## Executive Summary

### PORTFOLIO STRATEGY

- In an effort to jumpstart the stalled economy the Federal Reserve took unprecedented actions in December, setting a range for the Federal Funds target rate between 0.00% and 0.25%, bringing the target rate to its lowest level in history. The Fed's actions were intended to counteract deteriorating labor market conditions and reverse declines in consumer spending, business investment, and industrial production.
- As the Fed effectively cut short-term rates to zero, U.S. Treasury yields for all maturities also fell to record lows. The yield on the 2-Year Treasury note hit an all-time low of 0.65% on December 16, but finished the quarter at 0.77%, 1.05% lower than at the beginning of the fourth quarter.
- This dramatic fall in rates caused great appreciation in market values of fixed-income investments. The rally (rise in prices/fall in yields) in the Treasury market caused the Merrill Lynch 1-3 Year U.S. Treasury Index to return 2.69% for the quarter, its highest quarterly return in 2008.
- Federal Agency securities experienced even more impressive market value gains, benefitting not only from the falling-rate environment, but also from collapsing spreads over Treasuries. After hitting an all-time high of 2.06% at the end of November, the spread between 2-Year Treasuries and Federal Agencies fell 1.36% to finish the quarter at 0.70%.
- The City of Hallandale Beach's Investment portfolio returned 3.92% during the fourth quarter, which was 1.23% higher than the benchmark's return of 2.69%. This strong performance was achieved by maintaining a disciplined investment strategy over the past several quarters, which included:
  - *Maintaining duration close to benchmark.* This allowed the portfolio to achieve greater market value appreciation as rates fell.
  - *Underweighting corporate securities.* We underweighted the portfolio's corporate holdings relative to the City's investment policy, only investing in the highest quality credits and protecting the principal of the portfolio from market value losses as spreads ballooned on debt issued by lower-quality issuers.
  - *Proactively purchasing FDIC-guaranteed debt.* The fixed-income market was puzzled by the initial issuance of debt guaranteed by the FDIC through the Temporary Liquidity Guarantee Program but issued by private corporations. PFM took advantage of the opportunity offered by the resulting market anomalies, purchasing the newly-issued debt at yields higher than Federal Agencies. The portfolio benefitted not only from the higher initial yields, but also from dramatic market value appreciation as spreads over Agencies narrowed in the secondary market and rates in general declined.
- PFM was able to achieve these impressive returns for the City without compromising the safety of the portfolio. Strategic decisions were made early on not to purchase names such as Bear Stearns, Lehman Brothers, AIG, or Washington Mutual.
- Interest rates are at such low levels that if they remain stable during 2009, the potential for market value appreciation is negligible. If interest rates rise significantly, returns will likely be negative. To counteract the downside risk of rising interest rates, we will shorten the portfolio's duration and insulate the portfolio's value from potential losses.
- Historically, PFM has maintained a very disciplined approach to portfolio duration — keeping the duration within 85% to 100% of the benchmark. However, in these extreme market conditions, where rates have little room to fall, we will move outside this range striving for a portfolio duration of 70-75%.
- We have already begun this process by not rebalancing the portfolio at the end of the fourth quarter. As the market permits, we will systematically continue shortening the portfolio duration by selling longer-term securities to buy shorter ones and allowing securities to drift closer to maturities without replacing them.
- We will also focus on shortening the average maturity of the portfolio's Federal Agency holdings by selling non-callable Agencies to purchase callable Agency, which should offer higher yields and mitigate market value losses should interest rates rise.
- We may also purchase further FDIC-guaranteed debt, which continues to offer value over Federal Agencies and Treasuries.
- Over the Quarter, the City's Short Term Portfolio averaged a yield to maturity at cost of 2.32%, which was 2.20% higher than the benchmark Merrill Lynch 3-Month Treasury Bill Index average yield of 0.12%. Additionally, for the fourth quarter of 2008, the benchmark posted its worst quarterly total return since inception, on December 31, 1977, of 0.22%.
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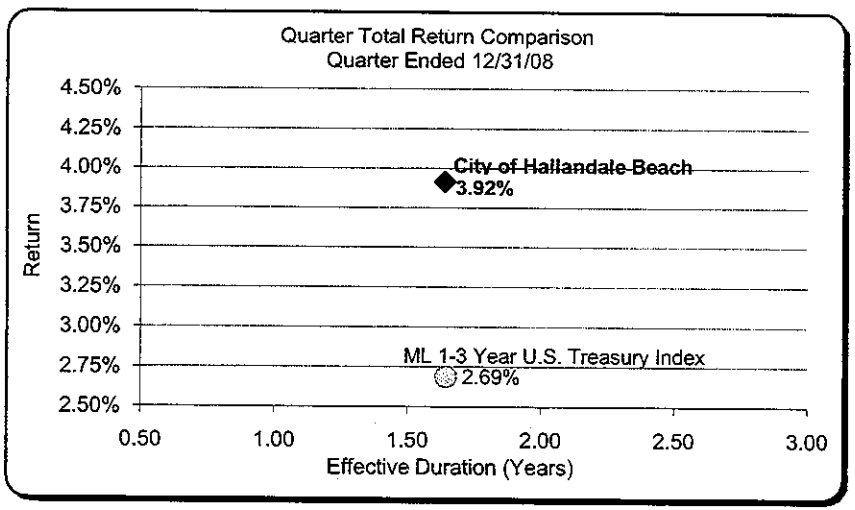
## Investment Portfolio Performance

