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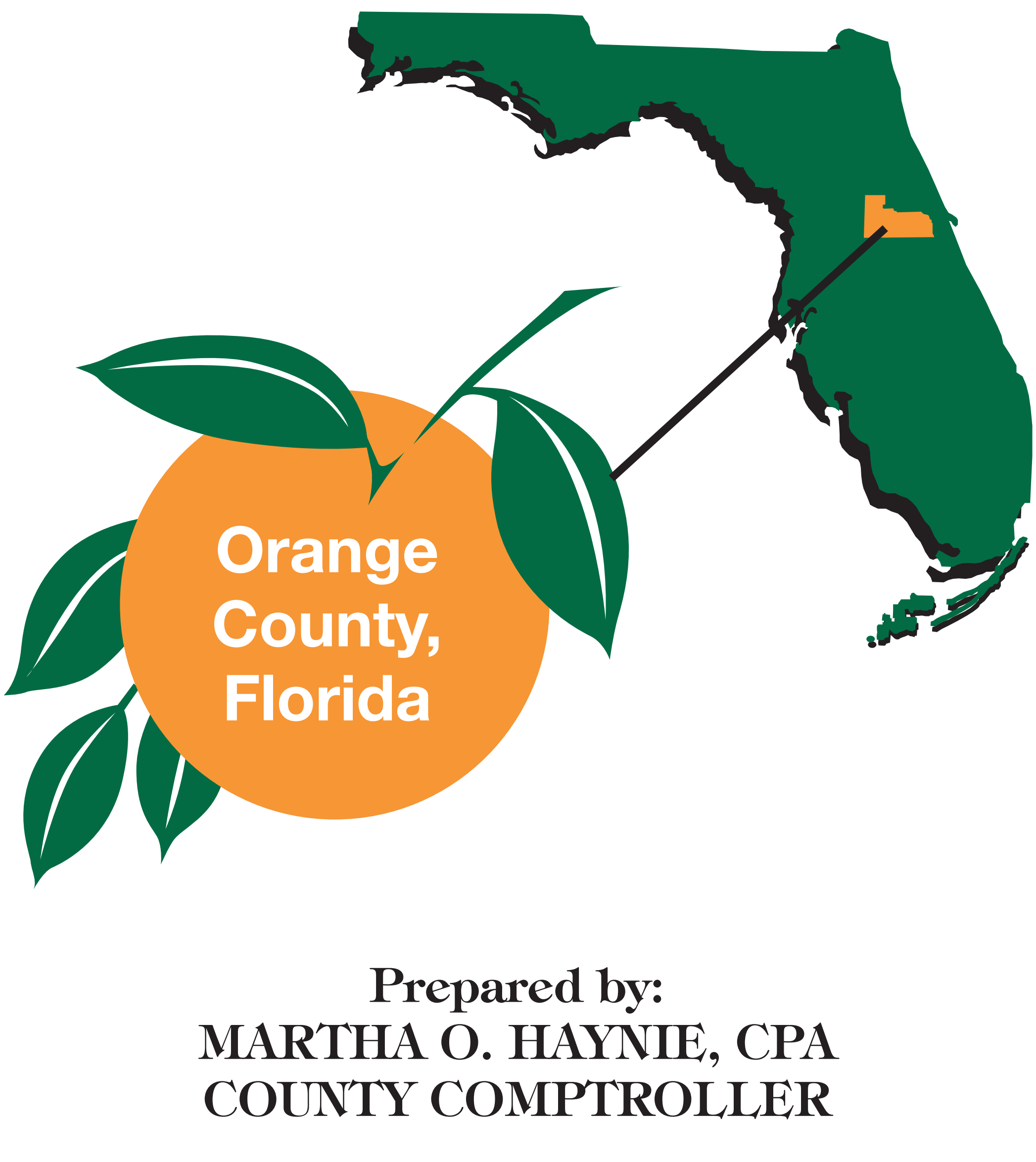
ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012



Prepared by:
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ANNUAL INVESTMENT REPORT

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SEPTEMBER 30, 2012

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EXECUTIVE SUMMARY

The portfolio earned $10.9 million for an effective rate of return of 0.79% on an average daily balance of $1.38 billion in fiscal year 2012. 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 0.07% and the 1-year Treasury had an average yield of 0.16% in 2012. Approximately 61.9% 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, 28.4% 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, an upwardly sloping yield curve and capital gains on asset sales from roll down the yield curve trades. The debt service reserve sub-portfolio represented 6.3% of the total portfolio, the intermediate term sub-portfolio accounted for 3.3% of investments and the project construction sub-portfolio represented the remaining 0.1%.

The economy expanded at a 4.1% annual growth rate in the first quarter but slowed in the next two quarters. The third quarter was the weakest of the year. GDP reached an annual low of 1.3%, job growth was slow, and retail sales declined. The economy expanded at a 2.7% growth rate in the fourth quarter on increased corporate inventories and federal government spending. However, enthusiasm was muted by slower consumer and business spending. Actual interest income was $2.7 million lower than the amount budgeted and $592,183 lower than actual interest earnings in fiscal year 2011. The decline in interest earnings was attributable to persistently low market interest rates. Nevertheless, 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, 2012.

Summary Table of Portfolio Performance

Investment Type	Book Value September 30, 2012	Market Value September 30, 2012	Interest Earned Fiscal Year 2012
U.S. Treasuries	$1,057,370,859	$1,068,492,636	$10,752,937
Federal Instrumentalities	105,127,526	105,146,600	160,815
Fixed Income Money Market Mutual Funds	79,816,763	79,816,763	30,477
Totals	$1,242,315,148	$1,253,455,999	$10,944,229

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ANNUAL INVESTMENT REPORT
for the year ended September 30, 2012
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. During fiscal year 2012, the Orange County Comptroller's Investment Committee (Committee) reviewed the Policy but did not recommend any revisions.

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

II. INVESTMENT COMMITTEE

The Committee was established by the Orange County Comptroller (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. On average in fiscal year 2012, approximately 93% of portfolio assets were invested in Treasuries and money market mutual funds comprised of Treasuries and Treasury-backed repurchase agreements due to ongoing weakness in global 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.

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 $10.9 million for an effective rate of return of 0.79% on an average daily balance of $1.38 billion in fiscal year 2012. For comparison, 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.

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

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 Florida PRIME, effective on March 1, 2008. As of October 1, 1997, the SBA had converted Florida PRIME 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 the pooled 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, 2012, 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. Compared to fiscal year 2011, average daily payment for operating and capital expenditures fell to $4.3 million from $4.4 million, and average biweekly payments for payroll expenditures fell to $12.7 million from $12.9 million. Total debt service payments increased to $125.0 million from $116.0 million in fiscal year 2011. The current year debt service total includes $12.5 million in sinking funds and other available moneys used in part to refund the Sales Tax Revenue Bonds, Series 2002B and Sales Tax Revenue Refunding Bonds, Series 1999.

