



Orange County Auditor-Controller Internal Audit



Report on Audit of the
Schedule of Assets Held by the
County Treasury as of June 30, 2016

Audit Number 1611
Report Date: May 17, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1611

May 17, 2017

TO: Members, Board of Supervisors
Chairwoman Michelle Steel, 2nd District Supervisor
Vice Chair Andrew Do, 1st District Supervisor
Supervisor Todd Spitzer, 3rd District
Supervisor Shawn Nelson, 4th District
Supervisor Lisa A. Bartlett, 5th District

SUBJECT: Report on Audit of the Schedule of Assets Held by the
County Treasury as of June 30, 2016

We have completed our Report on Audit of the Schedule of Assets Held by the County Treasury as of June 30, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter and the implementation status of audit recommendations as disclosed by our Follow-Up Audits.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Audit Oversight Committee
- Members, Treasury Oversight Committee
- Eric H. Woolery, Auditor-Controller
- Shari L. Freidenrich, Treasurer-Tax Collector
- Frank Kim, County Executive Officer
- Michelle Aguirre, Chief Financial Officer
- Mark Malbon, Chief Assistant Treasurer-Tax Collector - Treasury
- JC Squires, Financial Manager, Treasurer-Tax Collector - Treasury
- Jennifer Han, Accounting/Compliance Manager, Treasurer-Tax Collector - Treasury
- Claire Moynihan, Director, Central Accounting Operations, Auditor-Controller
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Held by the County Treasury
Audit No. 1611***

As of June 30, 2016

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Independent Auditor's Report

Independent Auditor's Report

The Honorable Board of Supervisors
County of Orange, California

Report on the Financial Schedule

We have audited the accompanying modified cash-basis Schedule of Assets Held by the County Treasury (Schedule) of County of Orange, California (County), as of June 30, 2016, and the related notes to the Schedule.

Management's Responsibility for the Financial Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the modified cash-basis of accounting described in Note 1; this includes determining that the modified cash-basis of accounting is an acceptable basis for preparation of the Schedule in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for the requirement of an external peer review assessment performed in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independent Auditor's Report

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the assets held by the County Treasury of the County as of June 30, 2016, in accordance with the modified cash-basis of accounting as described in Note 1.

Emphasis of Matter

We draw attention to Note 1 to the Schedule, which describes the basis of accounting. The Schedule was prepared by the County on the modified cash-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. As discussed in Note 2 to the Schedule, effective July 1, 2015, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017, on our consideration of the County Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County Treasurer's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division
May 17, 2017



Schedule of Assets Held by the County Treasury

ORANGE COUNTY TREASURY
 Schedule of Assets Held by the County Treasury
 As of June 30, 2016

	OCIP	OCEIP	Non-Pooled	Total
CASH				
Cash On Hand	\$ 79,955	\$ -	\$ -	\$ 79,955
Bank Demand Accounts	14,033,462	21,163,404	-	35,196,866
Total Cash	14,113,417	21,163,404	-	35,276,821
INVESTMENTS, stated at fair value				
<i>Orange County Investment Pool (OCIP):</i>				
Orange County Money Market Fund	928,467,500	-	-	928,467,500
Extended Fund	2,750,111,875	-	-	2,750,111,875
<i>Orange County Educational Investment Pool (OCEIP):</i>				
Orange County Educational Money Market Fund	-	1,611,309,522	-	1,611,309,522
Extended Fund	-	2,637,418,798	-	2,637,418,798
<i>Non-Pooled</i>				
Total Investments	-	-	308,238,131	308,238,131
	3,678,579,375	4,248,728,320	308,238,131	8,235,545,826
TOTAL ASSETS	\$3,692,692,792	\$4,269,891,724	\$308,238,131	\$8,270,822,647

See accompanying notes to the Schedule.



