



Report of the Schedule of Assets
Held by the County Treasury

June 30, 2022

Orange County Treasury

Independent Auditor’s Report 1

Financial Schedule

 Schedule of Assets Held by the County Treasury 4

 Notes to Financial Schedule 5

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards12



Independent Auditor's Report

To the Board of Supervisors
County of Orange, California

Report on the Audit of the Schedule of Assets

Opinion

We have audited the accompanying modified cash basis Schedule of Assets Held by the County Treasury (Schedule) of the County of Orange, California (County) as of and for the year ended June 30, 2022, and the related notes to the Schedule.

In our opinion, the Schedule referred to above present fairly, in all material respects, the respective assets held by the County Treasury of the County, as of June 30, 2022, in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the Schedule, which describes the basis of accounting. The Schedule is prepared 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. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Schedule of Assets

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule of Assets

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedule.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedule.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2023, on our consideration of the County Treasury'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 solely 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 the effectiveness of the County Treasury's 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 Treasury's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Laguna Hills, California
April 18, 2023

Orange County Treasury
Schedule of Assets Held by the County Treasury
(Dollar Amounts in Thousands)
June 30, 2022

	<u>Total</u>
Cash on Hand and in Banks	\$ 319,566
Orange County Treasurer's Pool	12,380,158
Specific Investment Accounts	<u>109,596</u>
Total assets	<u><u>\$ 12,809,320</u></u>

Note 1 - Summary of Significant Accounting Policies

The accompanying Schedule of Assets Held by the County Treasury (Schedule) is intended to separately report cash 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 June 30, 2022 publication of the County's Annual Comprehensive 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), which includes all cash and investment balances entrusted to the Treasurer and may include cash on hand, demand deposits, restricted cash, investments in Orange County Treasurer's Pool (OCTP) and specific investments such as the John Wayne Fund (JWA Fund). The OCTP is maintained for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities and includes County, voluntary pool participants, and school and college district funds. The OCTP are not registered with the Securities and Exchange Commission ("SEC") as an investment company. The OCTP do not have any legally binding guarantees of share values.

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 Statement's modified cash basis primarily differs from the cash basis of accounting by the amount of outstanding checks of \$114,839 at June 30, 2022.

The Treasurer has stated required investments at fair value in the accompanying Schedule, using the fair value measurement within the fair value hierarchy established by U.S. GAAP.

The Treasurer values participants' shares in the pools using an amortized cost basis. Specifically, the OCTP 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) actual administrative cost of such investing, depositing or handling of funds. 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.

Note 2 - Cash and Investments

The elected 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 (OCTP) and various non-pooled accounts, which by law, are defined as the Orange County Treasury. The non-pooled funds are called Specific Investments and include the John Wayne Airport Investment Fund (JWA).

The Treasurer further invests funds from the OCTP into three funds: The Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF), and the Extended Fund.

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 County Superintendent of Schools, or their respective designees, and four public members appointed by the Board of Supervisors, with at least three having 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.

1. Cash Deposits

Demand deposits of public funds at financial institutions that are not covered by the Federal Depository Insurance Corporation (FDIC) are required to be collateralized under CGC Section 53652 et. seq. and the IPS, which also prescribe the amount of collateral at market value that is required to secure these deposits. All such collateral is considered to be held by an agent of depository pursuant to CGC Section 53658. The pledge to secure deposits is administered by the California Department of Financial Protection and Innovation. 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 agreements are required to provide, among other things, that the collateral securities are held separately from the assets of the custodial institution.

Collateral is required for demand deposits at 110% of all deposits not covered by FDIC 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. FDIC is available for demand deposits and time saving deposits at any one financial institution up to a maximum of \$250.

2. Investments

The CGC Sections 53601 and 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. The current IPS expressly prohibits leverage, reverse repurchase agreements as defined by CGC Section 53601, structured notes, structured investment vehicles, derivatives and money market mutual funds that do not maintain a constant net asset value. As of June 30, 2022, the Treasurer was in full compliance with the CGC and the County's IPS for OCIF. Investments by the Treasurer are reported at fair value. Investments in the OCIF are marked-to-market on a daily basis.

