



**AUDITOR-CONTROLLER  
COUNTY OF ORANGE**

HALL OF FINANCE AND RECORDS  
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**PHILLIP T. DAIGNEAU**  
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**DAVID E. SUNDSTROM, CPA**  
AUDITOR-CONTROLLER

**REPORT ON AUDIT  
OF THE  
STATEMENT OF ASSETS HELD  
BY THE  
COUNTY TREASURY  
AS OF DECEMBER 31, 2007**

**AUDIT NUMBER: 1003**

**REPORT DATE: June 11, 2008**

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**AUDIT MANAGER:  
SENIOR AUDITOR:  
STAFF AUDITOR:**

**TONI SMART, CPA  
DAT THOMAS  
CHRISTINE YOUNG**

**Report on Audit of the Statement of Assets  
Held by the County Treasury**

**As of December 31, 2007**

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INFORMATION TECHNOLOGY

**DAVID E. SUNDSTROM, CPA**  
*AUDITOR-CONTROLLER*

**Transmittal Letter**

Audit No. 1003

June 11, 2008

TO: Members, Board of Supervisor

SUBJECT: Report on Audit of the Statement of Assets Held by the  
County Treasury, as of December 31, 2007

We have completed our Report on Audit of the Statement of Assets held by the County Treasury as of December 31, 2007. Enclosed is a copy of the report.

David E. Sundstrom  
Auditor-Controller

TS:lr/wg  
Enclosure

Other recipients of this report:

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





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DIRECTOR  
INFORMATION TECHNOLOGY

**DAVID E. SUNDSTROM, CPA**  
*AUDITOR-CONTROLLER*

**INTERNAL AUDITOR'S REPORT**

Audit No. 1003

June 11, 2008

Members, Board of Supervisors  
Hall of Administration Building  
333 W. Santa Ana Blvd., 5<sup>th</sup> Floor  
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, 2007. This statement is the responsibility of the Treasurer's management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

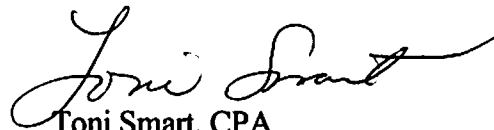
We were unable to obtain sufficient appropriate audit evidence to support Treasury Management's valuation of the fair market value of two Whistlejacket Capital LLC Structured Investment Vehicle medium term notes with a stated fair value of \$69,117,440 and two Sigma Finance Inc. Structured Investment Vehicle medium term notes with a stated fair value of \$70,987,050 described in Note 2 to the financial statements.

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.

Members, Board of Supervisors  
June 11, 2008

In our opinion, except for the effect of such adjustments, if any, as might have been determined necessary had we been able to examine sufficient appropriate audit evidence to support Treasury Management's valuation of the fair market value of the Whistlejacket Capital LLC and Sigma Finance Inc. Structured Investment Vehicle medium term notes, the Statement of Assets Held by the County Treasury referred to in the first paragraph above presents fairly, in all material respects, the amount and type of assets as of December 31, 2007, on the basis of accounting described in Notes 1 and 2.

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.



Toni Smart, CPA  
Audit Manager

TS:lr  
Attachment

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Darlene J. Bloom, Clerk of the Board of Supervisors  
David E. Sundstrom, Auditor-Controller  
Jan Grimes, Director, Central Accounting Operations  
Auditor-Controller  
Chriss W. Street, Treasurer-Tax Collector  
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector  
Foreperson, Grand Jury

Statement of Assets Held by the County Treasury as of December 31, 2007



OFFICE OF THE TREASURER-TAX COLLECTOR

HALL OF FINANCE & RECORDS  
 12 CIVIC CENTER PLAZA, SUITE G76  
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 www.ttc.ocgov.com