Notes to the Schedule

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Schedule includes the cash balances of all funds that the Office of the Treasurer-Tax Collector (Treasurer) invests according to California Government Code and the Treasurer's Investment Policy Statement (IPS). These public funds are called the Orange County Investment Fund (OCIF). Within the OCIF the County maintains two external investment pools: the Orange County Investment Pool (OCIP) that includes the voluntary participants' funds; the Orange County Educational Investment Pool (OCEIP), which is utilized exclusively by the County's public school and community college districts; and various other specific investment funds, including John Wayne Airport. The Treasurer is authorized by state law to pool funds for the County and other non-County entities for the purpose of benefiting from economies of scale, reduce duplication and to carry out consolidated banking and investment activities. The Schedule does not include cash and investments for the Orange County Employees Retirement System, CalOptima, certain deferred compensation funds and other debt reserve funds held in trust outside and independent of the County Treasury. The two external pools are not registered with the Securities and Exchange Commission ("SEC") as an investment company. The two external pools do not have any legally binding guarantees of share values.

Unless otherwise required in a trust agreement or other financial document, assessment districts and public school and community college districts are required by legal provisions to deposit their funds with the County Treasurer. The OCEIP consists entirely of public school and community college districts' funds and therefore includes 100% involuntary participants. At June 30, 2016, the OCIP involuntary non-county participant deposits totaled 11.57%, including funds for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

The Schedule is presented on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). Receipts are recognized when received by the Treasurer; disbursements are recognized when paid by the bank; and the value of investments is stated at fair value. The Schedule's modified cash basis primarily differs from the cash basis of accounting by the amount of outstanding checks of \$149.3 million at June 30, 2016.

The Treasurer has stated required investments at fair value in the accompanying Schedule. Management contracts with a third-party vendor and its custodian bank to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value (NAV) of the pools are calculated each business day.

The Treasurer values participants' shares in the pools using amortized cost. 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 at stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and less (4) estimated investment and administrative expenses. This method differs from the fair value method used to value investments in this Schedule because the amortized cost method does not distribute to participants all unrealized gains and losses in the fair values of the pools' investments.



Notes to the Schedule

2. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for authorizing all County bank accounts and pursuant to California Government Code (CGC) Sections 27000.1 – 27000.5, 27130 – 27137 and 53600 – 53686, is responsible for conducting County investment activities of the County's investment pooled funds in addition to various individual investment accounts outside of the pooled funds. These public funds are called the Orange County Investment Fund (OCIF). Within the OCIF, the Treasurer maintains an Orange County Investment Pool (OCIP) and an Orange County Educational Investment Pool (OCEIP), which are "external investment pools" wherein monies of the County and other legally separate external entities, which are not part of the County reporting entity, are commingled (pooled) and invested on the participants' behalf. In addition, the Treasurer maintains the John Wayne Airport Investment Fund (JWA) and other specific investments. The County's Investment Pools are not registered with the Securities and Exchange Commission (SEC) as an investment company.

The Treasurer further invests pooled funds from the OCIP and OCEIP into three funds, the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF), and the Extended Fund. On June 16, 2016, Standard & Poor's (S&P) reaffirmed an AAA Principal Stability Fund Rating (AAAm) for both the OCMMF and the OCEMMF. The two money market funds are required to maintain a Net Asset Value (NAV) of between \$0.995 (in absolute dollar amounts) and \$1.005 (in absolute dollar amounts) to maintain an AAAm rating. Neither the Money Market Funds nor the Extended Fund have any legally binding guarantees of share values.

The maximum maturity of investments for the two Money Market Funds is 13 months with a maximum weighted average maturity (WAM) of 60 days. The maximum maturity of the Extended Fund is five years per CGC. The Investment Policy Statement (IPS) provides that the Extended Fund shall have a duration not to exceed a leading 1-3 Year index +25%.

Pursuant to CGC Sections 27130-27137, the Board has established a Treasury Oversight Committee (TOC) that monitors and reviews the IPS annually and also ensures that the Treasurer has an audit annually, which includes limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools, or their respective designees, and four public members of which a majority shall have expertise in, or an academic background in, public finance.

The investment practices and policies of the Treasurer are based on compliance with state law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested, with secondary emphasis on providing adequate liquidity to Pool Participants. The last goal is to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and is reported as a transfer to the recipient fund.