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 2011, 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 an accommodative monetary policy in response to the slow pace of economic recovery and an elevated level of unemployment. In fiscal year 2012, the range for the fed funds target rate remained unchanged at 0% to 0.25%. The FOMC continued to maintain an accommodative policy as economic growth was not strong enough to bring down the rate of unemployment. Instability in international financial markets also posed downside risks to the U.S. economy. The outlook for long-term inflation remained stable.

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 2012 average Treasury yields shifted downward across the curve from 2011 averages as follows: 3-month, one basis point; 6-month, two basis points; 1-year, six basis points; 2-year, 23 basis points; 5-year, 83 basis points; 10-year, 110 basis points; and 30-year, 122 basis points. County returns were most affected by the substantial decline in yields in the 5-year section of the curve, where investments are added to the noncurrent operating portfolio. The County made approximately $158 million of investments in the noncurrent operating portfolio during fiscal year 2012.

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 76 basis points in 2012 compared with 158 basis points in 2011. Significant rate declines also occurred in the 10-year and 30-year sectors of the curve. Demand for Treasuries remained strong during fiscal year 2012 due to skepticism concerning the U.S. economic recovery and the European debt crisis. Yields at the longer end of the curve remained near annual lows in September on uncertainty regarding the presidential election and fears of continued gridlock in Washington related to negotiations on the fiscal cliff.

Approximately 93% of the County's portfolio was invested in Treasuries and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Yields on the Money Markets were three basis points or lower, while the average yield on Treasuries with maturities of one year or less was 10 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.

In September, the Federal Reserve announced plans for a third round of quantitative easing, QE3. The Fed will buy $85 billion of long-term securities each month in the last quarter of calendar year 2012, and $40 billion of agency mortgage-backed securities each month thereafter. If the labor market does not improve, the Fed will likely continue and expand its purchases of agency mortgage-backed securities. The plan is designed to pressure long-term interest rates, support the mortgage market and help stimulate the broader economy. The Fed also announced that it intends to keep interest rates at current levels through the middle of 2015.

Shown below in Chart 1 are the average 30-year Treasury yield curves for fiscal years 2008 through 2012, followed by Chart 2, which compares the monthly portfolio rates of return with the monthly intended and effective federal funds rates for the same period.

Chart 1 – Average U.S. Treasury Yield Curves

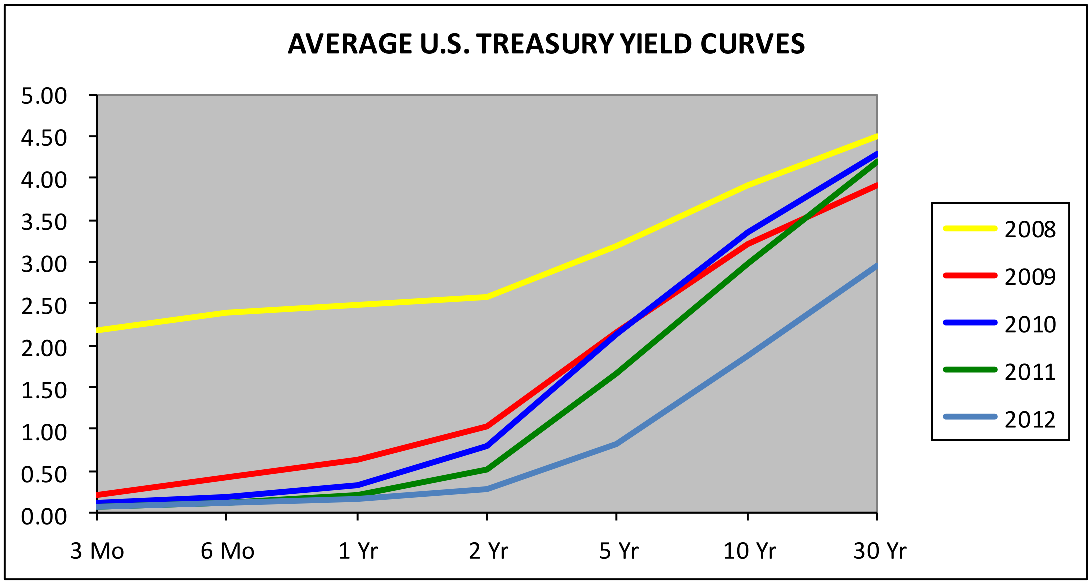
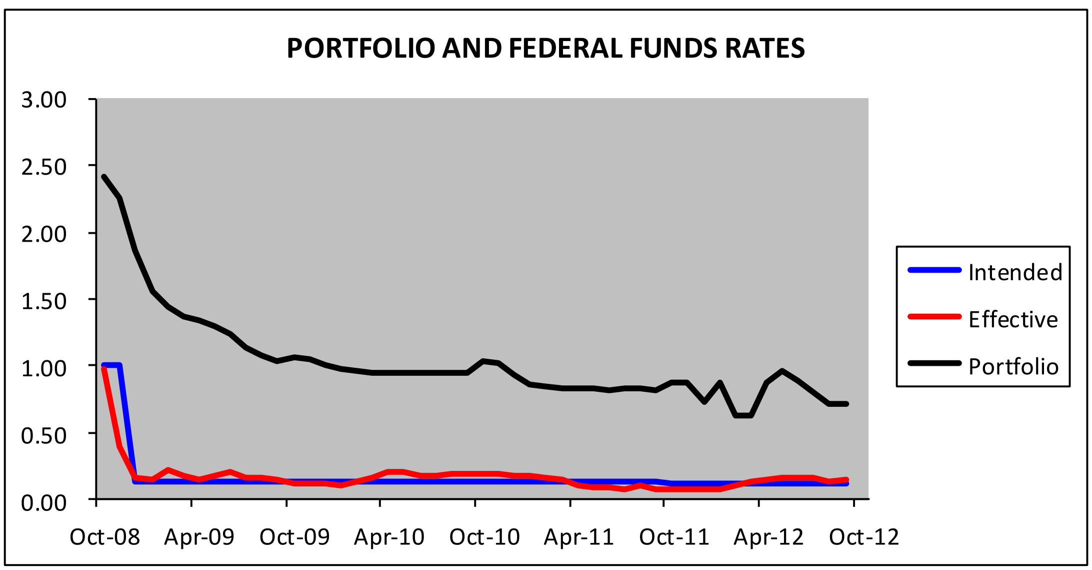
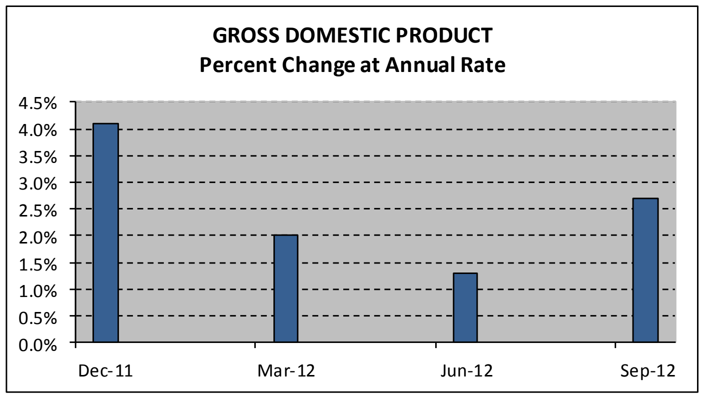


