



OFFICE OF THE TREASURER-TAX COLLECTOR
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**OVERVIEW OF POOLED FUNDS AND ALLOCATION
AND APPORTIONMENT OF INVESTMENT POOL
INTEREST EARNINGS TO PARTICIPANTS**

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 and are authorized by Government Code Section 27130. This code section states that, “by pooling deposits from local agencies and other participants, county treasuries operate in the public interest when they consolidate banking and investment activities, reduce duplication, achieve economies of scale, and carry out coherent and consolidated investment strategies.”

Both OCIP and OCEIP funds are invested in a short-term component and long-term 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 based on their balance amount in relation to total pooled funds between the short-term and the long-term components.

Oversight of Pooled Funds

The Orange County pooled funds are monitored on a daily basis by the staff of the Accounting/Compliance unit of the Treasury Division. The Auditor Controller’s Internal Audit Division also monitors the portfolio monthly and provides a quarterly report. The Auditor-Controllers’ Internal Audit Division also conducts a quarterly review and annual audit of the Orange County pooled funds. The scope of the review is to verify account balances on a quarterly basis. The scope of the audit is specified by Government Auditing Standards (GAS). The Treasurer also contracts with independent outside auditors who conduct a review of the Investment portfolio as required by Sections 27130 through 27137 of the Government Code and provisions made by the County’s Investment Policy. All reports issued by the Auditor Controller and independent auditors are made available to the public online.

On a weekly basis, the Treasury Investment Committee (TIC) meets to discuss market conditions as it pertains to the investments. This group is made up of the Treasurer, Chief Assistant Treasurer-Tax Collector-Treasury, Assistant Treasurer-Tax Collector-Investments, Assistant Portfolio Manager, Jr. Financial Analyst, Credit Analyst and two investment interns.

The Treasury Oversight Committee (TOC) is a Brown Act Committee, meets at least quarterly and all other times as needed. The committee discusses, reviews and recommends all potential changes to the Investment Policy Statement. Members of the Treasury Oversight Committee include the Auditor-Controller, County Executive Officer, the County Superintendent of Schools and four members of the public. The TOC is required to present an oral and written report

Mission: Ensure safe and timely receipt, deposit, collection and investment of public funds.

annually to the Board of Supervisors and copies of the TOC report can be found at ocgov.com/ocinvestments.

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 a Treasury Administrative Fee 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 a fund called 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 this fund 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 ocgov.com/ocinvestments.

Reporting

The Treasurer publishes the Treasurer's Monthly Investment Report and makes it available on the web at ocgov.com/ocinvestments. The Monthly Apportionment Yields' and Basis Points Fees' Summary is also available at ocgov.com/ocinvestments.