Notes to the Schedule

A. Deposits

CGC 53652 et. seq. and the IPS prescribe the amount of collateral that is required to secure the deposit of public funds. The pledge to secure deposits is administered by the California Commissioner of Business Oversight. Collateral is required for demand deposits at 110% of all deposits not covered by Federal Depository Insurance Corporation (FDIC) 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% 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. 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 to provide, among other things, that the collateral securities are held separately from the assets of the custodial institution. FDIC is available for interest-bearing funds deposited at any one financial institution up to a maximum of \$250,000.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. The County's deposits are not exposed to custodial credit risk, since all of its deposits are covered by FDIC or collateralized with securities held by the County or its agent in the County's name in accordance with CGC Section 53562.

B. Investments

The CGC Sections 53601 & 53635, Board ordinances and resolutions, the County's IPS, the bond indenture documents, trust agreements, and other contractual agreements govern the investments that may be purchased and may include certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality and timing to minimize the risk of loss. The IPS adds further restrictions to permitted investments from the CGC. As of June 30, 2016, the Treasurer was in full compliance with the more restrictive IPS for the OCIP, OCEIP, and all specific investments.

The following table provides a summary listing of the authorized investments as of June 30, 2016.

Type of Investment	CGC % of Funds Permitted	Orange County IPS (%)	CGC Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities	100%	100% total, no more than 33% in one issuer excluding securities with final maturities of 30 days or less	5 Years	5 Years	397 Days
Municipal Debt	100%	30% total, no more than 5% in one issuer except 10%-County of Orange	5 Years	5 Years	397 Days
Medium-Term Notes	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% total, no more than 5% in one issuer	180 Days	180 Days	180 Days



Notes to the Schedule

Type of Investment	CGC % of Funds Permitted	Orange County IPS (%)	CGC Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
Commercial Paper	40%, 10% of a single issuer	40% total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days
State of California Local Agency Investment Fund	\$50 million per account	\$50 million per pool	N/A	N/A	N/A
Repurchase Agreements	100%	20% total, no more than 10% in one issuer	1 Year	1 Year	1 Year
Money Market Mutual Funds	20%	20% total	N/A	N/A	N/A
Investment Pools	100%	20% total, no more than 10% in one pool	N/A	N/A	N/A
Supranationals	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days

The current IPS expressly prohibits leverage, reverse repurchase agreements as defined by CGC, structured notes, structured investment vehicles, and derivatives. All investments must be United States dollar denominated. No investment may be purchased from an issuer and all related entities, including parent and subsidiaries, that has been placed on credit watch-negative by any of the Nationally Recognized Statistical Rating Organizations (NRSROs), or whose credit rating by any of the NRSROs 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+ or a long-term rating of at least a AA or Aa2 by S&P, Fitch or Moody's; and the Treasurer has approved the purchase in writing prior to purchase.

Investments by the Treasurer are stated at fair value. Investments in the OCIF are marked to market on a daily basis. If the NAV of the OCMMF or OCEMMF is less than \$0.995 (in absolute dollar amounts) or greater than \$1.005 (in absolute dollar amounts), portfolio holdings may be sold as necessary to maintain the ratio between \$0.995 (in absolute dollar amounts) and \$1.005 (in absolute dollar amounts).

Investment Disclosures

The following table presents a summary of the County's investments, the credit quality distribution, and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2016.