Chart 2 – Portfolio and Federal Funds Rates



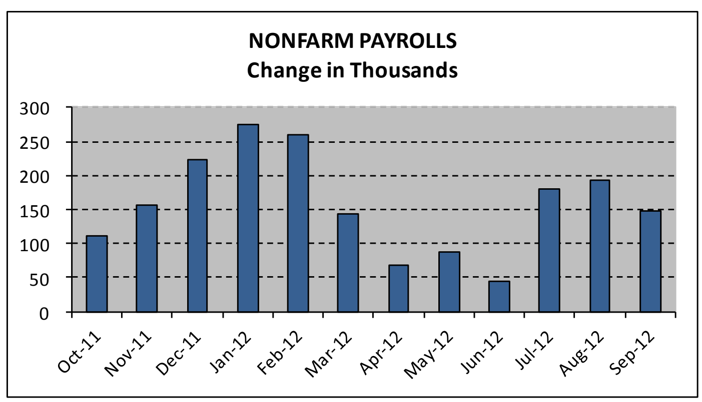
Barometers measure national economic activity by various economic variables. Those variables significantly influence interest rates on most government and corporate securities nationwide. Shown below in Charts 3 through 13 are the barometers followed by the Comptroller in developing investment strategy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

Chart 3 – Gross Domestic Product



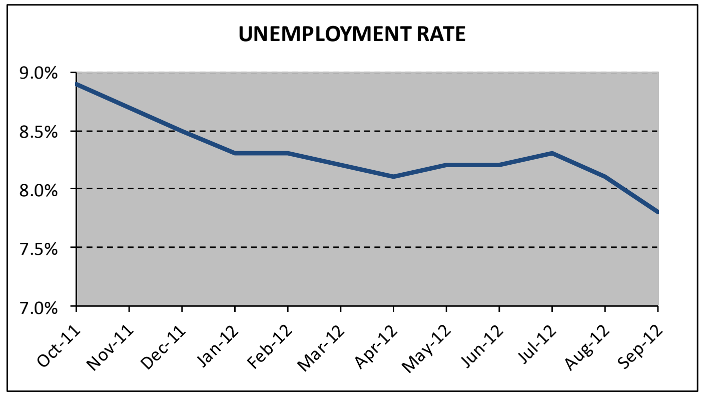
Gross domestic product (GDP) is a measure of the total value of goods and services produced in the United States for a given time period. Quarterly percent changes in the chain price index provide a broad-based estimate of GDP at constant, or inflation adjusted, dollar prices. GDP is the most comprehensive 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



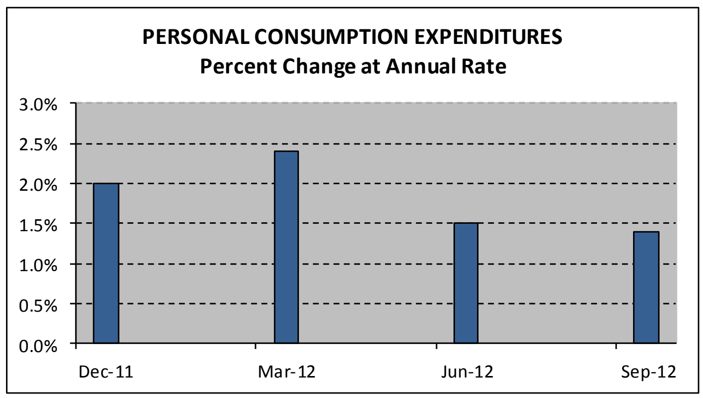
Nonfarm payrolls (NFP) measure the number of jobs in the nonagricultural economy. Monthly changes reflect the changes in actual numbers of paid employees in business and government establishments. NFP is a coincident indicator of the level of economic activity. Changes are closely watched because they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

Chart 5 – Unemployment Rate



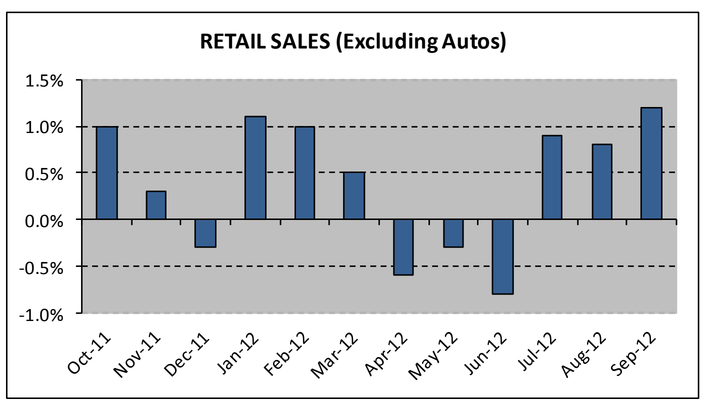
The unemployment rate is the ratio of the total number of unemployed to the total labor force. The labor force consists of those working and those seeking employment. Monthly changes in this rate and NFP are widely regarded together as the primary monthly economic indicator because the combined data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

Chart 6 – Personal Consumption Expenditures



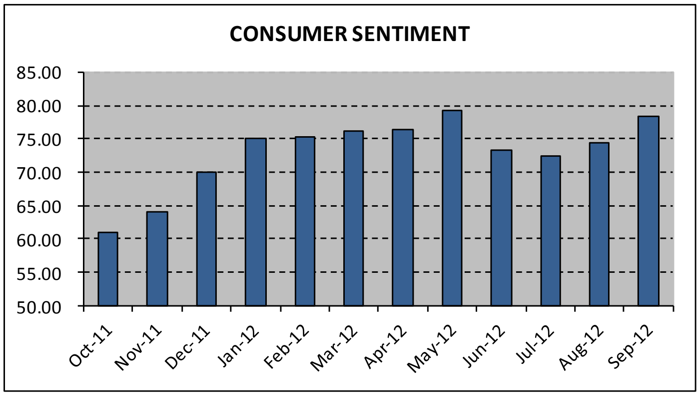
Personal consumption expenditures (PCE) is a measure of goods and services purchased by persons in the United States. PCE is the most important and typically the most stable of the four components that comprise GDP. PCE normally represents more than two-thirds of GDP. The three sectors of PCE are durable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

Chart 7 – Retail Sales (Excluding Autos)