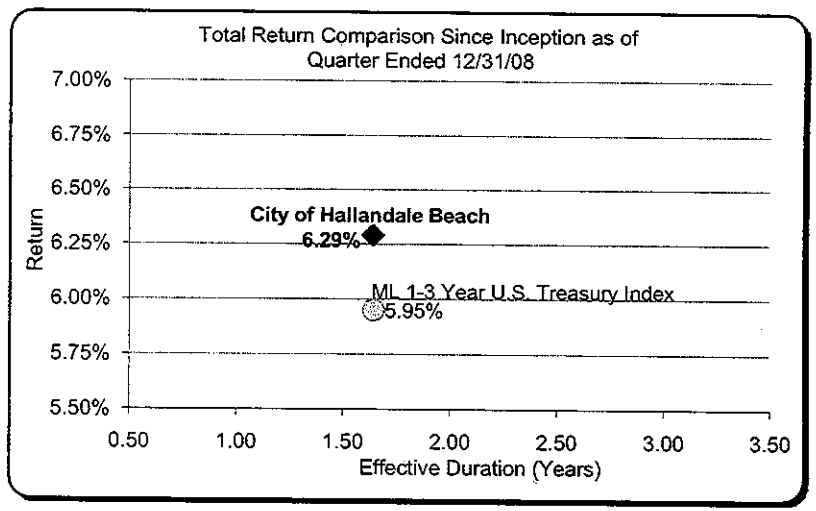
| Total Portfolio Value[1,2] | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Market Value | **$31,385,772.22** | $30,154,741.82 |
| Amortized Cost | **$30,473,388.88** | $29,927,193.04 |

| Total Return[1,2,3,4,5,6,7,8] | Quarterly Return December 31, 2008 | Annualized Quarter | Last 12 Months | Last 24 Months | Since Inception December 31, 2005 |
|---|---|---|---|---|---|
| **Investment Portfolio** | **3.92%** | **16.46%** | **7.38%** | **7.21%** | **6.29%** |
| Merril Lynch 1-3 Year U.S. Treasury Index | 2.69% | 11.09% | 6.61% | 6.95% | 5.95% |

| Effective Duration(Years)[4] | December 31, 2008 | September 30, 2008 |
|---|---|---|
| **Investment Portfolio** | **1.64** | **1.54** |
| Merril Lynch 1-3 Year U.S. Treasury Index | 1.64 | 1.63 |
| Portfolio Duration % of Benchmark Duration | 100% | 95% |

| Yields | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Yield at Market | **1.36%** | 3.36% |
| Yield at Cost | **3.28%** | 3.76% |