Notes to the Schedule

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Ratings Category (1)	% of Portfolio
OCIP (2)							
U.S. Government Agencies							
FNMA Discount Notes	\$ 45,114,730	\$ 45,152,000	0.29 - 0.65%	08/12/16 - 01/05/17	0.230	A-1	1.24%
FNMA Bonds	447,621,542	445,124,956	0.30 - 1.18%	07/05/16 - 02/26/19	1.354	AA	12.17%
FFCB Discount Notes	63,970,814	64,096,146	0.47 - 0.59%	12/21/16 - 12/27/16	0.485	A-1	1.74%
FFCB Bonds	185,626,059	184,910,846	0.29 - 1.18%	08/11/16 - 04/26/19	1.626	AA	5.05%
FFCB Bonds - Floating Rate	60,020,800	60,000,000	0.29 - 1.18%	11/04/16 - 11/07/16	0.002	AA	1.63%
FHLB Discount Notes	411,243,267	411,312,118	0.24 - 0.50%	07/01/16 - 09/26/16	0.009	A-1	11.18%
FHLB Bonds	402,822,254	401,522,948	0.49 - 1.64%	08/26/16 - 12/20/18	1.240	AA	10.95%
FHLMC Bonds	611,476,562	607,521,803	0.37 - 1.14%	08/25/16 - 04/16/19	1.689	AA	16.62%
Negotiable Certificates of Deposit							
Fixed Rate	157,881,077	156,581,280	0.66 - 1.75%	08/26/16 - 03/29/19	0.439	AA	4.29%
Floating Rate	5,000,100	5,000,000	0.94%	03/28/17	0.077	A-1	0.14%
Medium-Term Corporate Notes							
Corporate Notes	68,617,095	67,109,918	0.55 - 1.35%	08/15/16 - 08/15/18	1.290	A	1.86%
Corporate Notes	116,086,923	113,567,706	0.65 - 1.49%	04/05/17 - 12/15/18	1.148	AA	3.16%
Corporate Notes - Floating Rate	15,007,875	15,000,000	0.65 - 0.66%	05/05/17 - 05/12/17	0.014	AA	0.41%
Corporate Notes	30,879,156	30,197,975	0.59 - 1.41%	11/28/16 - 12/05/18	1.904	AAA	0.84%
Municipal Debt	77,850,765	77,666,499	0.75 - 1.21%	08/01/16 - 06/30/17	0.237	AA	2.12%
U.S. Treasuries	850,804,691	845,879,122	0.24 - 1.12%	07/15/16 - 04/30/19	0.964	AA	23.13%
Money Market Mutual Funds	128,555,665	128,555,665	0.27 - 0.28%	07/01/16	0.003	AAA	3.49%
	\$ 3,678,579,375	\$ 3,659,198,982			1.087 (3)		100.00%

OCIEP (2)							
U.S. Government Agencies							
FNMA Discount Notes	\$ 42,983,085	\$ 43,000,000	0.23 - 1.088%	08/24/16 - 09/19/16	0.157	A-1	1.01%
FNMA Bonds	454,049,317	451,766,044	0.28 - 1.18%	07/05/16 - 02/26/16	1.291	AA	10.69%
FNMA Bonds - Floating Rate	25,003,250	25,000,000	0.28%	07/05/16	0.004	AA	0.59%
FFCB Discount Notes	123,658,524	123,802,854	0.25 - 0.72%	07/01/16 - 12/27/16	0.309	A-1	2.91%
FFCB Bonds	186,293,026	185,467,154	0.29 - 1.18%	08/11/16 - 04/26/19	1.579	AA	4.38%
FFCB Bonds - Floating Rate	76,017,995	76,000,000	0.28 - 0.58%	07/20/16 - 11/07/16	0.003	AA	1.79%
FHLB Discount Notes	599,705,805	599,888,882	0.27 - 0.74%	07/06/16 - 03/10/17	0.115	A-1	14.11%
FHLB Bonds	453,827,518	452,522,052	0.37 - 1.64%	08/26/16 - 12/20/18	1.545	AA	10.68%
FHLMC Discount Notes	99,973,350	100,000,000	0.23 - 0.30%	07/07/16 - 09/15/16	0.112	A-1	2.35%
FHLMC Bonds	593,063,294	589,254,197	0.37 - 1.14%	08/25/16 - 04/16/19	1.679	AA	13.96%
Commercial Paper							
Negotiable Certificates of Deposit							
Fixed Rate	138,651,614	137,418,720	0.58 - 1.75%	08/29/16 - 03/29/19	0.408	AA	3.26%
Floating Rate	16,701,897	16,700,000	0.58 - 0.98%	07/05/16 - 04/06/17	0.000	AA	0.39%
Medium-Term Corporate Notes							
Corporate Notes	73,667,589	72,151,082	0.55 - 1.35%	08/15/16 - 08/15/18	1.221	A	1.73%
Corporate Notes	110,895,832	108,453,294	0.65 - 1.49%	04/05/17 - 12/15/18	1.149	AA	2.61%
Corporate Notes - Floating Rate	15,152,961	15,145,000	0.65 - 0.67%	11/28/16 - 05/12/17	0.015	AA	0.36%
Corporate Notes	29,485,325	28,832,025	0.93 - 1.41%	08/15/17 - 12/05/18	1.911	AAA	0.69%
Corporate Notes - Floating Rate	500,255	500,000	0.67%	11/28/16	0.003	AAA	0.01%
Municipal Debt	75,476,855	75,298,501	0.75 - 1.21%	08/01/16 - 06/30/17	0.239	AA	1.78%
U.S. Treasuries	878,114,806	873,265,878	0.23 - 1.12%	07/15/16 - 04/30/19	0.913	AA	20.67%
Money Market Mutual Funds	255,506,022	255,506,022	0.27 - 0.28%	07/01/16	0.003	AAA	6.01%
	\$ 4,248,728,320	\$ 4,229,971,705			0.929 (3)		100.00%



