	NA
Money Markets	0.02%	0.03%
CDs	NA	NA
Commercial Paper	NA	NA
Bankers' Acceptances	NA	NA
Florida PRIME	NA	NA

The modest rates of return reflect very low market interest rates, particularly on short-term securities. Treasury returns fell due to the decline in average interest rates on all maturities out to five years. The entire yield curve out to 30 years shifted downward and Treasury yields across the curve hit annual lows in the last month of the fiscal year. Instrumentalities were added to the portfolio for the first time since 2008; however, the modest size of the investments prevented this asset class from making a meaningful contribution to total interest earnings. Returns on Money Markets were miniscule due to strong demand for safe liquid assets. Excluding Money Markets, the County's portfolio is managed with a buy-and-hold strategy and the average maturity on the portfolio was approximately 11 months in fiscal year 2011.

Portfolio performance is best measured when compared to rates of return on comparable investments. The Investment Committee has established benchmarks as a means to monitor portfolio performance. A benchmark is a passive portfolio rate of return that represents expected returns with given levels of risk. In establishing benchmarks for the portfolio, the Committee evaluated investments with maturities, and credit, market and liquidity risks comparable to the permitted investments. The Committee continued using certain Treasuries, the Merrill Lynch 0-1 Year Treasury Index and the effective federal funds rate as benchmarks for fiscal year 2011. The Comptroller's Office also continued to use an internally calculated benchmark named the Committee Benchmark. This customized benchmark is computed using the yields on the effective federal funds rate, the 6-month constant maturity Treasury, the 2-year constant maturity Treasury and the 3-year constant maturity Treasury. Treasuries are defined in Section V above, and the effective federal funds rate is described in Section VII above. The Merrill Lynch Index is the average yield of approximately 20 Treasuries with maturities of one year or less.

The County's portfolio outperformed all benchmarks for the fourth consecutive year. The portfolio's strong performance relative to the benchmarks was primarily attributable to the stability provided by the noncurrent operating portfolio. Yields in the noncurrent portfolio are locked in over a long period of time with each monthly investment added to the end of the 5-year ladder. Investment yields in the current operating portfolio are more reflective of current market rates due to their short maturities. The only investment type purchased in 2011 with yields typically higher than Treasuries, or spread products, was Instrumentalities. The small investments in Instrumentalities did not contribute meaningfully to the return on the portfolio. The suspension of new investments in CP, CDs, BAs, and Florida PRIME continued through the year. CP investments were suspended due to the financial crisis and CDs were suspended when the credit quality of banks began to deteriorate, as were BAs. Florida PRIME has not been utilized since the pool temporarily froze in November 2007.

Table 10 – Benchmark Comparisons

Benchmark	FY 2011	Variance	FY 2010	Variance
Portfolio	0.87%		0.95%	
3-Month Treasury	0.08%	0.79%	0.12%	0.83%
6-Month Treasury	0.13%	0.74%	0.19%	0.76%
ML 0-1 Year Treasury	0.19%	0.68%	0.26%	0.69%
1-Year Treasury	0.22%	0.65%	0.34%	0.61%
2-Year Treasury	0.51%	0.36%	0.80%	0.15%
Effective Fed Funds	0.13%	0.74%	0.16%	0.79%
Committee Benchmark	0.24%	0.63%	0.35%	0.60%

E. Brokers, Dealers and Direct Issuers

Management of the portfolio was also accomplished in compliance with the Policy, which requires the portfolio to be diversified by financial institution. The Policy indicates that the Comptroller shall purchase securities only from financial institutions which are qualified as public depositories by the Chief Financial Officer of the State of Florida, from primary securities dealers as designated by the Federal Reserve Bank of New York, from securities dealers certified by the County's Business Development Division as Minority/Women Business Enterprises and having offices in Florida, or from direct issuers of CP and BAs. In addition, the Policy also requires a minimum of three competitive offers.

The Comptroller's Office records the number and amount of purchases and sales by financial institutions and dealers. Shown below in Table 11 are the primary and qualified minority dealers, direct issuers, and qualified public depositories (QPD), ranked by fiscal year 2011 percentage of total County purchases and compared with percentage of purchases in fiscal year 2010.