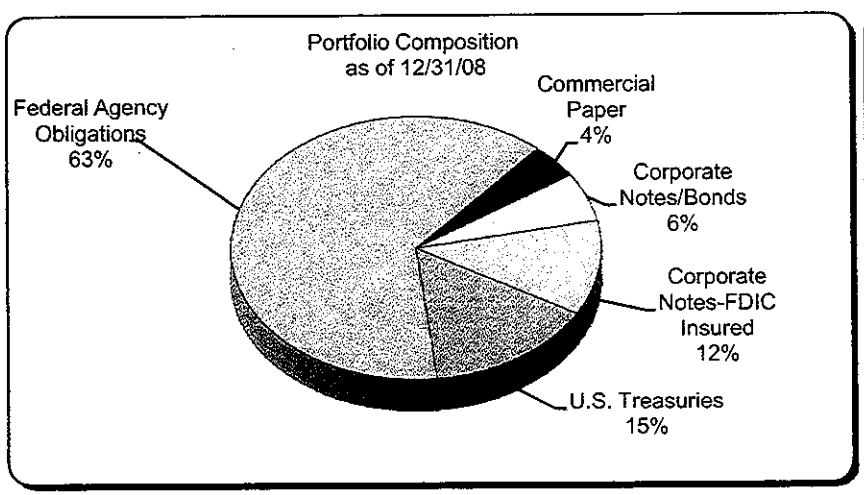



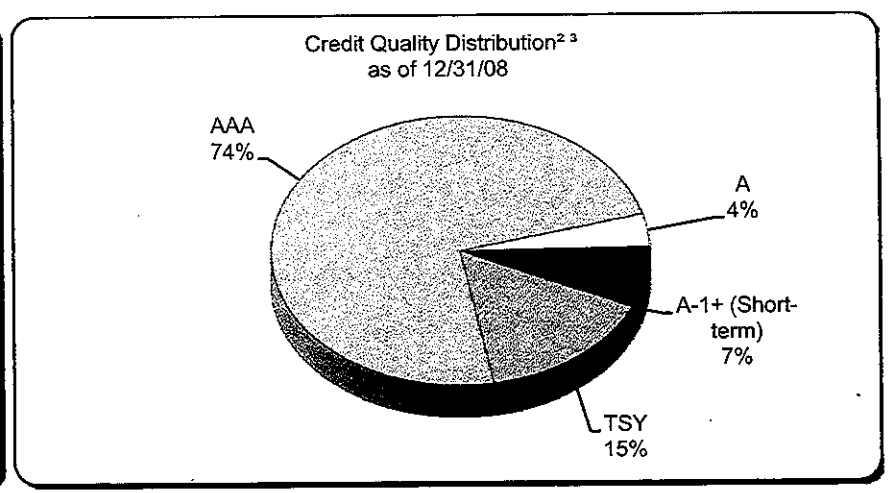

Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
2. End of quarter trade-date market values of portfolio holdings, including accrued interest.
3. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS).
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Quarterly returns are presented on both an unannualized and annualized basis. The annualized return assumes the quarterly return is compounded at the same rate for four quarters and is presented for reference only. The actual annual return will be the result of chaining the most recent four quarterly returns.
6. Excludes money market fund/cash in performance and duration computations.
7. Returns presented for 12 months or longer are presented on an annual basis.
8. Past performance is not indicative of future results.

## Investment Portfolio Composition and Credit Quality Characteristics

| Security Type[1] | December 31, 2008 | % of Portfolio | September 30, 2008 | % of Portfolio |
|---|---|---|---|---|
| U.S. Treasuries | $4,680,336.30 | 14.9% | $7,485,861.73 | 24.8% |
| Federal Agencies | 19,840,835.54 | 63.2% | 19,517,267.21 | 64.7% |
| Commercial Paper | 1,343,982.53 | 4.3% | 0.00 | 0.0% |
| Certificates of Deposit | 0.00 | 0.0% | 0.00 | 0.0% |
| Bankers Acceptances | 0.00 | 0.0% | 0.00 | 0.0% |
| Repurchase Agreements | 0.00 | 0.0% | 0.00 | 0.0% |
| Municipal Obligations | 0.00 | 0.0% | 0.00 | 0.0% |
| Corporate Notes/Bonds | 1,872,432.95 | 6.0% | 3,151,612.88 | 10.5% |
| Corporate Notes-FDIC Insured | 3,648,184.90 | 11.6% | N/A | N/A |
| Mortgage Backed | 0.00 | 0.0% | 0.00 | 0.0% |
| Money Market Fund/Cash | 0.00 | 0.0% | 0.00 | 0.0% |
| **Totals** | $31,385,772.22 | 100.0% | $30,154,741.82 | 100.0% |