Notes to the Schedule

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Ratings Category (1)	% of Portfolio
Specific Investments (2)							
U.S. Government Agencies							
FNMA Discount Notes	\$ 1,498,905	\$ 1,500,000	0.30 - 0.36%	07/25/16 - 10/13/16	0.215	A-1	0.50%
FNMA Bonds	22,384,216	22,118,000	0.35 - 1.62%	07/05/16 - 05/06/21	1.902	AA	7.26%
FFCB Bonds	8,485,764	8,435,000	0.29 - 1.08%	07/12/16 - 06/25/18	0.918	AA	2.75%
FFCB Bonds - Floating Rate	5,060,882	5,060,000	0.29 - 0.58%	08/15/16 - 02/23/17	0.005	AA	1.64%
FHLB Discount Notes	9,116,972	9,121,000	0.28 - 0.53%	07/19/16 - 10/28/16	0.147	A-1	2.96%
FHLB Bonds	18,362,792	18,110,000	0.35 - 1.78%	07/20/16 - 07/29/20	1.726	AA	5.96%
FHLMC Discount Notes	1,671,346	1,672,000	0.33 - 0.54%	07/06/16 - 09/21/16	0.143	A-1	0.54%
FHLMC Bonds	6,562,080	6,547,000	0.35 - 0.94%	07/18/16 - 01/12/18	0.888	AA	2.13%
GNMA Bonds	86,955	83,916	6.25%	9/20/29	13.233	AA	0.02%
Negotiable Certificates of Deposit							
Fixed Rate	1,750,361	1,750,000	0.59 - 0.80%	7/25/16 - 9/29/16	0.094	A-1	0.57%
Floating Rate	1,600,091	1,600,000	0.24 - 0.28%	07/05/16	0.014	A-1	0.52%
Medium-Term Corporate Notes							
Corporate Notes - Floating Rate	401,688	401,000	0.69 - 0.71%	01/10/17 - 04/21/17	0.454	AA	0.13%
Corporate Notes - Floating Rate	100,051	100,000	0.61%	11/28/16	0.162	AAA	0.03%
Municipal Debt	6,500,780	6,500,000	4.81%	07/01/16	0.003	AA	2.11%
U.S. Treasuries	3,564,258	3,500,000	1.50%	01/31/21	4.592	AA	1.16%
Repurchase Agreements	1,081,500	1,081,500	6.20%	8/15/19	3.126	AA	0.35%
Money Market Mutual Funds	220,009,490	220,009,490	0.22 - 0.28%	7/1/16	0.003	AAA	71.38%
	\$ 308,238,131	\$ 307,588,906			0.363 (3)		100.00%

(1) The County obtains credit ratings from S&P, Moody's, and Fitch. The ratings indicative of the greatest degree of risk have been disclosed.

(2) Legend:

- FNMA-Federal National Mortgage Association
- FFCB-Federal Farm Credit Bank
- FHLB-Federal Home Loan Bank
- FHLMC-Federal Home Loan Mortgage Corporation
- GNMA-Government National Mortgage Association

(3) Portfolio weighted average maturity

The County categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices based on quoted identical assets in an active market.
- Level 2: Investments reflect prices that are based on identical or similar assets in inactive markets or similar assets in active markets. Inputs other than quotes are observable.
- Level 3: Investments reflect prices based on significant unobservable inputs.

The County has one investment using Level 1 inputs, one investment using Level 3 inputs, and all other investments using Level 2 inputs. Fair value measurement is based on pricing received from the County's third party vendors. Money market mutual funds are priced using amortized cost, with a net asset value of \$1 (in absolute dollar amounts) per share, and per GASB Statement No. 72 not subject to the fair value hierarchy. The County uses the market approach method as a valuation technique in the application of GASB Statement No. 72. This method uses prices and other relevant information generated by market transactions involving identical or similar assets or groups of assets.



