



## **INTERNAL AUDIT DEPARTMENT**

### **COUNTY OF ORANGE**

2005 Recipient of the Institute of Internal Auditors  
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Professional Excellence, Quality and Outreach

*Integrity ♦ Objectivity ♦ Independence*

# **REPORT ON AUDIT OF THE STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY AS OF DECEMBER 31, 2006**

**AUDIT NUMBER: 2609**

**REPORT DATE: APRIL 24, 2007**

<b>Audit Director:</b>	<b>Peter Hughes, Ph.D., CPA</b>
<b>Deputy Director:</b>	<b>Eli Littner, CPA, CIA</b>
<b>Senior Audit Manager:</b>	<b>Alan Marcum, MBA, CPA, CIA</b>
<b>Audit Manager:</b>	<b>Kenneth Wong, CPA, CIA</b>
<b>Audit Manager:</b>	<b>Carol Swe, CPA, CIA</b>

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

**AS OF DECEMBER 31, 2006**

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**Transmittal Letter**

Audit No. 2609

April 24, 2007

TO: Members, Board of Supervisors

FROM: Peter Hughes, Ph.D., CPA, Director  
Internal Audit Department

SUBJECT: Report on Audit of the Statement of Assets Held by the  
County Treasury, As of December 31, 2006

At the request of the Auditor-Controller, we have completed our Report on Audit of the Statement of Assets held by the County Treasury as of December 31, 2006.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Additionally, we will be forwarding to the Treasurer-Tax Collector's office a Customer Survey of Audit Services for completion. The Treasurer-Tax Collector's office will receive the survey shortly after the distribution of this report. We appreciate the courtesy and cooperation of the Treasurer-Tax Collector's staff during our audit.

Attachment

Other recipients of this report:

Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
David E. Sundstrom, Auditor-Controller  
Jan Grimes, Assistant Auditor-Controller, Central Operations  
Chriss W. Street, Treasurer-Tax Collector  
Brett R. Barbre, Chief Assistant Treasurer-Tax Collector  
Paul C. Gorman, Assistant Treasurer-Tax Collector, Treasury  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors



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## INDEPENDENT AUDITOR'S REPORT

Audit No. 2609

April 19, 2007

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, 2006. 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 State 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, 2006, 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, Ph.D., CPA  
Director, Internal Audit

Attachment

Distribution Pursuant to Audit Oversight Procedure No. 1:

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

David E. Sundstrom, Auditor-Controller

Jan Grimes, Assistant Auditor-Controller, Central Operations

Chriss W. Street, Treasurer-Tax Collector

Brett R. Barbre, Chief Assistant Treasurer-Tax Collector

Paul C. Gorman, Assistant Treasurer-Tax Collector, Treasury

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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ADMINISTRATION  
  
CLARISSA ADRIANO-CERES  
ASSISTANT TREASURER-TAX COLLECTOR  
INFORMATION TECHNOLOGY

**STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY**  
As of December 31, 2006

**ASSETS**

	County Pool	Educational Pool	Non-Pooled	Total
<b>CASH</b>				
Cash on Hand	\$ 22,734	\$ -	\$ -	\$ 22,734
Demand Accounts	26,700,957	2,490,053	31,744	29,222,754
Total Cash	26,723,691	2,490,053	31,744	29,245,488
<b>INVESTMENTS, stated at fair value</b>				
Orange County Investment Pool:				
Money Market Fund	2,459,856,594			2,459,856,594
Extended Fund	1,347,400,393			1,347,400,393
Orange County Educational Pool:				
Money Market Fund		2,364,294,278		2,364,294,278
Extended Fund		649,881,535		649,881,535
Non-pooled			138,802,114	138,802,114
Total Investments	3,807,256,987	3,014,175,813	138,802,114	6,960,234,914
<b>TOTAL ASSETS</b>	<b>\$ 3,833,980,678</b>	<b>\$ 3,016,665,866</b>	<b>\$ 138,833,858</b>	<b>\$ 6,989,480,402</b>

  
Chris W. Street  
Treasurer-Tax Collector

See accompanying Independent Auditor's Report

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2006**

**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, 2006, there is no material difference between pool 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 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.





**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2006**

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

**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 (S&P), Moody's Investors Service, Inc. (Moody's), 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 the IPS for that class of security unless the issuer has a short-term rating of A-1+ or F1+ by S&P or Fitch or at least an AA or Aa2 long-term rating by S&P and Fitch or Moody's. 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 53601.7. 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.



