# COUNTY OF ORANGE
# INTERNAL AUDIT DEPARTMENT

## OFFICE OF THE DIRECTOR

*Integrity*
*Objectivity*
*Independence*

**PETER HUGHES**
Ph.D. MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/


Audit No. 2409

May 6, 2005

TO: David E. Sundstrom
Auditor-Controller
ATTENTION: Jim McConnell, Assistant Auditor-Controller, Central Operations

SUBJECT: Report on Audit of the Statement of Assets
Held by the County Treasury as of December 31, 2004

Per our agreement, attached is a copy of our Report on Audit of the Statement of Assets Held by the County Treasury as of December 31, 2004 (Audit No. 2409).

As the Director of Internal Audit Department, I make a monthly audit status presentation to the BOS where I detail any significant and material audit findings released in reports during the prior month. Accordingly, the results of this review will be included in a future summary to the BOS.

Additionally, we will be sending a Customer Survey of Audit Services to the key audit contacts in Treasurer Tax Collector's office. We appreciate the courtesy and cooperation of Treasurer Tax Collector's staff during our review.

Please contact Alan Marcum, Audit Manager, at (714) 834-5475 if you wish to discuss any aspect of this report.

Respectfully submitted,

Peter Hughes

Peter Hughes, Ph.D., CPA
Director, Internal Audit

/PH:cg

Attachment

Other recipients of this audit report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
John M. W. Moorlach, Treasurer-Tax Collector
Paul Gorman, Deputy Treasurer
Emily Lin, Accounting/Compliance Manager

INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

*Integrity*
*Objectivity*
*Independence*

# REPORT ON AUDIT OF THE STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY

## AS OF 12/31/04

**AUDIT NUMBER: 2409** **REPORT DATE: May 6, 2005**


| | |
|---|---|
| **Audit Director:** | **Peter Hughes, Ph.D., CPA** |
| **Deputy Director:** | **Eli Littner, CPA, CIA** |
| **Audit Manager:** | **Alan Marcum, MBA, CPA** |
| **In-Charge Auditor:** | **Camille Gackstetter, CPA** |
| **Principal Auditor:** | **Scott Suzuki, CPA, CISA** |
| **Senior Auditor:** | **Michael Dean, CIA** |
| **Senior Auditor:** | **Winnie Keung, CPA** |
| **Senior Auditor:** | **Dan Melton, CPA** |
| **Senior Auditor:** | **Ken Wong, CPA** |

REPORT ON AUDIT OF THE STATEMENT OF ASSETS
HELD BY THE COUNTY TREASURY

AS OF 12/31/04

# TABLE OF CONTENTS

Transmittal Letter.....i

Independent Auditor's Report.....1

Statement of Assets Held by the County Treasury as of December 31, 2004.....3

Treasurer-Tax Collector Notes to Financial Statement.....4

**COUNTY OF ORANGE**
INTERNAL AUDIT DEPARTMENT

**OFFICE OF THE DIRECTOR**

*Integrity*
*Objectivity*
*Independence*

**PETER HUGHES**
Ph.D., MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

**Transmittal Letter**

Audit No. 2409

May 6, 2005

Members, Board of Supervisors
Hall of Administration Building
10 Civic Center Plaza
Santa Ana, CA 92701

SUBJECT: Report on Audit of the Statement of Assets Held by the County Treasury, As of December 31, 2004 (Audit No. 2409)

At the requested by the Auditor-Controller, we have completed our Report on Audit of the Statement of Assets held by the County Treasury as of December 31, 2004.

As the Director of Internal Audit Department, I make a monthly audit status presentation to your Board where I detail any significant and material audit findings released in reports during the prior month. Accordingly, the results of this review will be included in a future summary to the Board.

Additionally, we will be sending a Customer Survey of Audit Services to the key audit contacts in Treasurer Tax Collector's office. We appreciate the courtesy and cooperation of Treasurer Tax Collector's staff during our review.

Sincerely,

Peter Hughes, Ph.D., CPA
Director

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller
Jim McConnell, Assistant Auditor-Controller, Central Operations
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
John M. W. Moorlach, Treasurer-Tax Collector
Paul Gorman, Deputy Treasurer
Emily Lin, Accounting/Compliance Manager

COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
Objectivity
Independence

PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

# INDEPENDENT AUDITOR'S REPORT

Audit No. 2409

May 6, 2005

Members, Board of Supervisors
Hall of Administration Building
10 Civic Center Plaza
Santa Ana, CA 92701

Pursuant to Government Code 26920(b) and 26922, we have audited the accompanying Statement of Assets Held by the County Treasury as of December 31, 2004. This statement is the responsibility of the Treasurer's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the statement was prepared on the cash basis, as modified, which is a comprehensive basis of accounting other than United States generally accepted accounting principles.