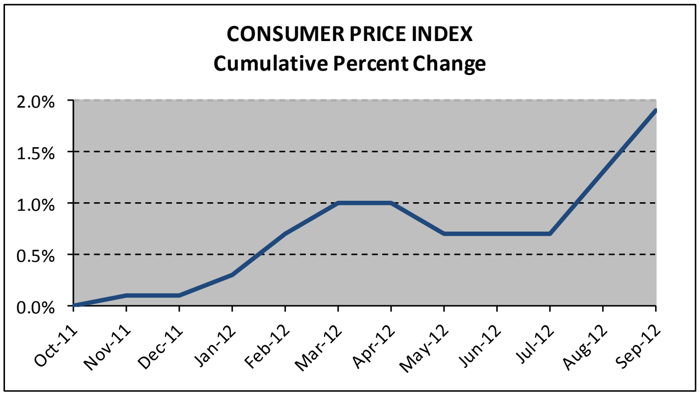
Retail sales is a measure of consumer spending for a given month. This reading is used to help forecast PCE and GDP. The Department of Commerce uses the control component, retail sales excluding autos, to measure the growth rate in the non-service component of PCE. Retail sales excluding autos typically 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



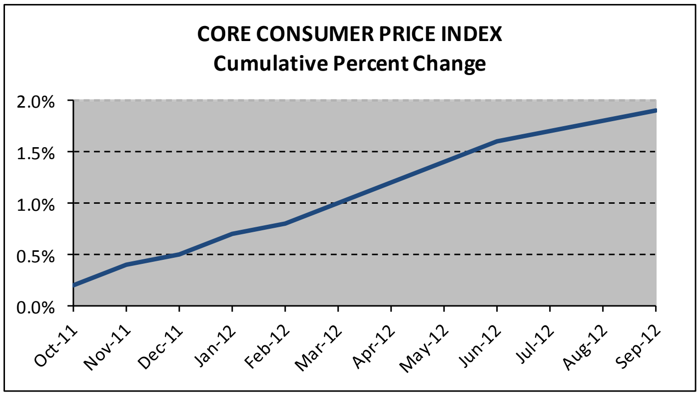
Consumer sentiment is a measure of how consumers view prospects for their own financial condition, how they view prospects for the general economy in the near term, and their view of the economy over the long term. Monthly levels of consumer sentiment are included in the Conference Board's Index of Leading 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.

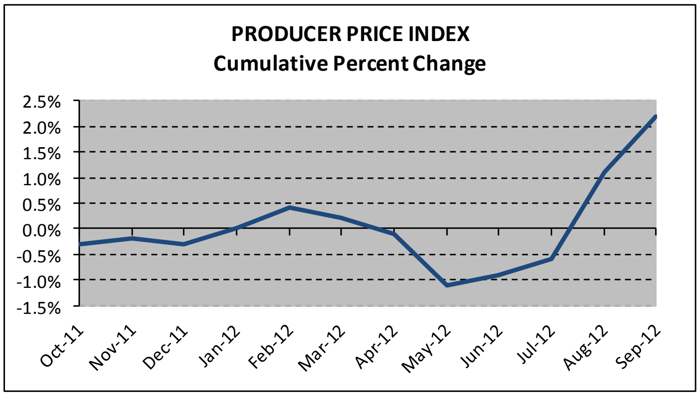


Chart 12 – Housing Starts

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.

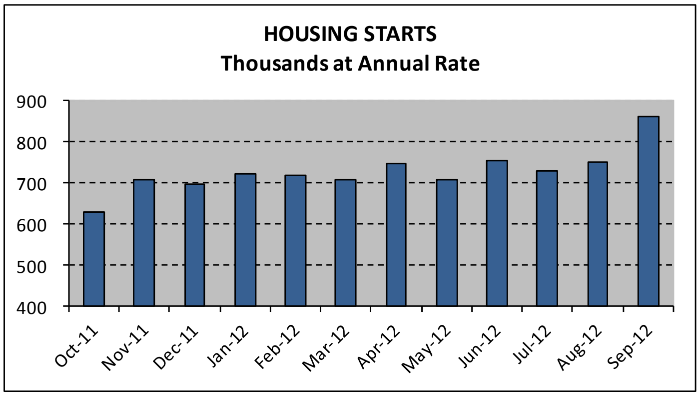
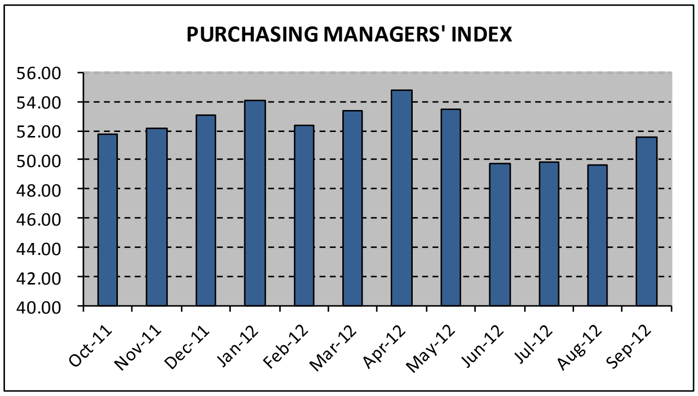


Chart 13 – Purchasing Managers' Index



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 2011 report described an economy poised for moderate growth in fiscal year 2012. According to a Bloomberg survey, GDP was expected to average roughly 2.2% in fiscal year 2012, well below the long term growth trend. Ongoing economic issues included high unemployment, low consumer confidence, tight credit conditions and a depressed housing market. The U.S. economy was also exposed to potential shocks from the European financial crisis and political turmoil in the Middle East. The Federal Reserve was intent on maintaining accommodative monetary policy, while keeping inflation stable. Gradual economic growth was expected but the outlook was very uncertain.

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 4.1% in the first quarter of the fiscal year compared with a final reading of 1.3% in the fourth quarter of the previous fiscal year. Economic growth was driven by business fixed investment and the buildup of inventories. However, economic growth was limited by a slowdown in government spending and lower personal disposable income. Economists expected economic growth to be pressured by Europe's continuing fiscal and economic problems and the troubled U.S. housing market.

The GDP annual growth rate fell to 2.0% in the quarter ended March 31, 2012. The deceleration was attributable to slower growth in business fixed investment, smaller inventories and reduced government spending. However, the economy showed some positive signs and inflation indicators rose during the quarter. The U.S. economy added 677,000 new jobs during the second quarter and the unemployment rate fell to 8.2%. CPI readings indicated the pace of inflation was increasing during the quarter, particularly for energy. Consumer sentiment rose to 76.2 at the end of the second quarter from 69.9 at the end of the first quarter. Positive trends in the labor market offset the impact of higher energy prices on consumer confidence.

