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INTERNAL AUDIT DEPARTMENT

March 23, 2001

TO: Honorable Board Members

FROM: Peter Hughes, Director
Internal Audit Department

SUBJECT: The Investment Decision Review

In response to a request by the Board of Supervisors during their January 23, 2001 meeting, please find attached the results of our limited compliance review of the most recent two investments by the Treasurer Tax-Collector's office in Edison International, Inc. Commercial Paper and Medium Term Notes and of our assessment of nine suggested recommendations to enhance the County's Investment Policy Statement.

In summary, we found the purchase of Edison International, Inc. securities on September 28 and on December 7, 2000 to **fully comply** with the County's Investment Policy Statement. In addition, we found each of the nine contemplated enhancements to the Investment Policy Statement to be both reasonable to implement and effective in further protecting the invested principal and reflective of "Best Practices" within the investment industry.

I want to extend my appreciation to John Moorlach, Treasurer Tax-Collector and his staff for their cooperation, assistance and responsiveness throughout our audit.

PH:ra

Attachment

cc: John Moorlach, Treasurer Tax-Collector
David Sundstrom, Auditor-Controller
Dr. Michael Schumacher, County Executive Officer
Gary Burton, Chief Financial Officer
County Counsel
Members, Treasury Oversight Committee
Members, Audit Oversight Committee
Foreman, Grand Jury
Clerk of the Board

SPECIAL REQUEST AUDIT
OF THE
TREASURER'S OFFICE
FROM THE
ORANGE COUNTY BOARD OF SUPERVISORS

Chair Cynthia P. Coad, Ph.D.	**Fourth District**
Vice Chair James W. Silvia,	**Second District**
Supervisor Charles V. Smith	**First District**
Supervisor Todd Spitzer	**Third District**
Supervisor Thomas W. Wilson	**Fifth District**

SCOPE

Edison International, Inc. Securities Purchased on
September 28, 2000 and December 7, 2000
and
Assessment of Nine Recommended Enhancements
to Orange County's Investment Policy Statement

Issued: March 23, 2001

Audit Number 2139

Audit Director:	Peter M. Hughes, Ph.D., MBA, CPA, CIA
Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Alan Marcum, MBA, CPA, CIA
Senior Auditor:	Pam Parisien, CIA

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APPENDIX A - Comparison of Key Elements of Investment Policies with California Government Code and Sister Counties

Background Discussion of Orange County's Investment Policy Statement

The Board of Supervisors and the Orange County Treasurer share a conservative philosophy and vision that seeks to protect the County investment fund principal from losses due to changes in the investment market. This conservative vision is implemented and clearly reflected in Orange County's Investment Policy Statement, which is annually reviewed and approved by the Board of Supervisors.

The Investment Policy Statement states as its number one priority: "…to invest public funds in a manner which will provide the maximum security of principal invested." Similarly, the Treasurer also states in the Investment Policy Statement that its primary and foremost objective is safety of principal.

The second investment objective in the Investment Policy Statement is the liquidity of the investments. These invested funds are primarily used to pay the operating expenses of the County and the school districts such as payrolls, occupancy costs, and supplies. Consequently, the ability to convert the investments to cash quickly and easily is very important since payrolls and vendor payments must be in cash and made timely.

The yield or rate of return earned on the investments is to be a factor addressed only after the first two objectives are satisfied. The expectation is to earn a reasonable rate of return or yield on the investments in light of the investment restrictions created by the objectives of safety and liquidity. In investment terminology this type of conservative policy has its own acronym "SLY" for safety, liquidity, and yield in this order of importance.

California Government Code Section 53601, *Instruments Authorized for Investment,* details the regulatory compliance provisions for the investment of public funds. These provisions have as their primary objective protecting the principal for invested funds. Additional objectives identified but of lesser importance are liquidity and yield.

Background Discussion of Orange County's Investment Policy Statement (Continued)

Orange County's investment policies are even more protective of investment principal from possible market place losses than the California Government Code requirements. The following are several investment policy restrictions that are representative examples of Orange County's additional steps to maintain the safety of invested funds.