In our opinion, the Statement of Assets Held by the County Treasury presents fairly, in all material respects, the amount and type of assets in the County Treasury as of December 31, 2004, on the basis of accounting described in Notes 1 and 2.

The required supplementary information is not a required part of the financial statement but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

This report is intended for the information of the management of the County of Orange Auditor-Controller. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Peter Hughes

Peter Hughes, Ph.D., CPA
Director, Internal Audit

**OFFICE OF THE TREASURER-TAX COLLECTOR**

HALL OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, SUITE G76
POST OFFICE BOX 4515
SANTA ANA, CA 92701
**www.ocgov.com/treas**

JOHN M.W. MOORLACH, C.P.A., CFP®
TREASURER-TAX COLLECTOR

GARY J. COWAN
ASSISTANT TREASURER-TAX COLLECTOR

PAUL C. GORMAN, C.P.A., CTP
DEPUTY TREASURER

WALTER DANIELS
DEPUTY TAX COLLECTOR

VICKIE PAZANTI
DEPUTY TREASURER-TAX COLLECTOR
*ADMINISTRATION*

CLARISSA ADRIANO-CERES
DEPUTY TREASURER-TAX COLLECTOR
*INFORMATION TECHNOLOGY*

BRETT R. BARBRE
DEPUTY TREASURER-TAX COLLECTOR
*PUBLIC INFORMATION OFFICER*

## STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY AS OF DECEMBER 31, 2004

### ASSETS

| | County Pool | Educational Pool | Non-Pooled | Total |
|---|---|---|---|---|
| **CASH** | | | | |
| Cash on Hand | $ 27,315 | $ - | $ - | $ 27,315 |
| Demand Accounts | 20,513,568 | 12,583,672 | 1,880 | 33,099,120 |
| Total Cash | 20,540,883 | 12,583,672 | 1,880 | 33,126,435 |
| **INVESTMENTS, stated at fair value** | | | | |
| Orange County Investment Pool: | | | | |
| Money Market Fund | 2,343,955,532 | | | 2,343,955,532 |
| Extended Fund | 756,219,767 | | | 756,219,767 |
| Orange County Educational Pool: | | | | |
| Money Market Fund | | 2,255,014,780 | | 2,255,014,780 |
| Extended Fund | | 446,762,482 | | 446,762,482 |
| Non-pooled | | | 61,176,341 | 61,176,341 |
| Total Investments | 3,100,175,299 | 2,701,777,262 | 61,176,341 | 5,863,128,902 |
| **TOTAL ASSETS** | **$ 3,120,716,182** | **$ 2,714,360,934** | **$ 61,178,221** | **$ 5,896,255,337** |

John M. W. Moorlach, C.P.A., CFP®
Treasurer-Tax Collector

See accompanying Internal Auditor's Report.

ORANGE COUNTY TREASURER-TAX COLLECTOR
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2004

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Statement of Assets Held by The County Treasury is intended to separately report deposits and investments included in the Comprehensive Annual Financial Report of the County of Orange, State of California. For additional disclosure information and contingencies, please refer to the latest publication of the County Comprehensive Annual Financial Report.

The statement includes the cash balances of all funds that the Treasurer pools for investing surplus funds according to California Government Code and certain other non-pooled specific investments. The County sponsors two external investment pools: the Orange County Investment Pool (the County Pool), and the Orange County Educational Investment Pool (the Educational Pool). The statement does not include cash and investments for the Orange County Employees Retirement System, certain deferred compensation funds and other debt reserve funds held in trust outside, and independent of, the County Treasury.

This statement is presented on the cash basis, as modified, which is a comprehensive basis of accounting other than United States generally accepted accounting principles. Receipts are recognized when received by the Treasurer; disbursements are recognized when paid by the bank.

The Treasurer has stated required investments at fair value in the accompanying financial statement. Management contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset values are calculated each business day for both the Money Market Funds of the County Pool and the Educational Pool. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. The fair value for investments presented in the statement include the use of estimates and in some cases results in the presentation of a number of approximate rather than exact amounts.

The County has not provided or obtained any legally binding guarantees during the period to support the value of participants' shares in the pool.