GDP continued its descent in the quarter ended June 30, 2012, decreasing to an annual growth rate of 1.3% in the quarter. The slowdown in GDP growth was attributable to weaker rates of consumer and business spending, as well as a decline in inventories. A severe drought in the U.S. resulted in a sharp drop in farm inventories. Nonfarm payrolls increased by only 200,000 jobs in the quarter, the low for the year, while the unemployment rate remained at 8.2%. The weak jobs market, declining retail sales and a drop in consumer sentiment suggested the economic recovery was beginning to fade. There were small signs of improvement in the housing market as the pace of housing starts increased in the quarter and construction employment rose in June, the first increase since January.

For the quarter ended September 30, 2012, GDP increased at an annual rate of 2.7%. The faster rate of growth primarily resulted from a sharp increase in corporate inventories and federal government spending, particularly on national defense. However, slower growth in consumer and business spending muted market enthusiasm for the improvement. Although consumers were actually spending less, consumer sentiment was improving. The Thomson Reuters/University of Michigan consumer sentiment index rose to 78.3, the second highest reading of the fiscal year. Hiring increased in the fourth quarter and the unemployment rate fell to 7.8%, the lowest reading since 2009. Nevertheless, improvements in the labor market were modest and the level of unemployment remained high relative to historical rates.

Going into fiscal year 2013, economists are projecting below trend growth for the next year. According to a Bloomberg survey, GDP is projected to average roughly 1.8% in 2013. This forecast falls below the long term GDP growth rate of 2.6%. The moderate pace of economic expansion anticipated by economists will not be strong enough to spur substantial job creation. External threats to the outlook for modest economic growth include the European financial crisis and unrest in the Middle East. The looming *fiscal cliff* is also casting a shadow over the economy due to the uncertainty regarding future tax rates and federal government spending. Monetary policy and economic conditions should continue to keep interest rates low in fiscal year 2013.

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 2012 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 2012 and 2011.

Table 2 – Orange County's 12 Major Revenue Sources

Revenue	FY 2012	FY 2011
Ad Valorem Tax	$529,858,983	$542,081,767
Tourist Development Taxes	175,302,638	175,854,576
Water Utilities System Operations	154,489,904	155,242,891
Half-Cent Sales Tax	131,052,698	124,823,259
Public Service Tax	87,806,658	92,091,369
Convention Center Operations	49,745,347	48,108,085
Mandatory Refuse Fees	45,421,235	44,977,744
Fuel Taxes	39,415,208	38,539,707
Impact Fees (excl. School Impact Fees)	31,277,558	21,212,897
State Revenue Sharing	29,907,251	27,820,309
Solid Waste Tipping Fees	27,088,852	27,399,187
Interest Earnings	**10,944,229**	**11,536,412**
Totals	$1,312,310,561	$1,309,688,203

IX. INVESTMENT OPERATIONS

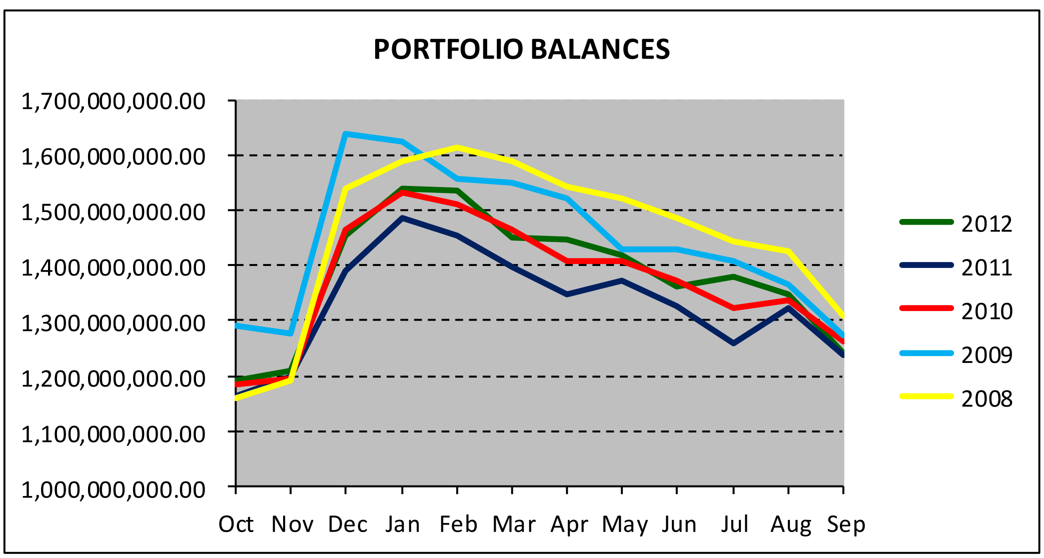
Qualified professionals in the Comptroller's Office conduct investing activities in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to Comptroller management, management of the 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 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 2012 was $1.236 billion, down $28 million from the opening balance of fiscal year 2011. The portfolio's average daily balance was $1.38 billion, up $50 million from the prior year. The portfolio's ending balance for fiscal year 2012 was $1.242 billion, up $6 million from the opening balance. Expenditures from the portfolio fell to $1.52 billion from $1.55 billion in 2011. This decline was due to a reduction in operating and capital expenditures and lower payroll costs. Shown in Chart 14 are the portfolio balances as of the end of each month in fiscal years 2008 through 2012.

Chart 14 – Portfolio Balances



B. Portfolio Composition

As of September 30, 2012, the portfolio was fully invested in permitted investments within allowable composition limits. As shown in Chart 15 below, the portfolio contained Treasuries, Instrumentalities and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Chart 16, September 30, 2011 Portfolio Composition by Investment Type, is presented for comparative purposes.