June 11, 2008

CHRISS W. STREET  
 TREASURER-TAX COLLECTOR  
 PAUL C. GORMAN, C.P.A., CFP  
 CHIEF ASSISTANT TREASURER-TAX COLLECTOR  
 JENNIFER BURKHART, CFA  
 ASSISTANT TREASURER-TAX COLLECTOR  
 WALTER DANIELS  
 ASSISTANT TREASURER-TAX COLLECTOR  
 TAX COLLECTION  
 ROBIN RUSSELL  
 ASSISTANT TREASURER-TAX COLLECTOR  
 ADMINISTRATION

STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY  
 AS OF DECEMBER 31, 2007

	ASSETS			
	County Pool	Educational Pool	Non-Pooled	Total
<b>CASH</b>				
Cash on Hand	\$ 18,159	\$ -	\$ -	\$ 18,159
Demand Accounts	25,516,633	(14,763)	32,271	25,534,141
<b>Total Cash</b>	<b>25,534,792</b>	<b>(14,763)</b>	<b>32,271</b>	<b>25,552,300</b>
<b>INVESTMENTS, stated at fair value</b>				
<i>Orange County Investment Pool:</i>				
Money Market Fund	2,241,143,754			2,241,143,754
Extended Fund	1,152,207,353			1,152,207,353
<i>Orange County Educational Pool:</i>				
Money Market Fund		2,347,118,457		2,347,118,457
Extended Fund		1,042,164,611		1,042,164,611
<i>Non-Pooled</i>			147,432,949	147,432,949
<b>Total Investments</b>	<b>3,393,351,107</b>	<b>3,389,283,068</b>	<b>147,432,949</b>	<b>6,930,067,124</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,418,885,899</b>	<b>\$ 3,389,268,305</b>	<b>\$ 147,465,220</b>	<b>\$ 6,955,619,424</b>

Chriss W. Street  
 Treasurer-Tax Collector

See accompanying Internal Auditor's Report

# Statement of Assets Held by the County Treasury as of December 31, 2007

## ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

### 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 statements. 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. As further described in Note 2, the Treasurer has estimated the fair value of \$80 million medium-term note holdings in Whistlejacket Capital LLC, a structured investment vehicle in default with an appointed receiver, based on a discounted present value computation. Also described in Note 2, the Treasurer has estimated the fair value of \$75 million medium-term note holdings of Sigma Finance Inc., a structured investment vehicle, based on a yield curve comparison to similarly rated securities.

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, 2007, 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

# Statement of Assets Held by the County Treasury as of December 31, 2007

## ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

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

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.

#### A. Deposits

Monies must be deposited in state or national banks, state or federal credit unions, 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 (Pools). The IPS is more restrictive than California Government Code (Code) as the Code allows investments in reverse repurchase agreements which are not allowed in the IPS. The IPS is also more restrictive in the allowable percentage for investments in a single issuer for a period of up to three business days. 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.



# Statement of Assets Held by the County Treasury as of December 31, 2007

## ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

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

(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.

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 October 10, 2007, Fitch reaffirmed the Pools' ratings of "AAA/1+." On October 10, 2007, Moody's reaffirmed credit ratings of Aaa/MR1 market risk ratings for the County and Educational Investment Pools. As of January 31, 2008 the Treasurer discontinued the Fitch rating for the Pools in favor of adding a Standard & Pooers rating. 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, 2007, the County Pool includes approximately 8.54% external participant deposits for the state courts, cities and special districts, certain assessment districts, and certain bond related funds for public school districts.

**Statement of Assets Held by the County Treasury as of December 31, 2007**

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2007**

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

**Investment Disclosures**

As of December 31, 2007, the major classes of the County's deposits and investments consisted of the following:

<u>County Pool</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Government Agencies	\$ 1,073,144,248	\$ 1,070,503,788	Discount, 4.05 - 5.55%	1/3/08 - 11/26/10	1.07
Commercial Paper	984,414,470	968,259,000	Discount	1/2/08 - 3/10/08	0.04
Negotiable Certificates of Deposit	329,998,850	330,000,000	4.78 - 5.34%	1/10/08 - 3/10/08	0.08
Medium-Term Corporate Notes	714,484,499	730,004,980	4.98 - 6.31%	1/15/08 - 10/30/10	0.50
Municipal Debt	67,626,579	67,454,851	5.38%	8/30/2008	0.50
Repurchase Agreements	180,000,000	180,000,000	4.80%	1/2/2008	0.01
Money Market Mutual Funds	53,885,462	53,885,462	Variable	1/2/2008	0.01
	<u>\$ 3,393,351,107</u>	<u>\$ 3,408,308,059</u>			<u>0.47</u>