Notes to the Schedule

The following table presents a summary of the County's investments according to the assigned fair value hierarchy level as of June 30, 2016.

	Total	Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
OCIP				
U.S. Government Agencies	\$ 2,227,896,028	\$ -	\$ 2,227,896,028	\$ -
Negotiable Certificates of Deposit	162,881,177	-	162,881,177	-
Medium-Term Corporate Notes	230,591,049	-	230,591,049	-
Municipal Debt	77,850,765	-	77,850,765	-
U.S. Treasuries	850,804,691	-	850,804,691	-
Total	\$ 3,550,023,710	\$ -	\$ 3,550,023,710	\$ -
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	128,555,665			
Total	\$ 3,678,579,375			
OCEP				
U.S. Government Agencies	\$ 2,654,575,164	\$ -	\$ 2,654,575,164	\$ -
Negotiable Certificates of Deposit	155,353,511	-	155,353,511	-
Medium-Term Corporate Notes	229,701,962	-	229,701,962	-
Municipal Debt	75,476,855	-	75,476,855	-
U.S. Treasuries	878,114,806	-	878,114,806	-
Total	\$ 3,993,222,298	\$ -	\$ 3,993,222,298	\$ -
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	255,506,022			
Total	\$ 4,248,728,320			
Specific Investments				
U.S. Government Agencies	\$ 73,229,912	\$ -	\$ 73,229,912	\$ -
Negotiable Certificates of Deposit	3,350,452	1,850,254	1,500,198	-
Medium-Term Corporate Notes	501,739	-	501,739	-
Municipal Debt	6,500,780	-	6,500,780	-
U.S. Treasuries	3,564,258	-	3,564,258	-
Repurchase Agreement	1,081,500	-	-	1,081,500
Sub-total	\$ 88,228,641	\$ 1,850,254	\$ 85,296,887	\$ 1,081,500
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	220,009,490			
Total	\$ 308,238,131			



Notes to the Schedule

Investment in County of Orange Taxable Pension Obligation Bonds 2016, Series A

On January 13, 2016, the OCIP and the OCEIP purchased a portion of the County issued Taxable Pension Obligation Bonds 2016, Series A (2016 POBs) in the principal amount of \$153 million. The 2016 POBs were issued with a fixed coupon rate and with maturities from August 2016 to June 2017. The obligation of the County to pay principal and interest on the 2016 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2016, the outstanding principal amount of the 2016 POBs is \$153 million. The bonds are rated AA by S&P. The County's investment in the 2016 POBs is disclosed herein as Municipal Debt.

Interest Rate Risk - Investments

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, investments of longer maturities are more sensitive to changes in market interest rates. Declines in the fair value of investments are managed by limiting the length of the maturity of the securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment policy. Weighted average days (WAM) to maturity by investment type for the funds invested in the Pools are presented in the table in the Investment Disclosures section.

The OCIP of approximately \$3.7 billion and OCEIP of \$4.2 billion at June 30, 2016, have over 36.6% and 46.6%, respectively, of the investments maturing in six months or less, 63.4% and 53.4%, respectively, maturing between six months and three years.

As of June 30, 2016, variable-rate notes comprised 2.2% and 2.5% of the OCIP and the OCEIP, respectively. The notes are tied to the Federal Funds rate, 90-day Treasury Bill rate, one-month and three-month London Interbank Offered Rate (LIBOR) with daily, 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 a 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 WAM, the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

The annual average daily investment balance of the OCIP and the OCEIP was approximately \$3.8 billion for each, with an annual net yield of 0.65% and 0.66% respectively for the pools, for the year ended June 30, 2016.

Interest Rate Risk-Weighted Average Maturity (Money Market Funds)

At June 30, 2016, the OCMMF and OCEMMF amounted to \$0.9 billion and \$1.6 billion, respectively. In accordance with the Board formally approved IPS, the Treasurer manages the Pool's exposure to declines in fair value for deposits and investments by limiting the WAM to 60 days in the Money Market Funds. At June 30, 2016, the WAM of the OCMMF was 56 days and the OCEMMF was 57 days. At the same date, the NAV of the Money Market Funds for both pools was \$1.00 (in absolute dollar amounts).