Chart 15 – September 30, 2012 Portfolio Composition by Investment Type

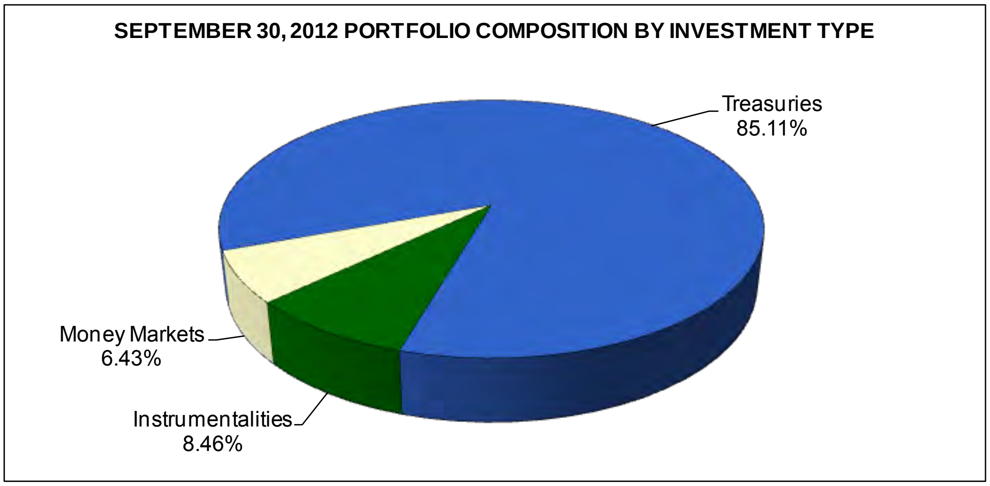
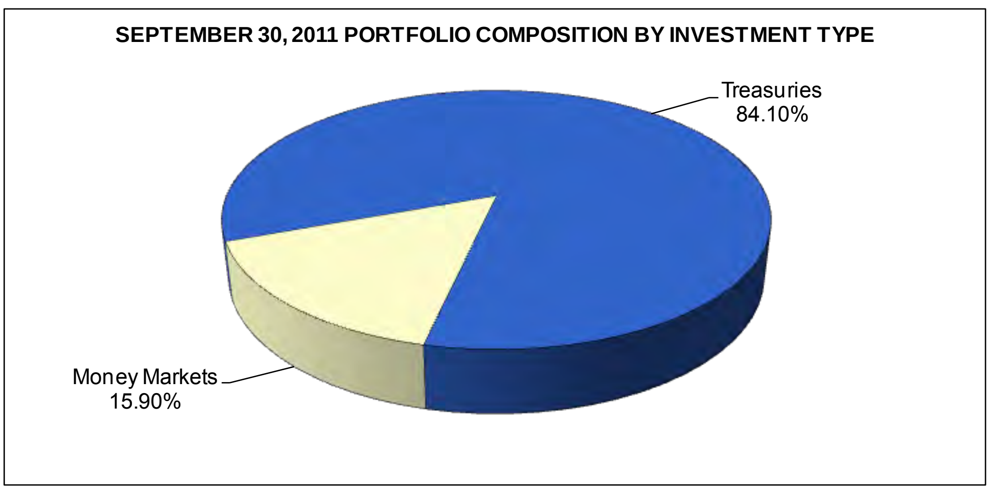


Chart 16 – September 30, 2011 Portfolio Composition by Investment Type



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 2012, the average composition of the portfolio shifted to Instrumentalities from Treasuries and Money Markets. Changes in the average portfolio composition can be seen in Charts 17 and 18.

Chart 17 – FY 2012 Average Portfolio Composition by Investment Type

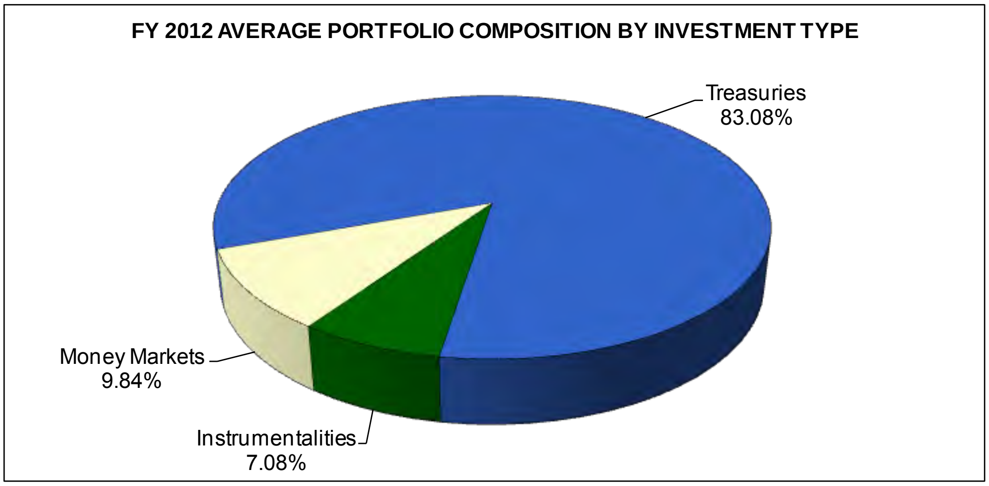
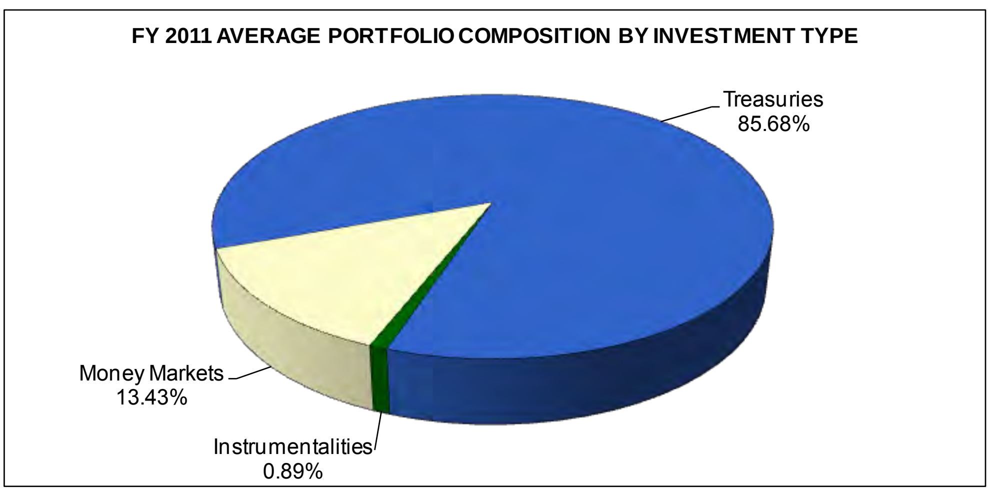


Chart 18 – FY 2011 Average Portfolio Composition by Investment Type



The portfolio is comprised of five sub-portfolios: current operating, intermediate term, 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 intermediate term portfolio has a maximum maturity of 36 months. This portfolio was established during fiscal year 2012 to increase returns on excess liquidity and diversify investment maturities across the yield curve. 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 (immaterial balance at September 30, 2012). 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, 2012 Portfolio Composition by Sub-portfolio is presented below. Chart 20, September 30, 2011 Portfolio Composition by Sub-portfolio, is presented for comparative purposes.