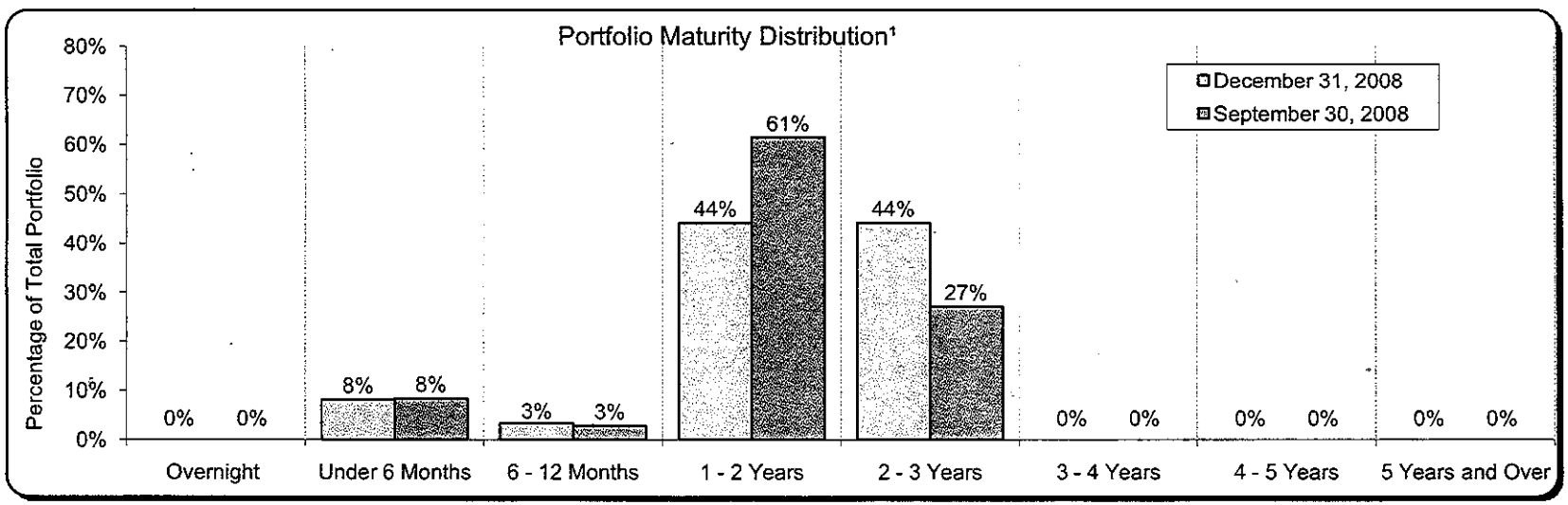




Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP.
3. A rating of "TSY" indicates the security is an obligation of, or explicitly guaranteed by the U. S. Government.