The participant's shares in the pools are valued using an amortized cost basis. Specifically, the pool distributes income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in this financial statement because the amortized cost method does not distribute to participants all unrealized gains and losses. At December 31, 2004, there is no material difference between pools participants' shares valued on an amortized cost basis compared to fair value.

## NOTE 2 - DEPOSITS AND INVESTMENTS

The Treasurer maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The Investment Policy Statement (IPS) establishes a Money Market Fund and an Extended Fund as components of the County Pool and Educational Pool. The Treasurer determines, on a cash flow basis, the percentage of monies to be invested in both the Money Market Fund and Extended Fund. The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

The primary investment objectives of the Treasurer's investment activities are in priority order: protecting the safety of the principal invested, meeting the liquidity needs of the participants, attaining a money market rate of

ORANGE COUNTY TREASURER-TAX COLLECTOR
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2004

**NOTE 2 - DEPOSITS AND INVESTMENTS** (continued)

return, and attempting to stabilize at a $1 net asset value for the County Money Market Fund and the Educational Money Market Fund. These external investment pools contain deposits, repurchase agreements, and investments. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer.

A. Deposits

Monies must be deposited in state or national banks, or state or federal savings and loan associations located within the State. The County is authorized to use demand accounts and certificates of deposit. Additionally, monies deposited at national banks are used for compensating balances. The Treasurer has established separate bank and investment custody accounts for the County's school participants.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks. Collateral is required for demand deposits at 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

B. Investments

State statutes, Board of Supervisors' ordinances and resolutions, the respective bond documents, trust agreements, and other contractual agreements govern the County's investment policies.

External Investment Pools

The County Treasurer sponsors two external investment pools: the County Pool, and the Educational Pool. Both pools consist of a Money Market Fund and an Extended Fund.

The County Treasurer has a written IPS specifically for the separately managed County and Educational Investment Pools. The IPS is more restrictive than required by California Government Code. The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/ P1/F1) as provided by at least two of the following nationally recognized rating agencies: Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch Ratings ("Fitch"), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank, or the Money Market Fund may invest in U.S. dollar denominated certificates of deposit issued in London, England (Euro CD) (30%); bankers' acceptances (40%); money market funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); repurchase agreements collateralized by securities at 102% of the market value no less frequently than weekly (50%) ; the Money Market Fund may invest in funding agreements (10%); the Money Market Funds may also invest in securities lending agreements and other "eligible securities" as defined under Securities and Exchange Commission (SEC) Rule 2a-7 of the Investment Company Act of 1940 (10%). In addition, no investment may be purchased from an issuer that has been placed on credit watch-negative by any of the three nationally recognized rating agencies, or whose credit rating by any of the three nationally recognized rating agencies is less than the minimum rating required by

ORANGE COUNTY TREASURER-TAX COLLECTOR
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2004

**NOTE 2 - DEPOSITS AND INVESTMENTS** (continued)

the IPS for that class of security. All permitted investments are required to comply in every respect with California Government Code Sections 53601, 53601.7 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

Repurchase agreements are limited to a one-year maturity and can only be entered into with entities prescribed in California Government Code Section 53601. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers, and also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

The IPS expressly prohibits leverage, reverse repurchase agreements, and volatile structured notes or derivatives. Investments are marked to market on a daily basis. If the net asset value of the Money Market Fund for either the County Pool or the Educational Pool is less than $.995 or greater than $1.005, portfolio holdings may be sold as necessary to maintain the ratio between $.995 and $1.005. Under the IPS, no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund. All investments will be United States dollar denominated.

The County Treasury Oversight Committee established in December 1995, which consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools and two public members, conducts treasury oversight. On January 31, 2005, Fitch reaffirmed the Pools' ratings of "AAA/V1+". In November 2004, Moody's Investor Service reaffirmed credit ratings of Aaa and MR1 market risk ratings for the County and Educational Investment Pools. The Pools are not registered with the Securities and Exchange Commission.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100% involuntary participants. At December 31, 2004, the County Pool includes approximately 7.71% external involuntary participant deposits for the state courts, certain assessment districts, and certain bond related funds for public school districts.