Unless otherwise required in a trust agreement, educational districts (school and community college districts), including certain bond-related funds are required by legal provisions to deposit all monies received from any source with the County Treasurer. At June 30, 2022, the OCTP includes approximately 57.5% of these involuntary participant deposits. Involuntary (Education Code Sections 41001 and 41002) and other external pool participant funds (Government Code Section 27001.1) are deemed to be held in trust and such funds shall not be deemed funds or assets of the County and the relationship of the depositing entity and the County shall not be one of creditor-debtor.

Investment in County of Orange Taxable Pension Obligation Bonds 2022, Series A

On January 13, 2022, the OCTP purchased the County issued Taxable Pension Obligation Bonds 2022 (2022 POBs) in the principal amount of \$521,784. The 2022 POBs were issued with a fixed coupon rates ranging from to 0.68% and with maturities from July 2022 to April 2023 and are solely owned by the pooled funds in the OCIF. The obligation of the County to pay principal and interest on the 2022 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2022, the outstanding principal amount of the 2022 POBs is \$521,784. The bonds are not rated by any of the NRSROs. The OCIF – OCTP investment in the 2022 POBs is disclosed herein as Municipal Debt.

Investment in State Investment Pool

The County is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the GOV Section 16429.1 under the oversight of the Treasurer of the State of California. The fair value of the investment in this pool is reported in the accompanying financial statements at amounts based on the pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment Disclosures

Fair Value Measures

The County Treasurer 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.

Fair value measurement is based on pricing received from the County Treasurer's third-party vendors. Investments in money market mutual funds are priced using amortized cost which approximates fair value, with a net asset value of \$1.00 (in absolute dollar amounts) per share, and per GASB Statement No. 72 are not subject to the fair value hierarchy. Additionally, the Local Agency Investment Fund (LAIF) is not subject to the fair value hierarchy.

The County Treasurer 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.

The following table presents a summary of the Orange County Treasury's investments according to the assigned fair value hierarchy level as of June 30, 2022.

	Fair Value	Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
OCIF-OCTP				
U.S. Treasuries	\$ 6,272,171	\$ -	\$ 6,272,171	\$ -
U.S. Government Agencies	3,913,916	-	3,913,916	-
Municipal Debt	517,649	-	-	517,649
Total	<u>\$ 10,703,736</u>	<u>\$ -</u>	<u>\$ 10,186,087</u>	<u>\$ 517,649</u>
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	\$ 1,602,924			
Local Agency Investment Fund	73,498			
Total	<u>\$ 12,380,158</u>			
OCIF Specific Investments				
U.S. Government Agencies	\$ 56,915	\$ -	\$ 56,915	\$ -
U.S. Treasuries	41,045	-	41,045	-
Total	<u>\$ 97,960</u>	<u>\$ -</u>	<u>\$ 97,960</u>	<u>\$ -</u>
Investments Not Subject to Fair Value Hierarchy:				
Money Market Mutual Funds	\$ 11,636			
Total	<u>\$ 109,596</u>			

Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, fixed income securities 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 and providing daily and ongoing liquidity in the portfolio. The Treasurer also manages its exposure to interest rate risk by carefully matching incoming cash flows and maturing investments to meet expenditures. The duration of OCTP at June 30, 2022, is 0.79 years versus the IPS limit of 1.50 years or less, and the weighted average maturity for the OCTP is .78 years. The table below shows the maturities distribution of the OCTP as of June 30, 2022. Actual weighted average days to maturity by investment type for the OCTP are presented in the table in the Credit Risk section on the next page.

Maturities	Principal	% of Portfolio
1 day to 30 days	\$ 3,170,451	25.14%
31 days to 180 days	3,698,156	29.34%
181 days to 365 days	2,137,292	16.96%
1 year to 2 years	2,061,015	16.35%
2 years to 3 years	593,105	4.71%
3 years to 5 years	945,000	7.50%
Total	\$ 12,605,019	100.00%

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. As of June 30, 2022, the OCTP had no variable-rate notes.

Credit Risk

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations or that negative perceptions of the issuer’s ability to make these payments will cause the price to decline. The IPS, which is more restrictive than the government code, sets forth the minimum acceptable credit ratings for investments from at least two of the following NRSROs: S&P, Moody’s, or Fitch. All short-term and long-term investments, except those noted below, 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

S&P	A-1, "AA"
Moody's	P-1, MIG 1/VMIG 1, "Aa"
Fitch	F-1, "AA"

If an issuer of Long-term debt has a Short-term debt rating, then it may not be less than the minimum required Short-term debt ratings above.