(1) The County's single issuer exposure is limited to 5% uniformly across all investment categories whereas the California Government Code sets 10% as the single issuer limit for Commercial Paper and no limits for Medium Term Notes.

(2) The County's maturity limit on repurchase agreements is 90 days whereas the California Government Code limit is one year.

(3) The County's maturity limit on banker's acceptances is 180 days whereas the California Government Code allows 270 days.

(4) The County requires credit ratings for investments in Municipal Debt, Bankers Acceptances, Commercial Paper, Certificates of Deposit and Medium Term Notes that are of even higher quality (safer from possible market place losses) than the California Government Code requirements.

California Government Code Section 27134 requires an annual audit of the Treasure's compliance with California Government Code Sections 27130 through 27137. The Internal Audit Department performs these mandated compliance audits. The results from the last three years of such audits confirmed the Treasurer's compliance with both the California Government Code and the County's Investment Policy Statement.

There are a number of investment opportunities in the short-term money market. The major categories of short-term investments authorized by the County's Investment Policy Statement include only those investments that are considered low-end risk. The primary risk results from the loss of potential purchasing power that occurs if the rate of return of these

investments is less than the inflationary rate. The risk of default is virtually non-existent with short-term investments because the primary issuers of most money market securities are highly reputable institutions, such as the U.S. Treasury, large money centered banks, and highly reputable corporations. In addition, these types of investments are considered low risk investments because their value does not change significantly in response to changing interest rates due to their short maturity.

Scope and Objective

Responding to a request for an immediate internal audit from the Board of Supervisors, the Chief Executive Officer, the Chief Financial Officer, and with concurrence from the Treasurer, the Internal Audit Department initiated a limited compliance review of the most recent two investments in Edison International, Inc. Commercial Paper and Medium Term Notes.

Our review concentrated on the specific circumstances surrounding each of the $20 million investments into Edison International, Inc. on September 28 and December 7, 2000 to determine whether the Treasurer's investment processes and policies for these two purchases were in compliance with the County's Investment Policy Statement.

In addition, the Board requested that the Internal Audit Department assess nine recommendations to enhance the Investment Policy Statement for ease of implementation and for effectiveness in providing additional protection of the County investment fund principal from market place losses. The investment fund is comprised of the Orange County Investment Pool, the Orange County Educational Investment Pool, and the John Wayne Airport Investment Pool. These recommendations were developed from concerns identified by the Board of Supervisors, the County Executive Officer and the Treasurer during their review of the recent Edison International, Inc. market place events.

Background on the Edison International, Inc. Purchases

On September 14, 2000, Moody's Investor Rating service placed Edison International, Inc. on "credit watch negative."

On September 28, 2000, the Treasurer purchased a $20 million, 303 day, Medium Term Note investment issued by Edison International, Inc.

On December 7, 2000, the Treasurer purchased a $20 million, 55 day, Commercial Paper (CP) investment issued by Edison International, Inc. to meet a payroll coming due on January 31, 2001.

Both of the above investments were made for the "Educational Pool" which is maintained separately from the County investment pool.

Results and Findings

Based on documentation, interviews, confirmations, and verifications we concluded that the purchase of the Edison International, Inc. securities on September 28 and on December 7, 2000 for a total value of $40,000,000 complied fully with the County's Investment Policy Statement.

1. Both purchases complied with the "prime investment quality" credit rating requirements (that at least two of the three Credit Rating Agencies rated the securities as the highest quality e.g. safest possible) for Commercial Paper and Medium Term Notes, even though at the time of each investment Moody and Fitch Credit and Investment Quality Rating Services had the company on "credit watch negative."
2. Edison International, Inc. complied with the minimum issuer asset size of $500 million and required US domicile.
3. Both investments complied with their individual maximum maturity limits of 270 days for Commercial Paper and 13 month for Medium Term Notes maturity limits.
4. Both investments complied with their individual issuer limits of 5% and their portfolio exposure limits for the entire investment category of 40% for Commercial Paper and 30% for Medium Term Notes.