**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2006**

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

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. At the time of the purchase of any security, a fund may invest up to twelve and a half percent (12.5%) of its total market value in the securities of a single issuer for a period of up to three Business Days. The fund may not invest in the securities of more than one issuer under this provision at any time.

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 December 5, 2005, Fitch reaffirmed the Pools' ratings of "AAA/V1+". On December 27, 2005, 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, 2006, the County Pool includes approximately 7.68% external involuntary participant deposits for the state courts, certain assessment districts, and certain bond related funds for public school districts.

Investment Disclosures

As of December 31, 2006, the major classes of the County's deposits and investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Avg. Maturity (Years)
<b>County Pool</b>					
U.S. Government Agencies	\$ 1,098,565,252	\$ 1,102,183,722	Discount, 2.78-5.75%	1/19/07-12/14/09	1.32
Commercial Paper	929,347,055	932,093,000	Discount	1/2/07-3/14/07	0.05
Negotiable Certificates of Deposit	976,981,566	977,000,000	5.025-5.52%	1/19/07-7/27/07	0.18
Medium-Term Corporate Notes	489,086,149	488,968,930	4.25-5.88%	1/26/07-9/25/09	0.65
Repurchase Agreements	220,000,000	220,000,000	5.36%	1/2/07	0.01
Money Market Mutual Funds	29,200,056	29,200,056	Variable	1/2/07	0.01
Municipal Debt	64,076,909	64,076,909	5.50%	1/2/07	0.01
	<b>\$ 3,807,256,987</b>	<b>\$ 3,813,522,617</b>			<b>0.52</b>
<b>Educational Pool</b>					
U.S. Government Agencies	\$ 679,972,146	\$ 682,301,278	Discount, 2.78-5.75%	2/15/07-12/14/09	1.09
Commercial Paper	1,133,781,338	1,138,855,000	Discount	1/2/07-3/13/07	0.08
Negotiable Certificates of Deposit	689,914,764	690,000,000	5.025-5.415%	1/19/07-7/27/07	0.15
Medium-Term Corporate Notes	357,414,044	357,259,070	4.25-5.88%	1/26/07-9/25/09	0.45
Repurchase Agreements	110,000,000	110,000,000	5.36%	1/2/07	0.01
Money Market Mutual Funds	43,093,521	43,093,521	Variable	1/2/07	0.01
	<b>\$ 3,014,175,813</b>	<b>\$ 3,021,508,869</b>			<b>0.36</b>



**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2006**

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

**Specific Investments**

U.S. Government Agencies	\$ 6,469,970	\$ 6,493,000	Discount, 3.55-5.25%	1/12/07-4/17/07	0.07
Commercial Paper	26,566,742	26,700,000	Discount	1/2/07-3/13/07	0.09
Negotiable Certificates of Deposit	7,497,536	7,500,000	5.03-5.315%	1/31/07-2/27/07	0.13
Repurchase Agreements	1,081,500	1,081,500	6.20%	8/15/19	12.63
Medium-Term Corporate Notes	7,267,560	7,250,000	5.30-5.67%	2/1/07-6/29/07	0.28
Money Market Mutual Funds	19,728,666	19,728,666	Variable	1/2/07	0.01
Treasury Bonds	49,107,815	50,000,000	3.125-4.875%	7/31/07-10/15/09	1.65
Tax Exempt Money Market Mutual Funds	21,082,325	21,082,326	Variable	1/2/07	0.01
	<u>\$ 138,802,114</u>	<u>\$ 139,835,492</u>			<u>0.73</u>

**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. The weighted average maturity of the County Pool was 0.53 years and the Educational Pool was 0.37 years. Of the County's \$3.81 billion and Educational Pool's \$3.01 billion portfolio at December 31, 2006, over 68.07% and 76.93% of the investments have a maturity of six months or less. Of the remainder, only 20.86% and 11.97% have a maturity of more than 1 year.

As of December 31, 2006, variable-rate notes comprised 11.37% and 9.89% 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, 2006, the Net Asset Value (NAV) of Money Market Funds for both pools was \$1.00 (in absolute dollar amounts). The average daily investment balance of the County Pool and the Educational Pool amounted to \$3.31 billion and \$2.63 billion, with an average effective yield of 5.19% and 5.25%, respectively, for the quarter ended December 31, 2006.

**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 December 31, 2006, 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.

**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 F1 (Fitch). An issuer of long-term debt shall be rated no less than an "A."

As of December 31, 2006, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's or F1 by Fitch.