## Investment Portfolio Maturity Distribution

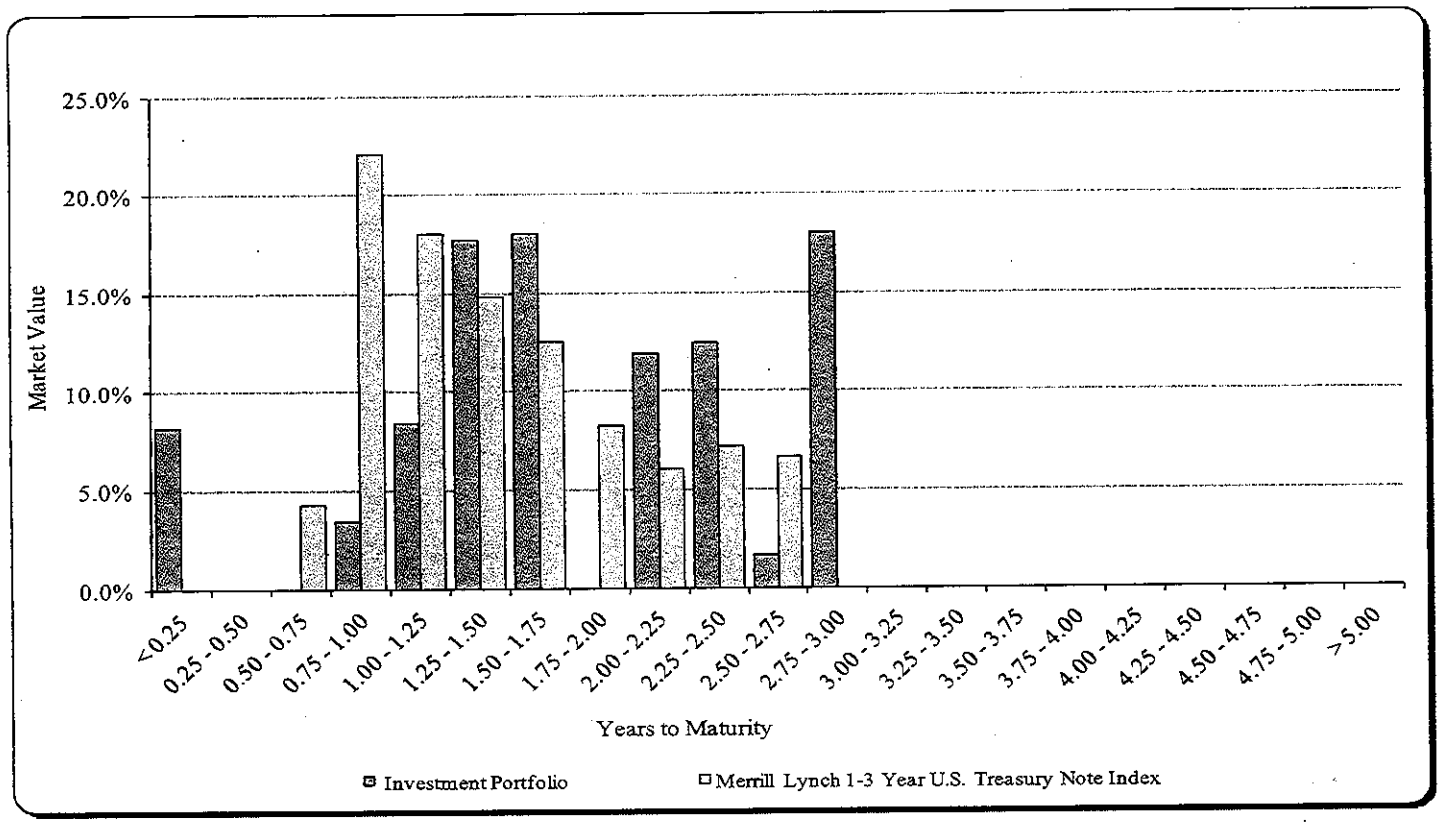
| Maturity Distribution[1] | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Overnight (Money Market Fund) | $0.00 | $0.00 |
| Under 6 Months | 2,576,963.20 | 2,546,409.34 |
| 6 - 12 Months | 1,074,829.46 | 866,702.44 |
| 1 - 2 Years | 13,865,782.22 | 18,531,297.80 |
| 2 - 3 Years | 13,868,197.34 | 8,210,332.24 |
| 3 - 4 Years | 0.00 | 0.00 |
| 4 - 5 Years | 0.00 | 0.00 |
| 5 Years and Over | 0.00 | 0.00 |
| **Totals** | $31,385,772.22 | $30,154,741.82 |




Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

## Investment Portfolio Maturity Distribution versus the Benchmark[1]




Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.

## Short Term Fund Portfolio Statistics

| Account Name | Amortized Cost[1,2,3] December 31, 2008 | Amortized Cost[1,2,3] September 30, 2008 | Market Value[1,2,3] December 31, 2008 | Market Value[1,2,3] September 30, 2008 | Duration (Years) December 31, 2008 |
|---|---|---|---|---|---|
| Short Term Fund | $1,336,071.98 | $1,328,251.94 | $1,337,526.35 | $1,325,945.60 | 0.07 |

| Account Name | Quarterly Average Yield to Maturity on Cost[4] December 31, 2008 | Quarterly Average Yield to Maturity on Cost[4] September 30, 2008 | Quarterly Average Yield to Maturity at Market December 31, 2008 | Quarterly Average Yield to Maturity at Market September 30, 2008 | Duration (Years) September 30, 2008 |
|---|---|---|---|---|---|
| Short Term Fund | 2.32% | 2.73% | 1.65% | 3.06% | 0.15 |