Table 11 – QPD, Dealers and Direct Issuers

Broker/Dealer	Status	FY2011 % of Total	FY2010 % of Total
Citigroup Global Markets, Inc.	Primary	22.45%	23.06%
Deutsche Bank Securities Inc.	Primary	20.00%	31.40%
Barclays Capital Inc.	Primary	19.80%	11.02%
RBS Greenwich Capital Markets	Primary	19.25%	3.71%
Jeffries & Company, Inc.	Primary	16.37%	13.17%
Cantor Fitzgerald & Co.	Primary	2.13%	17.64%

X. DEPOSITORY BANKING

General banking and cash management services are provided by an Agreement for Banking Services with Wells Fargo Bank, N.A., for the period July 1, 2007 through June 30, 2010. The Agreement was initially awarded to Wachovia Bank, which has since been acquired by Wells Fargo, as the County's banking institution in a competitive selection process. The Agreement provides for three 1-year extensions upon mutual consent of the parties. In June 2011, the County and Wells Fargo extended the Agreement through June 30, 2012. If the remaining 1-year option is exercised, the Agreement would run through June 30, 2013. Wells Fargo is a member of the Federal Reserve System, the National Automated Clearing House Association and is a QPD.

Services provided by Wells Fargo under the Agreement include general banking, NOW accounts, noninterest-bearing transaction accounts, retail and wholesale lockbox, and electronic funds transfers (EFT). Discussed below is a brief description of each service.

A. General Banking

General banking services include deposits, check writing, credit card processing, stop payments, return item processing, money changing, account analysis, bank statements, full check reconciliation, electronic information reporting and positive payment. Positive payment is an electronic process involving the County's checking accounts that reduces the risk of check fraud and allows unauthorized checks to be automatically returned to the payee.

B. NOW Accounts

NOW accounts are full-service demand deposit accounts that generate interest income on excess funds. The County maintains 26 accounts including collection and deposit, and disbursement accounts. Seven of the 26 accounts are checking accounts. Contractually, available cash balances earn interest at the intended federal funds rate minus 7.5 basis points. Monthly interest is first utilized to offset service charges; earnings in excess of service fees are distributed to the County. The accounts are demand deposit accounts, not investments. Therefore, they are covered by the Federal Deposit Insurance Corporation (FDIC) up to a total of $250,000 and collateralized by the Florida Security for Public Deposits Act. Wells Fargo provided the County with non-contracted rates after the Fed reduced the overnight target rate to a range of 0% to 0.25% in fiscal year 2009. In July, the non-contracted rates were 25 basis points on balances offsetting service fees and two basis points for balances in excess of those necessary to offset fees. The County converted its bank accounts to noninterest-bearing transaction accounts in August.

C. Noninterest-bearing Transaction Accounts

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions through December 31, 2012. The County converted all of its bank accounts to noninterest-bearing transaction accounts effective August 1st. Wells Fargo pays the County 32 basis points on balances to offset service fees, but no interest earnings are paid on balances in excess of those necessary to offset fees. The decision to convert the accounts was based on the unlimited FDIC insurance coverage, Wells Fargo's decision to pass FDIC fees through to NOW accounts and the higher earnings credit rate.

D. Lockbox

Wells Fargo provides wholesale lockbox services to the Fire Rescue Department and the Solid Waste System. Wells Fargo also provides wholetail lockbox services to the Water Utility System and the County's Red Light Running program. A wholetail lockbox is a hybrid of a retail lockbox and a wholesale lockbox. A lockbox is a method of collecting regular, recurring payments from customers of the County. The County's lockboxes provide faster deposit of payments, reduce handling and processing time, and strengthen internal controls by separating the cash handling responsibilities from invoicing and billing responsibilities.

E. Electronic Funds Transfers (EFT)

EFT are electronic communications of financial transactions between banks and bank customers. Wells Fargo provides the County with the capability to receive and disburse funds through the Federal Reserve Wire System, immediately and overnight. Automated clearinghouse transfers (ACH) include the ability to directly draw from customer (Water Utilities) and taxpayer (Tourist Development and Public Service Tax) accounts for immediate credit to the County's accounts. ACH transfers also provide for direct deposit of employee payroll earnings for immediate credit to their accounts, and for the County's payment of various state and federal tax liabilities. The Comptroller utilizes comprehensive ACH debit blocking to prevent unauthorized disbursements.