**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2006**

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

Concentration of Credit Risk

At December 31, 2006, 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% was invested in one money market mutual fund. At the time of the purchase of any security, a fund may invest up to twelve and a half percent (12.5%) of its total market value in the securities of a single issuer for a period of up to three Business Days. The fund may not invest in the securities of more than one issuer under this provision at any time.

At December 31, 2006, holdings of Lloyds TSB Bank PLC NY amounted to 5.36% of the County Pool and exceeded the IPS limit of 5% for a single issuer however; this was due to a decrease in the pool and as such is not a violation of the IPS. The maturity of this security on January 22, 2007, will bring the percentage of overall holdings for a single issuer back within IPS limits.

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, 2006 (NR means Not Rated):

<u>Investments</u>	<u>S &amp; P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<u>County Pool</u>				
U.S. Government Agencies				
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	1.36%
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	0.43%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	9.27%
Federal Farm Credit Bonds	AAA	Aaa	AAA	1.67%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	7.87%
Freddie Mac Discount Notes	AAA	Aaa	AAA	0.52%
Freddie Mac Bonds	AAA	Aaa	AAA	7.73%
Commercial Paper	A-1	P-1	F1	24.41%
Municipal Debt	SP-1	MIG-1	NR	1.68%
Negotiable Certificates of Deposit	A-1	P-1	F1	25.66%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	2.36%
Corporate Notes	AA	Aa	AA	1.31%
Corporate Notes	AAA	Aaa	AAA	9.18%
Money Market Mutual Funds	AAA	Aaa	NR	0.77%
Repurchase Agreements	NR	NR	NR	5.78%
<b>Total County Pool</b>				<b>100.00%</b>
<u>Educational Pool</u>				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	2.74%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	0.27%
Freddie Mac Discount Notes	AAA	Aaa	AAA	0.84%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	6.53%
Federal Farm Credit Bonds	AAA	Aaa	AAA	1.02%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	4.80%
Freddie Mac Bonds	AAA	Aaa	AAA	6.37%
Commercial Paper	A-1	P-1	F1	37.61%



**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2006**

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

<u>Investments</u>	<u>S &amp; P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<b><u>Educational Investment Pool (continued)</u></b>				
Negotiable Certificates of Deposit	A-1	P-1	F1	22.89%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	4.41%
Corporate Notes	AA	Aa	AA	1.32%
Corporate Notes	AAA	Aaa	AAA	6.12%
Money Market Mutual Funds	AAA	Aaa	NR	1.43%
Repurchase Agreements	NR	NR	NR	3.65%
<b>Total Educational Pool</b>				<b>100.00%</b>
<b><u>Specific Investments</u></b>				
U.S. Government Agencies				
Freddie Mac Discount Notes	AAA	Aaa	AAA	3.22%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	1.44%
Commercial Paper	A-1	P-1	F1	19.14%
Negotiable Certificates of Deposit	A-1	P-1	F1	5.40%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	1.80%
Corporate Notes	AA	Aa	AA	1.08%
Corporate Notes	AAA	Aaa	AAA	2.35%
Money Market Mutual Funds	AAA	Aaa	AAA	14.22%
Repurchase Agreements	NR	NR	NR	0.78%
Treasury Bond	AAA	Aaa	AAA	35.38%
Tax Exempt Money Market Mutual Funds	AAA	Aaa	AAA	15.19%
<b>Total Specific Investments</b>				<b>100.00%</b>

**Investment in County of Orange Taxable Pension Obligation Bonds, Series 2006**

On January 30, 2006, the Orange County Investment Pool (OCIP) – Money Market Fund purchased all of the County issued Taxable Pension Obligation Bonds, Series 2006 (the 2006 POBs) in the principal amount of \$105,990,520. The 2006 POBs were issued in order to prepay a portion of the County's fiscal Year 2006-07 unfunded accrued actuarial liability to OCERS. The 2006 POBs were issued as convertible appreciation bonds, in a variable rate, with a maturity date of June 29, 2007. The terms of the sale of the 2006 POBs from the County to the County Treasurer on behalf of the OCIP were negotiated at arm's length. The obligation of the County to pay principal and interest on the 2006 POBs is an obligation imposed by law and is absolute and unconditional. As of December 31, 2006, the outstanding principal amount of the 2006 POBs is \$64,076,909. The bonds are rated A-1 and P-1 by S&P and Moody's respectively. The County's investment in the 2006 POBs is disclosed herein as Municipal Debt.