Review of Recommendations

We also completed our assessment of the nine recommendations contemplated by the Board of Supervisors, the Chief Executive Officer, the Chief Financial Officer, and the Treasurer for incorporation in the County's Investment Policy Statement. To accomplish this technical assessment, we retained an expert investment audit consultant and reviewed professional literature and relevant California and U.S. Security Exchange Commission investment standards and regulations. We also identified "Best Business" practices both in private and public investment forums and benchmarked and compared the County Investment Policy Statement with those sister counties who had similar investment fund size and stewardship responsibilities (San Bernardino, San Diego, and Riverside).

A schedule comparing critical elements of the County's Investment Policy Statement with those of several sister counties and the California Government Code is attached.

Enhancement Recommendations

We found each of the following nine contemplated enhancements to the Investment Policy Statement to be both reasonable to implement and effective in further protecting the invested principal and reflective of "Best Practices" within the investment industry. The incorporation into the County's Investment Policy Statement of any or all of these nine recommendations would be consistent with the conservative philosophy encapsulated in the County Investment Policy Statement.

1. Prohibit buying any securities that is on "credit watch negative" by any of the credit rating agencies.

2. Prohibit the purchase of split rated securities (i.e., no credit rating agency may give a rating less than their highest rating).

3. Have the Treasurer, Assistant Treasurer, or their delegate review commercial investment purchases daily.

Enhancement Recommendations (Continued)

4. Submit for review to the Board of Supervisors on an annual basis the qualifications of those to whom authority has been delegated to buy and sell securities. In addition, when changes are made to those who are authorized to make investments the Board of Supervisors should be informed and should be provided with the qualifications of those individuals.

5. Limit "Industry Specific" credit risk by not investing more than 25% of the portfolio in any one industry for corporate debt securities.

6. Establish a lower maximum percentage limit for holdings in any one company from the 5% restriction currently in place in the County's Investment Policy Statement.

7. Reduce the portfolio exposure limits already established at 70% in the County's Investment Policy Statement for the aggregate in Commercial Paper and Medium Term Notes to a lesser percentage.

8. Conduct and report on a monthly basis the results of "Stress/Shock Testing" of the portfolio.

9. Revise the references in the County's Investment Policy Statement regarding "yield" to consistently state that "the objective is to attain a reasonable yield which is compatible with maximizing the security of principal invested while meeting the liquidity needs of the pool participants."

Consultant's Observation

Portfolio and quality diversification requirements in the Commercial Paper program should allow for the expanded use of specific dealers. Managing the timing of the daily cash requirements of the investment funds can be challenging with limited eligible securities. Expanding dealer coverage will increase the amount of First Tier eligible investments and will help reduce liquidity risk and further diversify the portfolio of the investment funds.

- The consolidation in the brokerage industry has reduced the number of counterparts with whom funds like Orange County can transact business.

- Resulting from issues stemming from the Orange County Bankruptcy, Merrill Lynch has been restricted from the approved dealer list since 1994. Given the time since the bankruptcy, the secure manner in which the Treasurer approaches all dealer relationships and the increased number of eligible issuers Merrill Lynch brings to the market, it is recommended that the Merrill Lynch restriction be lifted for both Commercial Paper and Medium Term Notes.

- Credit Suisse First Boston and Morgan Stanley should also be considered as allowed dealers under both the Commercial Paper and Medium Term Notes programs.

- Consideration should be given to buying more Commercial Paper and Medium Term Notes through the issuing companies directly in addition to buying securities from dealers. This will offer more investment options when buying securities.

We appreciate the courtesy and cooperation extended to us by the Treasurer Tax-Collector and his staff during our review. If we can be of further assistance please contact me directly or Eli Littner, CPA, Deputy Director at (714) 834-5475.