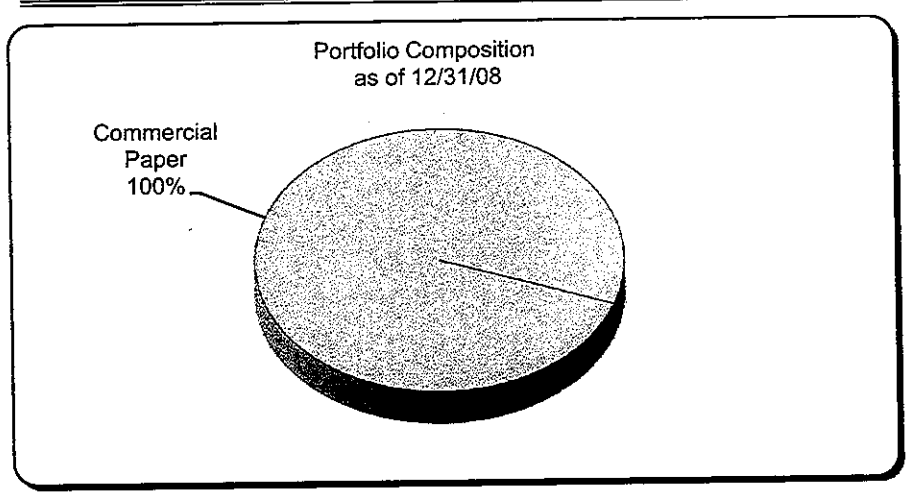
| Benchmarks | December 31, 2008 | September 30, 2008 |
|---|---|---|
| 3 Month U.S. Treasury Bill Index[5,6] | 0.12% | 1.34% |

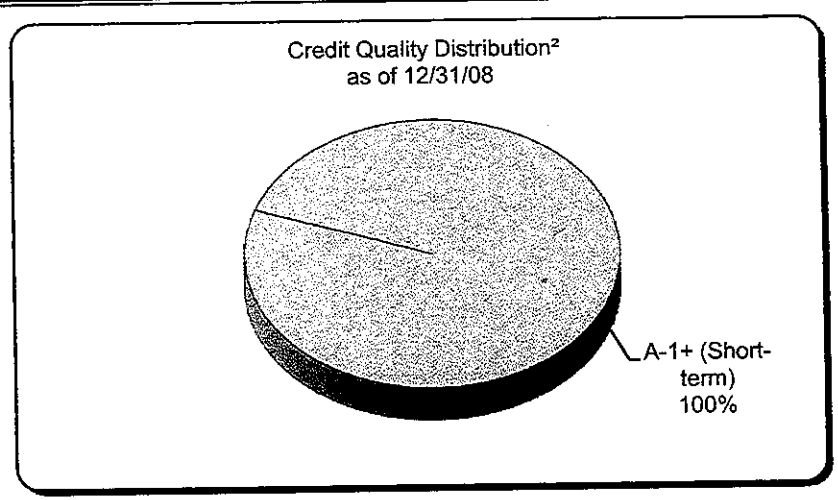
Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative of future results.
5. Average quarterly returns, source Bloomberg.
6. Due to its excessive concentration in Corporate Instruments, the SBA is no longer a suitable benchmark, therefore; we are utilizing the 3 Month U.S. Treasury Bill Index at this time, as it represents a risk-free benchmark.

## Short Term Fund Portfolio Composition and Credit Quality Characteristics

| Security Type[1] | December 31, 2008 | % of Portfolio | September 30, 2008 | % of Portfolio |
|---|---|---|---|---|
| U.S. Treasuries | $0.00 | 0.0% | $0.00 | 0.0% |
| Federal Agencies | 0.00 | 0.0% | 0.00 | 0.0% |
| Commercial Paper | 1,337,526.35 | 100.0% | 1,325,945.60 | 100.0% |
| Certificates of Deposit | 0.00 | 0.0% | 0.00 | 0.0% |
| Bankers Acceptances | 0.00 | 0.0% | 0.00 | 0.0% |
| Repurchase Agreements | 0.00 | 0.0% | 0.00 | 0.0% |
| Municipal Obligations | 0.00 | 0.0% | 0.00 | 0.0% |
| Corporate Notes/Bonds | 0.00 | 0.0% | 0.00 | 0.0% |
| Mortgage Backed | 0.00 | 0.0% | 0.00 | 0.0% |
| Money Market Fund/Cash | 0.00 | 0.0% | 0.00 | 0.0% |
| **Totals** | $1,337,526.35 | 100.0% | $1,325,945.60 | 100.0% |



