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FLCA INVESTMENT POLICY

FLCA Investment Policy Revised 9/27/06

1. Purpose: This policy sets forth procedures and guidelines for the investment of surplus funds as determined by the Board of Directors of FLCA. Surplus funds are these which will not be needed near-term and will be used to fund future capital expenditures.

2. Investment Authority: All investment authority rests with the Board of Directors of FLCA. However, the Board delegates this authority to the Treasurer of the FLCA who can make investment changes which are consistent with this policy. The Treasurer shall monitor the investment portfolio and, if changes are made, advise the Board of Directors, within 30 days, of the changes made and the reason for these changes.

3. Investment, Bank and Brokerage Accounts: With the approval of the Board of Directors of FLCA, the Treasurer of FLCA is authorized to open, close and maintain accounts on behalf of FLCA. The Treasurer will submit to the Board for approval a list of "approved investment firms, banks and brokerage firms". This list should contain only the safest and most sound firms. When appropriate, insurance as provided by SIPC must be in force.

4. Permissible Investments: All investments must have a high quality rating and no maturity should exceed five years without approval of the FLCA Board. Listed below are examples of permissible investments:

4.1 U.S. treasury bills, notes and bonds.

4.2 Commonwealth of Virginia obligations including cities, counties and school districts rated AA or better by Moody's Investor Services or by Standard and Poor's Rating Services.

4.3 Certificates of Deposits from banks and saving institutions. Amounts invested in C.D.s from any one issuer must not exceed the maximum amount covered by F.D.I.C. insurance.

4.4 Money Market funds to meet near-term needs.

10/24/06

FLCA
Investment Guidelines

In accordance with the recommended Investment Policy (dated 9/27/06), the following sets forth the rates, terms and features of the preferred investment options.

US Treasury Bills and Notes:

These investment instruments are generally by far the most preferred for the following reasons:

Credit – Treasuries are the "gold standard" which are fully backed by the US Government.

Yield- Current yields are as follows:

	Yield (1)	Effective Yield (2)
3 mo.	5.06%	5.38%
6 mo.	5.13%	5.46%
< 1 yr. due 9/15/07	4.83%	5.14%
< 2 yr. due 9/15/08	4.67%	4.97%
< 3 yr. due 9/15/09	4.59%	4.88%
< 4 yr. due 9/30/10	4.58%	4.87%
< 5 yr. due 9/30/11	4.57%	4.86%

Treasuries are not currently taxable for State of Virginia income tax purposes (see footnote 2 which converts the yield to a fully taxable yield so that they can be compared to other fully taxable investments). The Task Force believes that the Treasurer should not "time" the Market, that is to say that if we have money that should be invested in the 5 year time frame (i.e. money not needed until 5 years) it should be placed in 5 years regardless of the yield curve (for example, shorter maturities may be paying a higher yield) because the market is presumably smarter that any one individual.

Liquidity

Again, Treasuries are the "gold standard". The Treasurer only needs to call the broker to sell these investments as they are widely traded. The gain or loss should normally be minimal (unless rates have changed dramatically) and is based upon the yield for that maturity on that day---this information is independently readily available.

Costs

The costs are reflected in the yield – Bid vs. Asked price and are nominal as these instruments are highly coveted. If purchased at Government Auction, the Broker fee is $50.

Accountability

All Treasuries would be purchased through our Broker and reflected on our monthly statements.

Commonwealth of Virginia Municipal Obligation

Although this in an investment option, because of our low Federal Tax Rate – 15%- the yields would not be competitive at this time. Also, because they are traded in a "thinner market", liquidity could be an issue. These instruments could be readdressed if Corporate Tax Rates change considerably.

Certificates of Deposits (CD)

There are two methods to purchase; either directly with a bank or through our Broker. The Task Force does not envision the Treasurer "shopping around" for a CD and placing the instrument in a vault somewhere – accountability being the issue. The only way this may make sense from an accountability point of view would be to purchase CD's issued by our Bank of record (currently Wachovia) so this investment would be reflected on the statement. A CD purchased in this manner would probably be subject to a prepayment penalty if redeemed prior to maturity.

When CD's are purchased through our Broker they would be reflected on the monthly statement. Various banks around the country issue these instruments. Some may be callable. The Task Force recommends that callable CD's not be purchased.

Credit/Risk

These instruments are FDIC insured (if issued by FDIC insured banks) up to a maximum of $100,000, principal and interest. The Treasurer would need to insure that the issuing Bank's CD's are FDIC insured. If the issuing bank were to fail, the FDIC will pay out a maximum of $100,000 (currently) of principal and interest. For this reason, the Treasurer will also have to determine the amount of interest that would be due and purchase maximum principal accordingly. (Merrill Lynch, for example, only purchases a maximum of $97,000 for customers). Also, timing is an issue. In the event of bank failure, the FDIC could take up to 6 months after a CD matures to make the payout. Then again, the successor bank, if any, usually is allowed to dishonor the maturity and may immediately liquidate the CD, which could come at a time when alternative investment rates are unusually low. Although these circumstances are extremely infrequent, they do deserve some consideration when purchasing investments.

Yield

At this time yields on CD's are inferior to Treasuries, on an effective yield basis—as the income is fully taxable.

Liquidity

The Broker is able to liquidate (sell prior to maturity without penalty). However, because demand is lower, the cost of liquidation would generally be higher than for treasuries. Like Treasuries, a gain or loss will result from a change in market interest rates at the time of liquidation.

Fees

The cost of purchasing and liquidating CD's prior to maturity is charged by the Broker taking a "haircut" on the yield. The exact cost is unknown but the net yield on purchases can be compared to say, Treasuries. If liquidated prior to maturity, the cost would generally be higher than for Treasuries, due to the "thinner" market.

Money Market Funds

Merrill Lynch offers a "Working Capital Management Account (UCMA), which allows FLCA to write as many checks per month as necessary. Our current check writing is done through Wachovia, who also offers us "free" lock box on our dues billing. We will have to investigate which company is most cost effective/convenient, but for now, we use Merrill Lynch to store all our interest bearing funds. Merrill has 3 types of WCMA insured funds available, as follows:

Collateral	Yield* (1)
High Grade Corporate Bond (our current account)	4.46%
Government Securities	4.16%
Treasury Securities	3.83%

The Task Force feels that Corporate Bond Fund is secure enough for our purposes but that investments in it should limited to short- term cash needs.

Recommendation:

Based on above, the Task Force believes the Treasurer should project cash flow, on a conservative basis, for the next few years and invest unused monies in Treasury Bills/Notes (or possibly CD's) in appropriately staggered maturities.

(1) Per conversation with Eric Wagoner and internet 10/12/06
(2) Assumes a Federal Tax Rate of 15% and State Tax Rate of 6%. If FLCA does not itemize deductions or has a standard deduction for Federal purposes, the effective yield would be higher.