Respectfully submitted,

Peter Hughes, Director
Internal Audit Department

Distribution:

Board of Supervisors
John Moorlach, Treasurer Tax-Collector
David Sundstrom, Auditor-Controller
Dr. Michael Schumacher, County Executive Officer
Gary Burton, Chief Financial Officer
County Counsel
Members, Treasury Oversight Committee
Members, Audit Oversight Committee
Foreman, Grand Jury
Clerk of the Board

COMPARISON OF KEY ELEMENTS OF INVESTMENT POLICIES WITH CALIFORNIA GOVERNMENT CODE AND SISTER COUNTIES

ISSUES	CA GOV'T CODES #56301 & #53646(a)(1)	ORANGE	SAN BERNARDINO	SAN DIEGO	RIVERSIDE
PORTFOLIO BOOKVALUE		$3.7 Billion	$2.2 Billion	$2.9 Billion	$1.5 Billion
1. Does the policy prohibit buying investments on negative credit watch?	No.	Approved by the Treasury Oversight Committee for consideration by the Board.	No. However, internally they do not buy credit watch.	No.	No.
2. Does the policy prohibit buying investments with a split rating?	No.	Approved by the Treasury Oversight Committee for consideration by the Board.	Yes.	No.	No.
3. Does the policy specify that the Treasurer, Assistant Treasurer or designee will review and approve investments?	No.	Approved by Treasury Oversight Committee for consideration by the Board.	Yes.	Yes.	Yes.
4. Does the policy require the Board of Supervisors to review the Position Descriptions and qualifications for those individuals who buy and sell investments?	No.	Approved by Treasury Oversight Committee for consideration by the Board.	No.	No.	No.
5. Are position limits set for Industry holdings of Commercial Paper and Medium Term Notes?	None.	None. However, consideration is being given to setting a 25% limit per Industry	None.	None.	None.
6. Are position limits set per issuer/company?	10% For Commercial Paper.	Yes – 5%. However, adjustments to lower the limit to less than 5% are under consideration.	Yes. $50M for Medium Term Notes.	Yes -10%	Yes. $50M for Commercial Paper and $25M for Medium Term Notes.
7. What percent limits are established on total corporate debt holdings?	70%	70% However, adjustments to lower the limit to less than 70% are under consideration.	50%	70%	60%

COMPARISON OF KEY ELEMENTS OF INVESTMENT POLICIES WITH CALIFORNIA GOVERNMENT CODE AND SISTER COUNTIES

ISSUES	CA GOV'T CODES #56301 & #53646(a)(1)	ORANGE	SAN BERNARDINO	SAN DIEGO	RIVERSIDE
8. Does the policy require stress analysis/testing of the portfolio?	No.	No. However, consideration is being given to include this in the policy.	No. However, they do it monthly.	No.	No. However, they do it monthly.
9. Does the policy language limit the yield to that which is "reasonable" given the priority of protecting principle?	Yes	Yes. However, consideration is being given to revise the language so as to ensure consistency in emphasis throughout the policy.	Yes	Yes	Yes

STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY
DECEMBER 31, 2000

ASSETS

	County Pool	Educational Pool	Non-Pooled	Total
Cash				
Cash in Banks	$ 19,273,409	$ 4,261,696	$ 19,053,570	$ 42,588,675
Cash on Hand	29,055			29,055
Total Cash	19,302,464	4,261,696	19,053,570	42,617,730
Investments, stated at fair value				
Orange County Investment Pool:				
Money Market Fund	2,190,550,393			2,190,550,393
Extended Fund	427,520,368			427,520,368
Orange County Educational Pool		1,327,688,040		1,327,688,040
Non-pooled			160,976,901	160,976,901
Total Investments	2,618,070,761	1,327,688,040	160,976,901	4,106,735,702
TOTAL ASSETS	**$ 2,637,373,225**	**$ 1,331,949,736**	**$ 180,030,471**	**$ 4,149,353,432**

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

See accompanying Internal Auditor's report and notes to financial statement.

ORANGE COUNTY TREASURER-TAX COLLECTOR
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Statement of Assets Held by The County Treasury (statement) separately reports deposits and investments included in the Comprehensive Annual Financial Report of the County of Orange, State of California. For additional disclosure information, including bankruptcy, 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 the 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 latter of which is utilized exclusively by the County's public school and community college districts. 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 generally accepted accounting principles. Receipts are recognized when received by the Treasurer and disbursements are recognized when paid by the bank.