Chart 19 – September 30, 2012 Portfolio Composition by Sub-portfolio

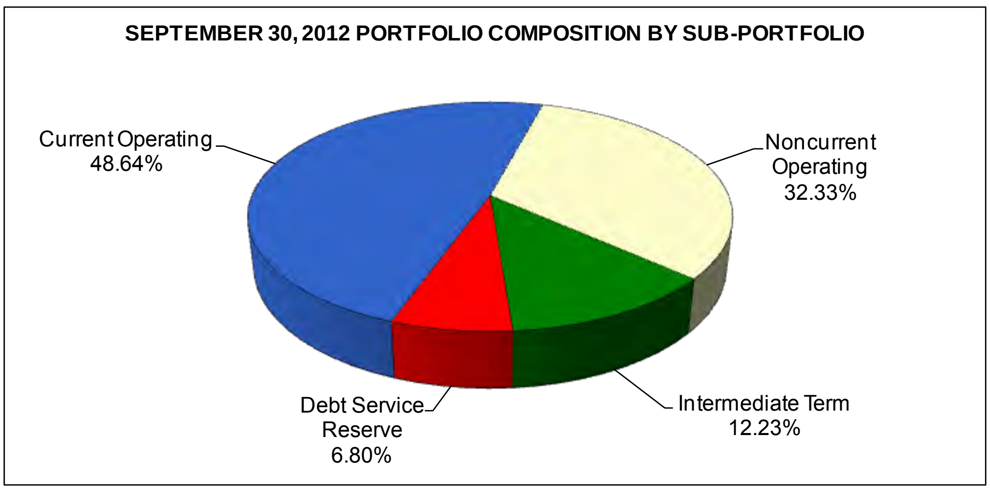
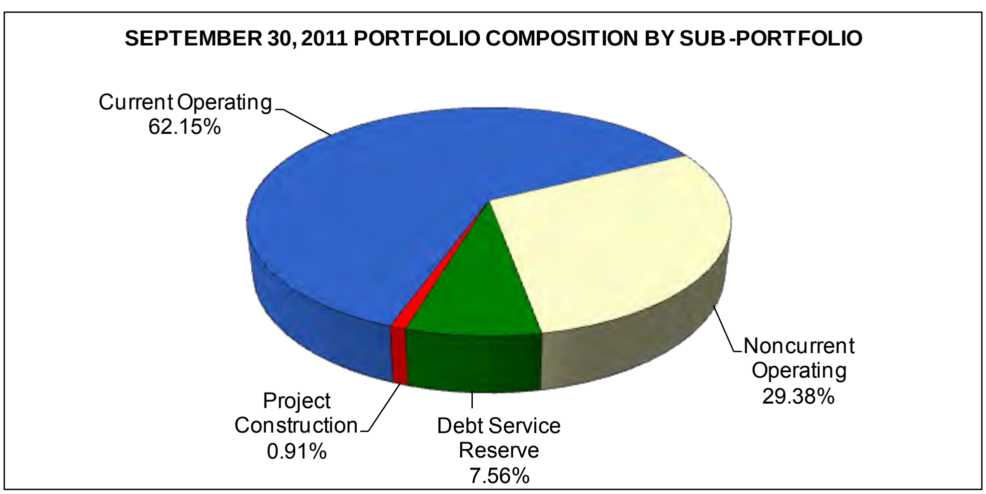


Chart 20 – September 30, 2011 Portfolio Composition by Sub-portfolio



The average composition of the portfolio shifted moderately to intermediate operating and noncurrent operating funds. This change resulted from efforts to extend investment maturities out of low yielding short-term investments in the current operating portfolio into higher yielding long-term securities. The change in average composition by sub-portfolio is presented below in Charts 21 and 22.

Chart 21 – FY 2012 Average Portfolio Composition by Sub-portfolio

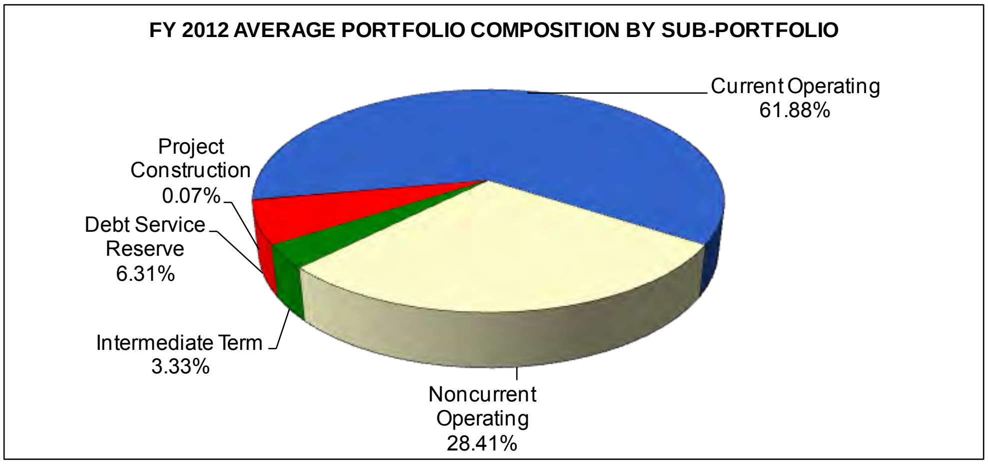
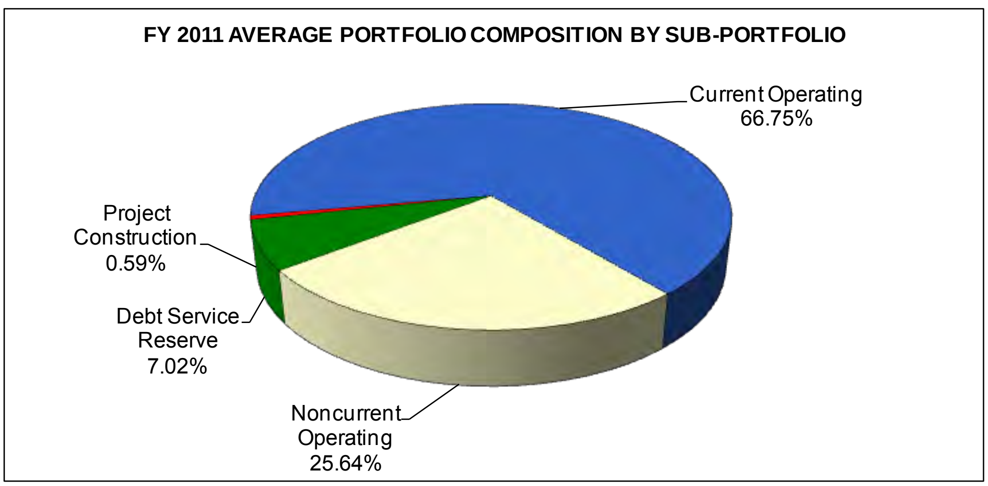


Chart 22 – FY 2011 Average Portfolio Composition by Sub-portfolio



C. Portfolio Maturities

The Policy requires sufficient liquidity and diversity in maturities. Shown in Table 3 are the average terms of each investment type at September 30, 2012 and 2011. 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, intermediate term 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.