Summary External Pool Financial Disclosures

Selected summary disclosures for each external pool as of December 31, 2004, are presented below:

| | Fair Value | Principal | Interest Rate Range (%) | Maturity Range | Weighted Average Maturity (Years) |
|---|---|---|---|---|---|
| **County Pool** | | | | | |
| U.S. Government Agencies | $ 800,649,844 | $ 805,375,552 | Discount, 1.25-3.2% | 01/04/05-03/08/07 | 0.93 |
| Bankers' Acceptances | 9,917,030 | 10,000,000 | Discount | 4/28/2005 | 0.32 |
| Commercial Paper | 947,594,381 | 949,384,000 | Discount | 01/03/05-04/14/05 | 0.08 |
| Negotiable Certificates of Deposit | 556,506,922 | 557,000,000 | 1.40-2.43% | 01/25/05-05/04/05 | 0.16 |
| Medium-Term Corporate Notes | 429,367,483 | 428,627,557 | 1.995-7.625% | 01/10/05-11/06/06 | 0.26 |
| Other Corporate Notes | 50,167,650 | 50,700,000 | 4.484% | 02/22/05 | 0.15 |
| Repurchase Agreements | 160,000,000 | 160,000,000 | 2.25% | 01/03/05 | 0.01 |
| Money Market Mutual Funds | 145,971,989 | 145,971,989 | Variable | 01/03/05 | 0.01 |
| | **$ 3,100,175,299** | **$ 3,107,059,098** | | | **0.33** |

## ORANGE COUNTY TREASURER-TAX COLLECTOR
## NOTES TO FINANCIAL STATEMENT
## DECEMBER 31, 2004

| | Fair Value | Principal | Interest Rate Range (%) | Maturity Range | Weighted Average Maturity (Years) |
|---|---|---|---|---|---|
| **Educational Pool** | | | | | |
| U.S. Government Agencies | $ 664,055,919 | $ 667,108,448 | Discount, 1.25-3.2% | 01/03/05-03/08/07 | 0.72 |
| Bankers' Acceptances | 36,202,228 | 36,500,000 | Discount | 02/16/05-06/10/05 | 0.32 |
| Commercial Paper | 828,339,677 | 830,132,000 | Discount | 01/03/05-05/12/05 | 0.09 |
| Negotiable Certificates of Deposit | 481,946,237 | 482,000,000 | 1.99-2.40% | 01/03/05-02/28/05 | 0.09 |
| Medium-Term Corporate Notes | 456,968,622 | 456,567,443 | 1.995-7.625% | 01/07/05-11/06/05 | 0.19 |
| Other Corporate Notes | 49,475,000 | 50,000,000 | 4.484% | 02/22/05 | 0.15 |
| Repurchase Agreements | 100,000,000 | 100,000,000 | 2.25% | 01/03/05 | 0.01 |
| Money Market Mutual Funds | 84,789,579 | 84,789,578 | Variable | 01/03/05 | 0.01 |
| | **$ 2,701,777,262** | **$ 2,707,097,469** | | | **0.26** |
| **Specific Investments** | | | | | |
| U.S. Government Agencies | $ 12,708,141 | $ 12,735,000 | Discount | 01/04/05-03/11/05 | 0.05 |
| U.S. Treasury Note | 1,996,876 | 2,000,000 | 1.625% | 3/31/2005 | 0.25 |
| Commercial Paper | 17,157,409 | 17,186,000 | Discount | 01/03/05-02/16/05 | 0.07 |
| Negotiable Certificates of Deposit | 10,999,327 | 11,000,000 | 2.17-2.43% | 01/12/05-03/17/05 | 0.11 |
| Repurchase Agreements | 1,081,500 | 1,081,500 | 6.20% | 08/15/19 | 14.63 |
| Money Market Mutual Funds | 17,233,088 | 17,233,088 | Variable | 01/03/05 | 0.01 |
| | **$ 61,176,341** | **$ 61,235,588** | | | **0.32** |

Interest Rate Risk

The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity of its Money Market Funds to less than 90 days and the Extended Fund to less than 18 months in accordance with the IPS. Of the County's $3.10 billion and Educational Pool's $2.70 billion portfolio at December 31, 2004, over 81.22% and 85.61% of the investments have a maturity of six months or less. Of the remainder, only 13.28% and 9.01% have a maturity of more than 1 year.