The Treasurer has stated required investments at fair value in the accompanying 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 value is calculated each business day for both 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 pools value participants' shares using an amortized cost basis. Specifically, the pools distribute 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 statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. At December 31, 2000, there is no material difference between pool participants' shares valued on an amortized cost compared to fair value basis.

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 benefitting from economies of scale through pooled investment activities. The primary investment objectives of the Treasurer's investment activities are in order of priority: protecting the safety of the principal invested, meeting the participants' liquidity needs, 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 Pool. 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. Interest earnings are posted to individual funds as the related earnings are collected.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, they may be held by the trust department of the same institution. 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.

At December 31, 2000, the carrying amount of the County's demand deposits was $26,689,154, and the related bank balance for the County's demand deposits was $25,266,368 of which $100,000 was insured by FDIC insurance with the remainder collateralized as described above. The carrying amount of the County's deposits differs from corresponding bank balances primarily due to deposits in transit and other timing differences. In addition, the County held a portion of its non-pooled investments in the form of non-participating Bank Investment Contracts (BICs). These BICs are considered deposits with financial institutions, and amounted to $15,899,521, of which $100,000 was insured by FDIC insurance with the remainder collateralized by obligations of the United States and its agencies.

B. Investments

The County's investment policies are governed by State statutes, Board of Supervisors' ordinances and resolutions, bond documents, covenants, trust agreements, and other contractual agreements.

External Investment Pools

The County Treasurer has a written Investment Policy Statement (IPS) specifically for the separately managed County and Educational Investment Pools. On June 20, 2000, the Board of Supervisors approved a revised IPS with an effective date of July 1, 2000. The revised IPS established a Money Market Fund and an Extended Fund as components of the County and Educational Pools (as of March 28, 2001, the Educational Pool is not participating in the Extended Fund). The Treasurer shall determine, on a cash flow basis, the percentage of monies to be invested in both the Money Market Fund and the Extended Fund. The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average maturity of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

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, 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 with at least one billion dollars in assets (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%); and repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%). All permitted investments are required to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions. (See Note 3 - Subsequent Event).

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Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Sections 53601and 53635. 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.

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 or 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.

Treasury oversight is conducted by 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. In addition, Fitch conducts a quarterly review of IPS compliance according to agreed upon procedures. On June 28, 2000, Fitch reaffirmed the Pools' ratings of "AAA/V1+." (See Note 3 - Subsequent Event). 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 percent involuntary participants. At December 31, 2000, the County Pool includes approximately .32 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

As of December 31, 2000, floating rate notes comprised less than 8% and 7% of the County Pool and Educational Pool, respectively. Interest received on floating rate notes will rise or fall as the underlying index rate rises or falls. The use of floating rate notes in the County and Educational Pools is such that they hedge the portfolios against the risk of increasing interest rates.

Summary External Pool Financial Disclosures

Selected summary disclosures for each external pool as of December 31, 2000 are presented below:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
County Pool					
U.S. Government Agencies	$ 310,966,868	$ 312,517,000	Discount	01/26/01-11/17/03	341
Bankers' Acceptances	78,266,355	79,222,870	Discount	01/18/01-06/13/01	68
Commercial Paper	873,278,311	879,292,000	Discount	01/02/01-06/12/01	40
Negotiable Certificates of Deposit	731,501,030	731,000,000	5.93-6.89%	01/08/01-12/11/01	122
Medium-Term Notes	559,485,258	559,100,000	5.48-9.25%	01/16/01-04/15/02	110
Repurchase Agreements	60,000,000	60,000,000	6.70%	01/02/01	2
Money Market Mutual Funds	4,572,939	4,572,939	Variable	01/01/01	1
	$2,618,070,761	$2,625,704,809			114
Educational Pool					
U.S. Government Agencies	$ 23,900,000	$ 23,900,000	Discount	12/20/01	354
Bankers' Acceptances	93,515,608	94,000,000	Discount	01/08/01-05/07/01	29
Commercial Paper	477,726,263	480,297,000	Discount	01/02/01-06/08/01	31
Negotiable Certificates of Deposit	360,174,003	360,000,000	5.93-6.95%	01/02/01-12/14/01	111
Medium-Term Notes	340,042,306	338,890,000	5.15-9.75%	01/16/01-12/14/01	124
Repurchase Agreements	30,000,000	30,000,000	6.70%	01/02/01	2
Money Market Mutual Funds	2,329,860	2,329,860	Variable	01/01/01	1
	$1,327,688,040	$1,329,416,860			82