Table 3 – Year-end Average Term by Investment Type

Investment Type	FY 2012	FY 2011
Money Market Funds	1	1
Instrumentalities	355	NA
Treasuries	934	817

Available balances were invested for an average term of 709 days in fiscal year 2012 compared with an average term of 618 days in fiscal year 2011. Table 4 below reports the average term of the portfolio for each month in fiscal years 2012 and 2011. The portfolio's average days to maturity was 421 days in fiscal year 2012 compared with 330 days in 2011. 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 2012 and 2011. 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 2012	FY 2011
October	720	680
November	732	645
December	654	591
January	612	578
February	623	573
March	660	584
April	671	593
May	710	591
June	763	616
July	766	648
August	774	633
September	825	687
Average	709	618

Table 5 – Average Days to Maturity

Period	FY 2012	FY 2011
October	391	334
November	408	317
December	382	325
January	362	337
February	352	328
March	364	328
April	379	315
May	418	310
June	474	322
July	487	340
August	493	333
September	543	374
Average	421	330

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 $10,944,229 on an average daily balance of $1,377,624,029 in fiscal year 2012. For comparison, the portfolio earned $11,536,412 on an average daily balance of $1,327,737,220 in fiscal year 2011. Actual interest income was $2,720,433 less than the budgeted amount in fiscal year 2012 due to extraordinarily low market interest rates. For comparison, actual interest income was $6,124,927 less than the budgeted amount in fiscal year 2011. Budgeted and actual interest earnings for both fiscal years are shown in Table 6 below.

Table 6 – Budget and Actual Interest Earnings

	FY 2012	FY 2011
Actual	$10,944,229	$11,536,412
Budget	13,664,662	17,661,339
Variance	$(2,720,433)	$(6,124,927)

Interest earnings and the effective rate of return on each sub-portfolio are shown below in Table 7. The fiscal year 2011 interest earnings and effective rate of return by sub-portfolio are provided in Table 8 for comparison.

Table 7 – FY 2012 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2012		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Noncurrent Operating	$9,777,110	2.50%
Current Operating	905,371	0.11%
Intermediate Term	136,839	0.30%
Debt Service Reserve	124,809	0.14%
Project Construction	100	0.01%
Total	$10,944,229	0.79%

Table 8 – FY 2011 Interest Earnings and Effective Rate of Return by Sub-portfolio

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

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 5-year ladder. The average yield on the 5-year Treasury fell to 0.83% in 2012 from 1.66% in 2011. The average yield on the 5-year Treasury was 4.63% in 2007, 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 76 basis points. The return on the current operating portfolio fell by nine 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 to three basis points in 2012.

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 2012, the portfolio's effective rate of return was 0.79%. In fiscal year 2011, the portfolio's effective rate of return was 0.87%. Shown below in Table 9 are the effective rates of return for the permitted investment types during fiscal years 2012 and 2011.

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

Investment Type	FY 2012	FY 2011
Treasuries	0.93%	0.99%
Instrumentalities	0.17%	0.07%
Money Markets	0.02%	0.02%
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. Returns on Money Markets were miniscule due to strong demand for safe liquid assets. Treasury returns fell due to the decline in average interest rates on all maturities out to five years, and the entire yield curve out to 30 years shifted downward as it did in 2011. The average maturity of the portfolio increased to approximately 14 months in fiscal year 2012 from 11 months in the prior year, as investment maturities were extended to capture higher yields. In addition, portfolio returns received a boost from the implementation of a roll down the yield curve program and a new 3-year ladder program.

In January, the investments staff was authorized to sell securities that fell within 13 months of maturity if a capital gain could be realized. The proceeds were to be immediately reinvested in a Treasury note at the end of the 5-year ladder. Roll down the yield curve sales generated $1.8 million in capital gains, adding 13 basis points to the overall portfolio's 0.79% return.

In April, the Investment Committee received approval for a new 3-year ladder named the intermediate term portfolio. The Committee recognized that available liquidity could be used to lengthen maturities in order to pick-up yield and diversify investment terms. The maximum investment in this sub-portfolio was set at $150 million. This sub-portfolio had an effective rate of return of 30 basis points in fiscal year 2012.

E. Benchmark Comparisons

Portfolio performance is best measured when compared with 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 2012. The Comptroller 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 fifth 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 2012 with yields typically higher than Treasuries, or spread products, was Instrumentalities. Instrumentalities provided some yield pickup over Treasuries. 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 2012	Variance	FY 2011	Variance
Portfolio	0.79%		0.87%	
3-Month Treasury	0.07%	0.72%	0.08%	0.79%
6-Month Treasury	0.11%	0.68%	0.13%	0.74%
ML 0-1 Year Treasury	0.14%	0.65%	0.19%	0.68%
1-Year Treasury	0.16%	0.63%	0.22%	0.65%
2-Year Treasury	0.28%	0.51%	0.51%	0.36%
Effective Fed Funds	0.12%	0.67%	0.13%	0.74%
Committee Benchmark	0.17%	0.62%	0.24%	0.63%

F. 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 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 2012 percentage of total County purchases and compared with percentage of purchases in fiscal year 2011.

Table 11 – QPD, Dealers and Direct Issuers

Broker/Dealer	Status	FY2012 % of Total	FY2011 % of Total
Bank of Montreal	Primary	29.23%	–
Morgan Stanley (formerly Citigroup)	Primary	18.80%	22.45%
RBS Greenwich Capital Markets	Primary	18.20%	19.25%
Jeffries & Company, Inc.	Primary	16.02%	16.37%
Barclays Capital Inc.	Primary	14.93%	19.80%
Cantor Fitzgerald & Co.	Primary	2.82%	2.13%
Deutsche Bank Securities Inc.	Primary	–	20.00%

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. The last 1-year option was exercised during fiscal year 2012, extending the Agreement through June 30, 2013. Wells Fargo is a member of the Federal Reserve System, the National Automated Clearing House Association and is a QPD. A new Agreement for Banking Services will be procured in fiscal year 2013 through a competitive selection process.

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. The County converted its bank accounts to noninterest-bearing transaction accounts in August 2011.

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 1, 2011. 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. On January 1, 2013, the FDIC insurance coverage will drop back down to $250,000 and balances above this amount will be collateralized in accordance with the Florida Security for Public Deposits Act.

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.

XI. DEBT REFINANCING

According to the County's Debt Management Policy, outstanding debt will be refunded as long as the net present value savings between the refunded bonds and the refunding bonds is equal to or greater than 5% without extending the maturity of the debt being refunded, unless extenuating circumstances would justify a smaller percentage savings (e.g., historically low interest rates, etc.).

On April 26, 2012, the County issued a series of taxable sales tax bonds and a series of tax-exempt sales tax bonds. The County issued $16,805,000 of Taxable Sales Tax Revenue Refunding Bonds, Series 2012A. The County used the proceeds of the sale and available cash to currently refund outstanding Sales Tax Revenue Refunding Bonds, Series 1999. The refunded par value totaled $27,725,000. The net present value savings on the refunding was $2,828,039, or 10.20% savings of refunded bonds.

The County issued $97,295,000 of Sales Tax Revenue Refunding Bonds, Series 2012B. The County used the proceeds of the sale and available cash to advance refund the County's outstanding Sales Tax Revenue Bonds, Series 2002B. The refunded par value totaled $104,495,000. The net present value savings on the refunding was $9,099,960, or 8.7% savings of the refunded bonds.