**Educational Pool**

U.S. Government Agencies	\$ 1,547,851,589	\$ 1,548,338,234	Discount, 4.05 - 5.55%	1/2/08 - 11/26/10	0.71
Commercial Paper	641,130,981	642,346,000	Discount	1/2/08 - 2/7/08	0.04
Negotiable Certificates of Deposit	382,988,087	383,000,000	4.78 - 5.34%	1/10/08 - 3/25/08	0.11
Medium-Term Corporate Notes	631,608,913	645,740,020	4.98 - 6.31%	1/3/08 - 10/30/10	0.51
Municipal Debt	42,169,751	42,063,289	5.38%	8/30/2008	0.50
Repurchase Agreements	100,000,000	100,000,000	4.60%	1/2/2008	0.01
Money Market Mutual Funds	43,633,767	43,533,767	Variable	1/2/2008	0.01
	<u>\$ 3,359,283,068</u>	<u>\$ 3,405,024,310</u>			<u>0.44</u>

**Specific Investments**

U.S. Government Agencies	\$ 18,429,871	\$ 18,508,000	Discount, 4.15 - 4.34%	1/22/08 - 3/3/08	0.10
U.S. Treasury Bills	40,125,000	40,000,000	4.59 - 4.98%	1/31/08 - 10/15/09	0.90
Commercial Paper	17,129,888	17,175,000	Discount	1/2/08 - 3/3/08	0.06
Negotiable Certificates of Deposit	9,999,780	10,000,000	4.78 - 5.33%	1/10/08 - 3/10/08	0.10
Medium-Term Corporate Notes	3,037,272	3,070,000	5.24 - 5.28%	3/10/08-9/5/08	0.16
Repurchase Agreements	1,081,500	1,081,500	6.18%	8/18/2019	11.63
Money Market Mutual Funds	57,629,831	57,629,831	Variable	1/2/08	0.01
	<u>\$ 147,432,949</u>	<u>\$ 147,464,331</u>			<u>0.38</u>

## Statement of Assets Held by the County Treasury as of December 31, 2007

### ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

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

##### **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 0.47 years and the Educational Pool was 0.44 years. Of the County's \$3.39 billion and the Educational Pool's \$3.39 billion portfolio at December 31, 2007, over 88.4% and 73.4% of the investments have a maturity of six months or less. Of the remainder, only 21.7% and 19.7% have a maturity of more than 1 year.

As of December 31, 2007, variable-rate notes comprised 13.34% and 10.27% 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, 2007, 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 \$3.29 billion and \$2.82 billion, with an average effective gross yield of 5.17% and 5.11%, respectively, for the quarter ended December 31, 2007.

##### **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, 2007, 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, 2007, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's or F1 by Fitch.

##### **Concentration of Credit Risk**

At December 31, 2007, 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.

# Statement of Assets Held by the County Treasury as of December 31, 2007

## ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

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

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, 2007 (NR means Not Rated):