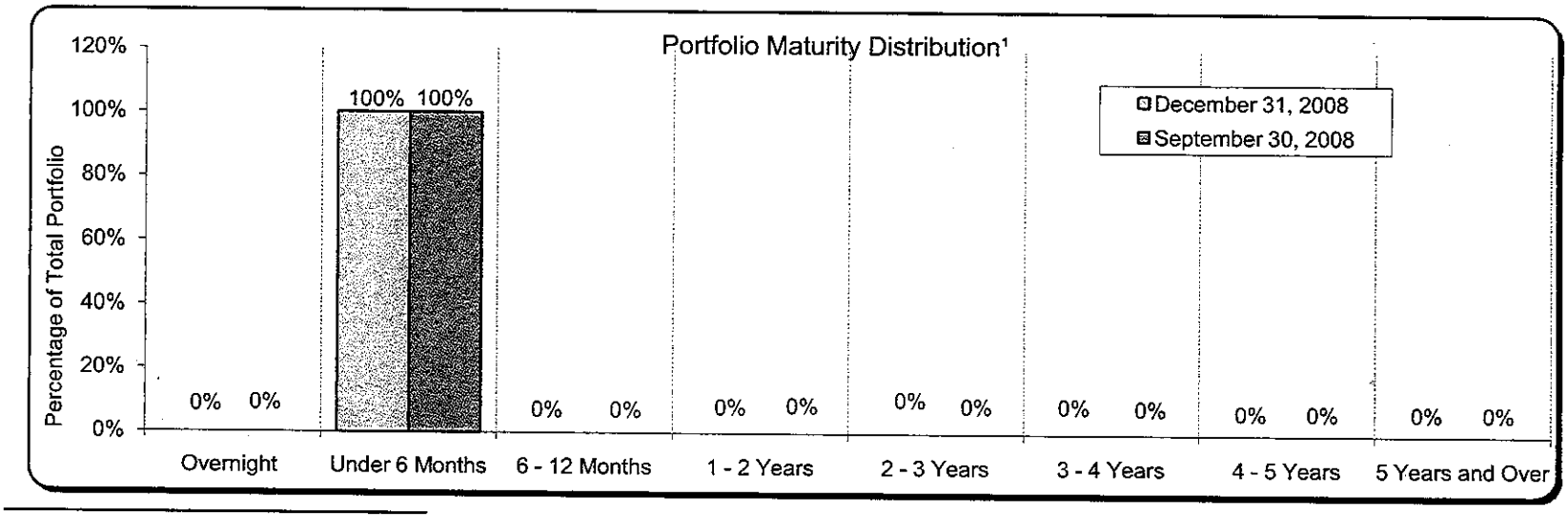




Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP.

## Short Term Fund Portfolio Maturity Distribution

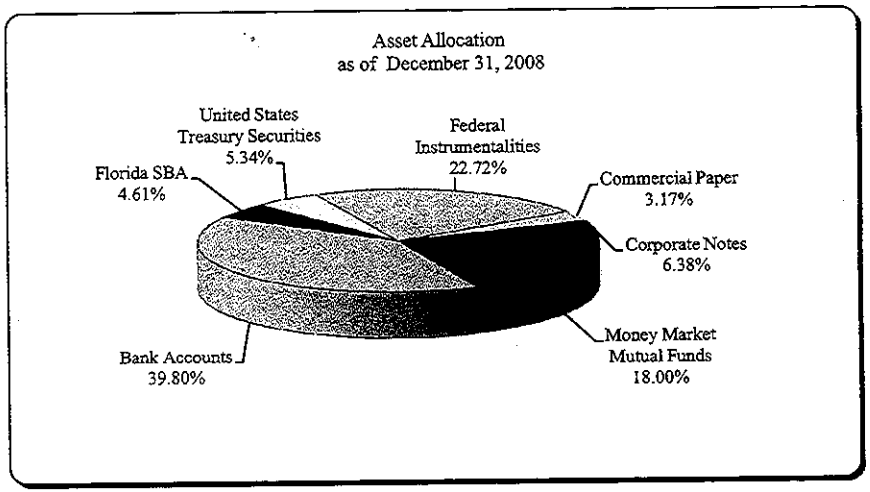
| Maturity Distribution[1] | December 31, 2008 | September 30, 2008 |
|---|---|---|
| Overnight (Money Market Fund) | $0.00 | $0.00 |
| Under 6 Months | 1,337,526.35 | 1,325,945.60 |
| 6 - 12 Months | 0.00 | 0.00 |
| 1 - 2 Years | 0.00 | 0.00 |
| 2 - 3 Years | 0.00 | 0.00 |
| 3 - 4 Years | 0.00 | 0.00 |
| 4 - 5 Years | 0.00 | 0.00 |
| 5 Years and Over | 0.00 | 0.00 |
| **Totals** | $1,337,526.35 | $1,325,945.60 |




Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

| Security Type | December 31, 2008 | Notes | Permitted by Policy |
|---|---|---|---|
| Florida SBA | 4.61% | | 100% |
| United States Treasury Securities | 5.34% | | 100% |
| United States Government Agency Securities | 0.00% | | 100% |
| Federal Instrumentalities | 22.72% | 1 | 100% |
| Certificates of Deposit | 0.00% | | 10% |
| Repurchase Agreements | 0.00% | | 20% |
| Commercial Paper | 3.17% | | 25% |
| Corporate Notes | 6.38% | | 15% |
| Mortgage-Backed Securities | 0.00% | 1 | 40% |
| Bankers' Acceptances | 0.00% | | 25% |
| State and/or Local Government Debt | 0.00% | | 25% |
| Money Market Mutual Funds | 18.00% | | 20% |
| Intergovernmental Investment Pool | 0.00% | | 25% |
| Bank Accounts | 39.80% | | 100% |




| Individual Issuer Breakdown | December 31, 2008 | Notes | Permitted by Policy |
|---|---|---|---|
| Government National Mortgage Association (GNMA) | 0.00% | | 40% |
| US Export-Import Bank (Ex-Im) | 0.00% | | 40% |
| Farmers Home Administration (FMHA) | 0.00% | | 40% |
| Federal Financing Bank | 0.00% | | 40% |
| Federal Housing Administration (FHA) | 0.00% | | 40% |
| General Services Administration | 0.00% | | 40% |
| New Communities Act Debentures | 0.00% | | 40% |
| US Public Housing Notes & Bonds | 0.00% | | 40% |
| US Dept. of Housing and Urban Development | 0.00% | | 40% |
| Federal Farm Credit Bank (FFCB) | 5.82% | | 40% |
| Federal Home Loan Bank (FHLB) | 6.00% | | 40% |
| Federal National Mortgage Association (FNMA) | 4.07% | | 40% |
| Federal Home Loan Mortgage Corporation (FHLMC) | 6.69% | | 40% |
| Student Loan Marketing Association (SLMA) | 0.00% | | 0% |

| Individual Issuer Breakdown | December 31, 2008 | Notes | Permitted by Policy |
|---|---|---|---|
| CD - Bank A | 0.00% | | 10% |
| CD - Bank B | 0.00% | | 10% |
| Fully collateralized Repo - A | 0.00% | | 10% |
| Fully collateralized Repo - B | 0.00% | | 10% |
| Calyon CP | 1.58% | | 5% |
| Toyota CP | 1.59% | | 5% |
| CP C | 0.00% | | 5% |
| Fleet National Bank Corporate Notes | 1.46% | | 5% |
| General Electric Corporate Notes | 0.77% | | 5% |
| Morgan Stanley FDIC Corporate Notes | 1.57% | | 5% |
| JP Morgan Chase FDIC Corporate Notes | 1.40% | | 5% |
| Citigroup FDIC Corporate Notes | 1.18% | | 5% |
| BA Bank A | 0.00% | | 5% |
| AID Israel Agency Notes | 0.14% | | 40% |
| Money Market Fund - PFM Funds | 18.00% | 2 | 10% |
| Bank Account A | 30.09% | | 100% |
| Bank Account B | 9.70% | | 100% |

Notes:

1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of December 31, 2008 is 22.72%.
2. In September 2008 CCRF Money Market fund became PFM Funds.

* No Bond Proceeds