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OVERVIEW DISCLOSURE OF ALLOCATION AND APPORTIONMENT OF INVESTMENT POOL INTEREST EARNINGS

Background Information about the County and Educational Investment Pools

The County Treasurer maintains two cash and investment pools: the Orange County Investment Pool ("OCIP") and the Orange County Educational Investment Pool ("OCEIP") (together "the Pools"), the latter of which is utilized exclusively by the County's public school and community college districts. These pools are maintained for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities.

OCIP funds are invested in a Money Market (S-T) component and an Extended (L-T) component. OCEIP funds are invested in a Money Market (S-T) component and an Extended (L-T) component. The Treasurer may also maintain specific investment accounts for certain Agency or County and School District monies which are held separate and apart from the Pools. Each participant's deposits in the Pools are allocated between the S-T and the L-T components.

Significant Accounting Assumptions and Valuation of Pool Participant Shares

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 set forth in Governmental Accounting Standards Board Statement 31 because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the Pools' investments.

The County does not guarantee or insure the Net Asset Value of the Pools nor are the Pools registered with the SEC.

California Government Code Section 53647

The interest apportionment process is set forth in California Government Code Section 53647 as follows:

(a) Interest on all money deposited belongs to, and shall be paid quarterly into the general fund of, the local agency represented by the officer making the deposit, unless otherwise directed by law.

(b) Notwithstanding the provisions of subdivision (a), and except as otherwise directed by law, if the governing body of the local agency represented by the officer making the deposit so directs, such interest shall be paid to the fund which contains the principal on which the interest accrued.

Timing of Interest Apportionment Postings to Participant Accounts

The Treasurer determines the interest earnings for the respective Pools on an accrual basis. On a monthly basis, accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual Pool participant based upon their average daily balance on deposit with the Treasurer. Pool participant earnings are posted as an accrual in the Treasurer's Fund Accounting System on the first business day of the following month. Pool participants' accrual basis earnings are recorded as a receivable along with the related revenue in the County's general ledger in the following month. Accrued but undistributed interest earnings (interest receivable) are added to Pool participants' average balances in determining a participant's relative share of the Pool's monthly accrual basis earnings.

The County uses Fund 691- Unapportioned Interest to accumulate and apportion interest earnings. Accruals are posted as of the first business day of the following month and the cash distribution subsequently occurs once there is sufficient cash in Fund 691 to pay the entire accrual earnings for the respective month.

The Treasurer's apportions or deposits the interest earnings to Pool participants' cash accounts after the related earnings are collected. This posting to cash may occur from 45 to 90 days after the end of the accrual month. The exact number of days depends on the actual cash receipts of coupon payments and maturities. Each month the Treasurer includes a forecast in the Treasurer's Monthly Investment Report estimating the date Pool participants may expect to see an actual cash deposit of interest earnings to their cash accounts in the County general ledger.

Portfolio Yield vs. Apportionment Yield

The Treasurer's Monthly Investment Report includes detailed information on the Pool's investment inventory, yield, composition, statistics, and transactions during the month. The investment pool yield reported in the Treasurer's Monthly Investment Report will vary from the apportionment yield used to allocate and distribute interest earnings to participants. The apportionment yield takes into account cash in banks whereas the portfolio yield is based solely on the yield of the respective investment Pool.

Treasury Administrative Fee

As authorized by California Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code §27130-27137 shall be included as administrative costs.

The above fee charge will be allocated to the Pool participants on a monthly basis. As of the first working day of the next month, the Pool participants' account will reflect the gross investment earnings and the monthly administrative and overhead costs. The charge is expressed as a basis point and applied to Pool participants' average balance for the month to determine the charge for each participant.

Investment Policy Statement

At least annually, the Treasury Oversight Committee recommends and the Board of Supervisors approves the Orange County Treasurer's Investment Policy Statement (IPS). Please review the currently approved IPS which is available on the Treasurer's website http://bos.ocgov.com/ocinvestments.

Reporting

The Treasurer publishes the Treasurer's Monthly Investment Report and makes it available on the web at http://bos.ocgov.com/ocinvestments. The monthly Schedule of Apportionment Yields for each Pool and the Monthly Statement of Activity is distributed by email to pool participants. The Treasurer's Fund Accounting System generates ledgers for cash accounts and interest receivable. These reports are available upon request. Please contact us for more information.