Investments	S & P	Moody's	Fitch	% of Portfolio
<b>County Pool</b>				
<b>U.S. Government Agencies</b>				
Federal Farm Credit Bank	AAA	Aaa	AAA	0.78%
FHLB Discount Notes	AAA	Aaa	NR	0.98%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	8.59%
Federal National Mortgage Association Discount Notes	A-1	P-1	F1	10.29%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	4.48%
Freddie Mac Bonds	AAA	Aaa	AAA	6.50%
Commercial Paper	A-1	P-1	F1	28.42%
Negotiable Certificates of Deposit	A-1	P-1	F1	9.72%
<b>Medium-Term Corporate Notes</b>				
Corporate Notes (a)	NR	B	NR	1.07%
Corporate Notes	A	A	A	4.38%
Corporate Notes	A	Aa	NR	0.87%
Corporate Notes	AA	Aaa	NR	0.39%
Corporate Notes	AAA	Aaa	NR	14.37%
Municipal Debt	SP-1	MIG-1	NR	1.99%
Repurchase Agreements	NR	NR	NR	5.80%
Money Market Mutual Funds	AAA	Aaa	AAA	1.68%
<b>Total County Pool</b>				<b>100.00%</b>
<b>Educational Pool</b>				
<b>U.S. Government Agencies</b>				
FHLB Discount Notes	AAA	Aaa	NR	10.47%
Federal Farm Credit Bank	AAA	Aaa	AAA	0.71%
Federal National Mortgage Association Discount Notes	A-1	P-1	F1	10.00%
Federal Home Loan Bank Bonds	AAA	Aaa	NR	4.07%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.78%
Freddie Mac Bonds	AAA	Aaa	AAA	12.85%
Commercial Paper	A-1	P-1	F1	18.92%
Negotiable Certificates of Deposit	A-1	P-1	F1	11.30%
<b>Medium-Term Corporate Notes</b>				
Corporate Notes (a)	NR	B	NR	0.97%
Corporate Notes	A	A	A	2.15%
Corporate Notes	A	Aa	NR	0.70%
Corporate Notes	AA	A	NR	1.45%
Corporate Notes	AA	Aaa	NR	0.36%
Corporate Notes	AAA	Aaa	NR	13.02%
Municipal Debt	SP-1	MIG-1	NR	1.24%
Repurchase Agreements	NR	NR	NR	2.86%
Money Market Mutual Funds	AAA	Aaa	AAA	1.28%
<b>Total Educational Pool</b>				<b>100.00%</b>

(a) The ratings of the issuer, Whistlejacket Capital LLC, were in compliance with the IPS at the time of purchase.

# Statement of Assets Held by the County Treasury as of December 31, 2007

## ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

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

Investments	S & P	Moody's	Fitch	% of Portfolio
<b>Specific Investments</b>				
<b>U.S. Government Agencies</b>				
FHLB Discount Notes	AAA	Aaa	AAA	2.16%
Freddie Discount Notes	A-1	P-1	F1	5.95%
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	4.39%
U.S. Treasury Bills	AAA	Aaa	AAA	27.22%
Commercial Paper	A-1	P-1	F1	11.82%
Negotiable Certificates of Deposit	A-1	P-1	F1	8.78%
<b>Medium-Term Notes</b>				
Corporate Notes	A	Aa	NR	0.72%
Corporate Notes	AAA	Aaa	NR	1.34%
Repurchase Agreements	NR	NR	NR	0.73%
Money Market Mutual Funds	AAA	Aaa	AAA	39.09%
<b>Total Specific Investments</b>				<b>100.00%</b>

### Orange County Taxable Pension Obligation Bonds

On January 29, 2007, the County and Education Pool Money Market Funds purchased all of the County issued Taxable Pension Obligation Bonds, Series 2007 (the 2007 POBs) in the principal amount of approximately \$211 million. The County and Educational Pool purchased \$130 million and \$81 million respectively. The 2007 POBs were issued to prepay a portion of the County's Fiscal Year 2007-08 unfunded actuarial liability to OCERS. The 2007 POBs were issued as convertible capital appreciation bonds, at a fixed rate, with a maturity date of June 30, 2008. The terms of the sale of the 2007 POBs from the County to the County Treasurer on behalf of the investment pools were negotiated at arms length. The obligation of the County to pay principal and interest on the 2007 POBs is an obligation imposed by law and is absolute and unconditional. As of December 31, 2007, the outstanding principal amount of the 2007 POBs in the County and Educational Money market Funds is approximately \$67 million and \$42 million respectively. These amounts are reported in the accompanying disclosures as Municipal Debt. The bonds are rated MIG-1 by Moody's and SP-1+ by S & P. These ratings correlate with Moody's P-1 and S&P's A-1+ as their highest respective short term municipal ratings.