As of December 31, 2004, variable-rate notes comprised 7.90% and 15.20% of the County Pool and Educational Pool, respectively. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

At December 31, 2004, the weighted average maturity of the County Pool was 0.33 years and the Educational Pool was 0.26 years. At the same date, the Net Asset Value (NAV) of Money Market Funds for both pools was $1.00. The average daily investment balance of the County Pool and the Educational Pool amounted to $2.88 billion and $2.29 billion, with an average effective yield of 2.02% and 1.99%, respectively, for the quarter ended December 31, 2004.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

**ORANGE COUNTY TREASURER-TAX COLLECTOR**
**NOTES TO FINANCIAL STATEMENT**
**DECEMBER 31, 2004**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (continued)

Credit Risk
The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following Nationally Recognized Statistical Rating Organizations (NRSROs): Standard & Poors Corporation (S&P), Moody's Investors Service, Inc. (Moody's), Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch). An issuer of long-term debt shall be rated no less than an "A." As of December 31,2004, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's or F-1 by Fitch.

Concentration of Credit Risk
At December 31, 2004, the County did not exceed the IPS limitation that states that no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at December 31, 2004 (NR means Not Rated):

| Investments | S & P | Moody's | Fitch | % of Portfolio |
|---|---|---|---|---|
| **County Pool** | | | | |
| U.S. Government Agencies | AAA | Aaa | AAA | 25.83% |
| Bankers' Acceptances | A-1 | P-1 | F1 | 0.32% |
| Commercial Paper | A-1 | P-1 | F1 | 30.56% |
| Negotiable Certificates of Deposit | A-1 | P-1 | F1 | 17.95% |
| Medium-Term Corporate Notes | | | | |
| Corporate Notes | A | A | A | 5.56% |
| Corporate Notes | NR | Aa | AA | 2.42% |
| Corporate Notes | AAA | Aaa | AAA | 5.87% |
| Other Corporate Notes | A-1 | P-1 | F1 | 1.62% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 4.71% |
| Repurchase Agreements | NR | NR | NR | 5.16% |
| **Total County Pool** | | | | **100.00%** |
| | | | | |
| **Educational Pool** | | | | |
| U.S. Government Agencies | AAA | Aaa | AAA | 24.58% |
| Bankers' Acceptances | A-1 | P-1 | F1 | 1.34% |
| Commercial Paper | A-1 | P-1 | F1 | 30.66% |
| Negotiable Certificates of Deposit | A-1 | P-1 | F1 | 17.84% |
| Medium-Term Corporate Notes | | | | |
| Corporate Notes | A | A | A | 8.18% |
| Corporate Notes | NR | Aa | AA | 2.59% |
| Corporate Notes | AAA | Aaa | AAA | 6.14% |
| Other Corporate Notes | A-1 | P-1 | F1 | 1.83% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 3.14% |
| Repurchase Agreements | NR | NR | NR | 3.70% |
| **Total Educational Pool** | | | | **100.00%** |

**ORANGE COUNTY TREASURER-TAX COLLECTOR**
**NOTES TO FINANCIAL STATEMENT**
**DECEMBER 31, 2004**

| Investments | S & P | Moody's | Fitch | % of Portfolio |
|---|---|---|---|---|
| **Specific Investments** | | | | |
| U.S. Government Agencies | AAA | Aaa | AAA | 20.77% |
| U.S. Treasury Notes | AAA | Aaa | AAA | 3.26% |
| Commercial Paper | A-1 | P-1 | F1 | 28.05% |
| Negotiable Certificates of Deposit | A-1 | P-1 | F1 | 17.98% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 28.17% |
| Repurchase Agreements | NR | NR | NR | 1.77% |
| **Total Specific Investments** | | | | **100.00%** |

Securities Lending Transactions

State statutes and the IPS approved by the board of supervisors, permit the County Treasurer to use investments of the County and Educational Investment Pools to enter into securities lending transactions. The County participates in a securities lending program as a means to augment income. Securities lending transactions are loans of securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Collateral may be cash or securities issued by the U.S. government or its agencies. Collateral securities cannot be pledged or sold by the County unless the borrower defaults. Under California Government Code the total of all securities lending agreements on investments owned by the County may not exceed 20 percent of the base value of the portfolio. The County Treasurer's custodial bank (lending agent) is the agent in lending the Pools' securities for collateral of 102 percent of the market value of securities lent.

Cash collateral is invested by the lending agent in a short-term investment pool in the County's name. The County approves the investment guidelines for this pool. The County bears the risk of any loss of principal from investing cash collateral. If the investment pool fails to obtain or retain enough value to repay the borrower its collateral and the borrower rebate, the County must provide the necessary amount from its own resources. Either the County or the borrower can terminate all securities loans on demand. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral by investing in overnight repurchase agreements and short-term investments. There is no securities lending activity as of December 31, 2004.