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

At December 31, 2000, the weighted average maturity of the County Pool was 114 days and the Educational Pool was 82 days. At the same date, the Net Asset Value (NAV) for both the County and Educational Pools was $1.00. The average daily investment balance of the County Pool and the Educational Pool amounted to $2.19 billion and $1.01 billion, with an average effective yield of 6.79% and 6.76%, respectively, for the quarter ended December 31, 2000.

Level of Custodial Credit Risk

Investments are categorized below as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the County at December 31, 2000. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the County's name.

	Category				
County Pool	1	2	3	Not Subject to Categorization	Fair Value
U.S. Government Agencies	$ 310,966,868	$ 0	$ 0	$ 0	$ 310,966,868
Bankers' Acceptances	78,266,355	0	0	0	78,266,355
Commercial Paper	873,278,311	0	0	0	873,278,311
Negotiable Certificates of Deposit	731,501,030	0	0	0	731,501,030
Medium-Term Notes	559,485,258	0	0	0	559,485,258
Repurchase Agreements	60,000,000	0	0	0	60,000,000
Money Market Mutual Funds	0	0	0	4,572,939	4,572,939
Total County Pool	2,613,497,822	0	0	4,572,939	2,618,070,761
Educational Pool					
U.S. Government Agencies	23,900,000	0	0	0	23,900,000
Bankers' Acceptances	93,515,608	0	0	0	93,515,608
Commercial Paper	477,726,263	0	0	0	477,726,263
Negotiable Certificates of Deposit	360,174,003	0	0	0	360,174,003
Medium-Term Notes	340,042,306	0	0	0	340,042,306
Repurchase Agreements	30,000,000	0	0	0	30,000,000
Money Market Mutual Funds	0	0	0	2,329,860	2,329,860
Total Educational Pool	1,325,358,180	0	0	2,329,860	1,327,688,040
Non-Pooled Assets					
U.S. Government Agencies	18,915,208	0	0	0	18,915,208
Commercial Paper	16,242,940	0	0	0	16,242,940
Negotiable Certificates of Deposit	1,553,764	0	0	0	1,553,764
Medium-Term Notes	5,123,859	0	0	0	5,123,859
Repurchase Agreements	1,081,500	0	0	0	1,081,500
Collateralized Investment Agreements	0	0	0	55,178,573	55,178,573
Money Market Mutual Funds	0	0	0	62,881,057	62,881,057
Total Non-Pooled	42,917,271	0	0	118,059,630	160,976,901
Total Investments	$ 3,981,773,273	$ 0	$ 0	$ 124,962,429	$ 4,106,735,702

See accompanying Internal Auditor's report.

NOTE 3 - SUBSEQUENT EVENT

On January 16, 2001, Fitch downgraded Edison International's (EIX) short term rating to "D". On the same day, as a result of Edison's downgrade, Fitch downgraded the Educational Pool rating from "AAA/V1+" to "AA/V1+" based on the Pool's two Edison International holdings aggregating $40 million.

On January 31, 2001, Edison paid off $20 million of commercial paper in full, as scheduled. The remaining investment, a $20 million medium-term note, has been meeting its scheduled monthly interest payment in a timely manner. Management anticipates that the principal on the outstanding note will be paid in full at maturity. As of March 28, 2001, the $20 million medium-term note had a fair value of approximately 82-83 cents on the dollar.

At a meeting of the Board of Supervisors on March 27, 2001, a revised IPS was approved. The IPS was amended as follows: Language was added to allow the Treasurer to delegate investment authority to staff; Securities on "Negative Credit Watch" or split-rated are now ineligible for purchase, and; Daily approval of investment purchases is now required by the Treasurer, Assistant Treasurer, or the Compliance Manager under special circumstances.