### Asset Backed Commercial Paper and Structured Investment Vehicles

As of December 31, 2007 the County and Educational Pools had sizeable holdings in Asset-Backed Commercial Paper (ABCP) and Structured Investment Vehicles (SIVs). The financial market credit tightening that emerged in the summer of 2007 has created challenges for investors in these asset classes. SIVs have generally experienced a significant decrease in liquidity as a result of the reduction in demand for ABCP as well as the lack of liquidity and overall volatility in the markets for the collateral underlying these investment structures.

### Asset-Backed Commercial Paper

At December 31, 2007 the County and Educational Pools held ABCP in the fair value amount of \$418 million and \$170 million respectively. This represents 43% and 26% of the total commercial paper in the County and Educational Pool respectively. By the middle of March 2008 all of these securities had matured according to the terms of purchase.



**Statement of Assets Held by the County Treasury as of December 31, 2007**

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2007**

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

**Structured Investment Vehicles**

At December 31, 2007 the County and Educational Pools held \$837 million in SIVs. SIVs are investment companies which, like a bank, borrow money in the short-term markets by issuing asset-backed commercial paper or medium-term notes and then lend money by purchasing long-term securities, earning a spread on the difference. The County has had experience investing in these SIVs for almost ten years. All SIV holdings are in the most senior debt issued by these vehicles.

On November 30, 2007, Moody's announced that four of the six Aaa-rated SIV programs held by the Orange County Investment Pools were placed on Credit Watch. Subsequently, the large commercial banks that sponsored and managed four of these SIV programs announced that they would restructure their SIVs by providing full liquidity in an effort to resolve uncertainties surrounding their viability. Four of the SIV programs have had their ratings affirmed as triple A by both Moody's and S&P: CC (USA) Inc., Five Finance, Inc., Tango Finance Corp, K2 (USA) LLC. Of the remaining two SIV programs, Whistlejacket Capital LLC, sponsored by Standard Chartered Bank, is currently in default as further described below. Standard Chartered Bank was removed from the Treasurer's eligibility list of approved issuers on March 19, 2008. Sigma Finance Inc. is managed by Gordian Knot and is not backed by a sponsoring bank. Sigma Finance Inc. is current in their payments. All SIV issuers have been removed from the Treasurer's eligibility list of approved issuers.

In December, the Treasurer made a public announcement regarding Moody's action, distributed a comprehensive report regarding SIVs and also held an educational forum for the public.

At December 31, 2007, the Treasurer has priced SIV holdings to reflect an aggregate unrealized loss of \$28.6 million.

The following represents a summary by issuer and investment pool of all holdings of Structured Investment Vehicle medium-term notes at December 31, 2007:

Structured Investment Vehicles - Holdings By Issuer	Holdings by Pool - Fair Value				
	Principal	Fair Value	County Pool	Educational Pool	Specific Investments *
CC (USA) Inc.	\$ 100,000,000	\$ 97,000,000	\$ 50,932,164	\$ 48,067,836	
Five Finance, Inc	115,000,000	113,031,700	69,349,991	53,681,709	
K2 (USA) LLC	202,000,000	199,781,300	101,380,015	98,401,285	\$ 1,970,000
Sigma Finance Inc.	175,000,000	169,487,050	63,133,332	106,353,718	
Tango Finance Corp.	185,000,000	180,050,000	84,038,071	76,011,929	
Whistlejacket Capital LLC	80,000,000	69,117,440	38,291,781	32,825,678	
	<u>\$ 837,000,000</u>	<u>\$ 809,437,490</u>	<u>\$ 385,125,334</u>	<u>\$ 411,342,156</u>	<u>\$ 1,970,000</u>