- a) Municipal debt issued by the County of Orange, California, U.S. Government obligations and State Pool are exempt from the credit rating requirements listed above.
- b) Money Market Mutual and Investment Pools require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO.

No investment may be purchased from an issuer and all related entities, including parent and subsidiaries, that have been placed on “credit watch-negative” by any of the 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 AA or Aa2; and the Treasurer has approved the purchase in writing prior to purchase.

The following table presents a summary of the County's investments by interest rate risk and credit risk at June 30, 2022.

With Treasurer: OCIF-OCTP	Fair Value	Principal	Maximum Maturity	Weighted Average Maturity (Years)	Ratings ⁽¹⁾	% of Portfolio
U.S. Treasuries	\$ 6,272,171	\$ 6,425,000	5 years	0.495		50.66%
U.S. Government Agencies	3,913,916	3,980,855	5 years	0.266	AA	31.61%
Municipal Debt	517,649	521,784	3 years	0.019	NR	4.18%
Local Agency Investment Fund (LAIF)	73,498	74,457	N/A	0.000	NR	0.60%
Money Market Mutual Funds	1,602,924	1,602,923	N/A	0.000	AAA	12.95%
	<u>\$ 12,380,158</u>	<u>\$ 12,605,019</u>		<u>0.780</u> ⁽²⁾		<u>100.00%</u>

With Treasurer: Specific Investments	Fair Value	Principal	Maximum Maturity	Weighted Average Maturity (Years)	Ratings ⁽¹⁾	% of Portfolio
U.S. Treasuries	\$ 41,045	\$ 41,500	2/15/2036	0.579		37.45%
U.S. Government Agencies	56,915	56,021	11/02/35	1.682	AA	51.93%
Money Market Mutual Funds	11,636	11,636	N/A	0.000	AAA	10.62%
	<u>\$ 109,596</u>	<u>\$ 109,157</u>		<u>2.261</u> ⁽²⁾		<u>100.00%</u>

(1) The County Treasurer obtains credit ratings from S&P, Moody's, and Fitch. The ratings indicative of the greatest degree of risk have been disclosed. NR means not rated. The County Treasurer is not required to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed.

(2) Portfolio weighted average maturity.

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, 2022, all OCIF investments were in compliance with state law and the IPS single issuer limits. See the Orange County Treasury's investments table for concentrations of holdings. The following holdings in OCTP exceeded five percent of the portfolio at June 30, 2022.

Investment Type	Issuer	Fair Value	Portfolio %
U.S. Government Agencies	Federal Home Loan Bank (FHLB) Bonds	\$ 2,108,998	17.04%
	Federal Farm Credit Bank (FFCB)	1,012,781	8.18%

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 OCTP 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).

Foreign Currency Risk

The IPS requires all securities to be U.S. dollar denominated. The OCIF is not exposed to foreign currency risk.

Note 3 - Subsequent Events

Investment Policy Statement: On December 20, 2022, the Board of Supervisors (BOS) adopted Resolution 22-155 approving the 2023 Investment Policy Statement (IPS) that delegated the investment and deposit for safekeeping authority to the Treasurer-Tax Collector for calendar year 2023.

Standard & Poor's (S&P) reaffirmation of "AAAm": On November 14, 2022, S&P reaffirmed their highest rating Fund Rating of AAAM on the OCMMF and the OCEMMF.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
County of Orange, California

We have audited, in accordance with 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, the Schedule of Assets Held by the County Treasury (Schedule) of the County of Orange, California (County),, as of and for the year ended June 30, 2022, and the related notes to the Schedule and have issued our report thereon dated April 18, 2023. Our report contained an emphasis of matter regarding the basis of accounting.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Schedule, we considered the County Treasury’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County Treasury’s internal control. Accordingly, we do not express an opinion on the effectiveness of the County Treasury’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 a 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 a 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County Treasury'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 Schedule. 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 other 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 cursive script that reads "Eide Sully LLP".

Laguna Hills, California
April 18, 2023