Interest Rate Risk-Duration (Extended Fund)

At June 30, 2016, the Extended Fund (which includes funds from both the OCIP and the OCEIP) balance was approximately \$5.4 billion. Of this amount, the OCIP owned 51.1% and the OCEIP owned 48.9%. In accordance with the IPS, the Treasurer manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index (2.35). The portfolio duration for the Extended Fund as of June 30, 2016 was 1.31 years. This was computed using the effective duration method, which takes into account the way in which changes in yield will affect the expected cash flows for callable bonds.



Notes to the Schedule

As of June 30, 2016, the Extended Fund had the following duration by investment type:

Investment Type	Fair Value	Effective Duration (In Years)	Portfolio %
Negotiable Certificates Of Deposit	201,492,936	2.25	3.74%
Medium-Term Corporate Notes	362,353,729	1.85	6.73%
U.S. Government Agencies	\$ 3,155,742,879	1.34	58.57%
U.S. Treasuries	1,568,807,252	1.02	29.12%
Municipal Debt	99,133,878	0.78	1.84%
Total Fair Value	\$ 5,387,530,674		
Portfolio Duration		1.31	

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. The IPS does not permit investments in uninsured and unregistered securities not held by the County. The Treasurer utilizes third party delivery versus payment (DVP) which mitigates any custodial credit risk. Securities purchased by the Treasurer are held by third party custodians in their trust department to mitigate custodial credit risk. At year-end, in accordance with the IPS, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk, and the Treasurer did not have any securities lending during the year (or at year-end).

Credit Risk - Investments

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following NRSROs: S&P, Moody's, or Fitch. For an issuer of short-term debt, the rating must be no less than A-1 or SP-1 (S&P), P-1 or MIG 1/VMIG 1 (Moody's), or F1 (Fitch), while an issuer of long-term debt shall be rated no less than an A in the Money Market Funds and AA in the Extended Fund. Municipal debt issued by the County is exempt from the above credit rating requirements. As of June 30, 2016, the County's investments were in compliance with the IPS limits.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2016, all investments were in compliance with state law and the IPS single issuer limits. See the County's investments table for concentrations of holdings in U.S. government agencies.

Foreign Currency Risk

The IPS requires all securities to be U.S. dollar denominated. The County Pools are not exposed to foreign currency risk.



Notes to the Schedule

3. SUBSEQUENT EVENTS

Annual IPS Change

The Board of Supervisors approved the 2017 IPS on November 22, 2016, which included changes to allowed investments and revisions to conform to CGC. The following changes to the IPS were approved by the Board: the issuer limit for government agency securities was increased from 33% to 50% of any individual pool's total assets; the maximum remaining maturity for Negotiable Certificates of Deposit was reduced from five years to three years; and the maximum remaining maturity for Medium Term Notes was reduced from five years to three years for longer term pools.

Investment in County of Orange Taxable Pension Obligation Bonds 2017, Series A

On January 13, 2017, the OCIP and the OCEIP purchased all of the County issued Taxable Pension Obligation Bonds 2017, Series A (2017 POBs) in the principal amount of \$375.5 million in a private placement. The 2017 POBs were issued as standard bonds, with five fixed rate coupon tranches with maturities from August 2017 to June 2018. The obligation of the County to pay principal and interest on the 2017 POBs is an obligation imposed by law and is absolute and unconditional. The 2017 POBs are not rated.



Other Report

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedule Performed in Accordance with Government Auditing Standards

The Honorable Board of Supervisors
County of Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, except for the requirement of an external peer review assessment performed in accordance with *Government Auditing Standards*, the Schedule of Assets Held by the County Treasury (Schedule) of County of Orange, California (County), as of June 30, 2016, and the related notes to the Schedule, and have issued our report thereon dated May 17, 2017. As discussed in Note 2, effective July 1, 2015, the County adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered the County Treasurer's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County Treasurer's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Treasurer's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did note certain internal control matters that were not considered material weaknesses or significant deficiencies that we will report to Treasury management in a separate Management Letter.



Other Report

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Treasurer's Schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or others matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division
May 17, 2017