\* John Wayne Airport Investment Pool

**Statement of Assets Held by the County Treasury as of December 31, 2007**

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2007**

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

**Subsequent Events – Structured Investment Vehicles**

Through June 11, 2008, with the exception of Whistlejacket, all scheduled interest payments and maturities were received timely including maturities of K2 (USA) Inc. and Sigma Finance Inc. in the face amounts of \$102 million and \$100 million respectively. In addition, on June 9, 2008, K2 (USA) exercised a call at par of \$ 50 million medium-term notes and paid this amount plus accrued interest one year earlier than the June 9, 2009 maturity date. A scheduled maturity of \$60 million of Five Finance Inc. medium-term notes plus accrued interest was received June 6, 2008. As of June 11, 2008 the face amount of SIV holdings in the Extended Fund is \$535 million.

The table below reflects SIV credit ratings as June 11, 2008:

**Structured Investment Vehicle - Credit Ratings**

<u>Issuer</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
CC (USA) Inc.	Aaa/P-1	AAA/A-1+	NR
Five Finance, Inc	Aaa/P-1	AAA/A-1+	AAA
K2 (USA) LLC	Aaa/P-1	AAA/A-1+	NR
Sigma Finance Inc. (b)	A2 ~-P-2 ~-	AA- ~-A-1+ ~-	NR
Tango Finance Corp.	Aaa/P-1	AAA/A-1+	NR
Whistlejacket Capital LLC	B2/NP	NR	NR

(b)The rating modifier "~-" denotes the rating agency has placed the issuer's rating on credit watch for a possible ratings downgrade

The following table provides additional information and a brief summary of the status of each of the Pools' SIV holdings as of June 11, 2008:

**SIV Status as of June 11, 2008**

<u>Issuer</u>	<u>Sponsor/ Investment Manager</u>	<u>Maturity Date Range</u>	<u>SIV Status</u>	<u>Payment Status</u>
CC (USA) Inc.	Crigroup Inc.	01/23/09 - 02/09/09	Assets on balance sheet of sponsor and committed support facility	Current
Five Finance, Inc	Crigroup Inc.	06/06/08 - 11/26/08	Assets on balance sheet of sponsor and committed support facility	Current
K2 (USA) LLC	Dresdner	03/10/08 - 08/09/09	Support facility implemented No bank sponsorship. Continuing to fund in repo market and exchanging assets for debt	Current
Sigma Finance Inc.	Gordian Knot	02/21/08 - 10/30/08	Assets on balance sheet of sponsor	Current
Tango Finance Corp.	Rabobank Standard Chartered Bank	11/12/08 - 09/26/09	Receiver appointed - Senior Creditor's Committee formed, Pending litigation on appeal	In default
Whistlejacket Capital LLC		01/25/09 - 01/26/09		

## Statement of Assets Held by the County Treasury as of December 31, 2007

### ORANGE COUNTY TREASURER-TAX COLLECTOR NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2007

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

##### Subsequent Events Related to Whistlejacket LLC and Sigma Finance Inc.

Auditing standards concerning subsequent events require the Treasurer to restate the December 31, 2007 fair value for Whistlejacket and Sigma holdings to reflect current circumstances.

Since December 31, 2007, the following events significant to County and Educational Pool SIV holdings of Sigma Finance Inc. and Whistlejacket Capital LLC occurred:

##### Sigma Finance Inc.

On March 18, S&P placed the AAA/A-1+ ratings of Sigma Finance Inc. (Sigma) on credit watch negative. This action was in response to the same challenging market environment that faces all SIVs. While Sigma does not face a market value trigger similar to other SIVs, market liquidity continues to be constrained. S&P suggested that AA/A-1+ ratings may be appropriate barring any significant surprises. On April 7, S&P affirmed Sigma's short term rating of 'A-1+'; short term ratings have a 13 month outlook. The 'A-1+' rating reflects the new repurchase agreement funding facilities available to provide significant additional funding if necessary. On the same day, S&P lowered Sigma's long term debt rating from AAA to AA-. Moody's had taken similar action April 4 lowering Sigma to A2. These long term ratings reflect the risk associated with (1) long term funding challenges (2) challenges in the overall markets which may decrease Sigma's financial flexibility. The ratings remain on credit watch to reflect further uncertainty.

Sigma is managed by Gordian Knot and is not backed by a sponsoring bank. As of June 11 the Treasurer is in preliminary discussions with Gordian Knot to explore the possibility of acquiring securities from Sigma in exchange for the pools' remaining holdings of Sigma (\$75 million with an October 30, 2008 maturity date).

The Treasurer has priced the outstanding \$75 million of Sigma medium-term note holdings at 94.6494. The price is based on the weighted average life and credit ratings information of Sigma's investment portfolio as provided by Gordian Knot. The Treasurer computed the price using a yield curve analysis for finance companies using Sigma's reported portfolio credit ratings and weighted average life.

##### Whistlejacket Capital LLC

On February 11, Standard Chartered Bank notified the Trustee, Bank of New York Trust Company, that Whistlejacket had breached the 50% capital net asset value (NAV) test. The breach triggered an enforcement event which transferred the management of Whistlejacket to the Trustee. The Trustee has appointed Deloitte & Touche LLP as Receiver and advisor. The Receiver elected to stop payment of maturing debt while it sought its legal options and explored restructuring options. Medium-term notes maturing Feb. 15, 2008 were not paid and after a three-day grace period the payment default took effect on Thursday, Feb 21. The sponsor, Standard Chartered Bank withdrew its liquidity support proposals on February 20.

The Treasurer is working closely with County Counsel and counsel in Great Britain to monitor ongoing Whistlejacket legal proceedings. The Treasurer has participated in several senior investor calls with the Receiver, Deloitte & Touche. In April and early May the Receiver discussed three refinancing proposals which were being pursued pending the final outcome of the Court of Appeals decision described below. On May 22, the British Supreme Court of Judicature Court of Appeal (Civil Division) released their opinion on an appeal of a lower court ruling related to the correct interpretation of the manner in which monies held by the Receivers should be applied as amongst Whistlejacket's creditors. The Court of Appeal held that the Receivers have discretion as to the realization of assets, provisioning for future liabilities, and the amount and timing of distributions to creditors. In particular, the Court of Appeals held that the Receivers should, when they choose to make distributions to creditors, make such distributions to creditors whose debts are due and payable but pro-

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2007**

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

**Subsequent Events Related to Whistlejacket LLC and Sigma Finance Inc. (continued)**

**Whistlejacket (continued)**

rata and pari passu with creditors whose debts are not yet payable. A party to the suit, known as Party A, has filed a written submission with the Court of Appeal for leave to appeal to the House of Lords. The timing and outcome of the appeal is unknown at this time. The Receiver has also indicated they have already selected a replacement investment banker to assist them in completing the restructuring.

The Extended Fund currently has Whistlejacket holdings of \$50 million scheduled to mature on January 25, 2009 and \$30 million on January 26, 2009. The timing and amounts of payments on these holdings is at the Receiver's discretion subject to events which are currently indeterminate.

Due to the unavailability of independent pricing for Whistlejacket, the Treasurer utilized a discounted present value analysis to price the Whistlejacket holdings at 88.4 as of December 31, 2007. This price results in an unrealized loss of \$10.9 million of the \$80 million face value. The Treasurer was limited to using stated interest rates, yield curves for similarly rated assets, current credit ratings, summary weighted average maturity information from the Receiver's reports, and quarterly interest cash flows for each of the Whistlejacket holdings in arriving at this price.

The Treasurer is unable to obtain independent pricing at a security level for the underlying assets in the Whistlejacket portfolio without signing a confidentiality agreement. The Treasurer's office has complied with a directive by the Chairman of the Board of Supervisors not to enter into this confidentiality agreement. The Treasurer's office is working with County Counsel and the Board of Supervisors to determine the best course of action.

The Treasurer continues to monitor the effect of the SIVs on the entire portfolio and provides updates within the Treasurer's Monthly Management Report which is available on the web at [www.ttc.ocgov.com](http://www.ttc.ocgov.com).