



John M.W. Moorlach, CPA, CFP  
 Treasurer - Tax Collector of Orange County  
 12 Civic Center Plaza, Room G-76  
 P.O. Box 4515  
 Santa Ana, CA 92702

May 29, 2001

Dear Mr. Moorlach,

We have completed our analysis on the compliance reporting for Orange County's Commingled Pool (692 & 699) and Educational Pool (694) for the first quarter, January 1, 2001 through March 30, 2001.

Based upon Fitch's conducting of the agreed upon procedures, this compliance letter shall serve as an indication of Orange County's portfolio holdings' substantial conformity with its investment policy statement and California Government Code Section 53601, Section 53635, and all other relevant Government Code provisions with regard to the Commingled, Educational and Extended pools at March 30, 2001.

Fitch conducted its compliance review in accordance with a series of agreed upon procedures which required that we review, on a test basis, evidence of the portfolio holdings, perform certain mathematical calculations, and review the results with respect to Orange County's investment policy statement. In conducting this review Fitch examined the portfolio holdings on the following dates: January 26, February 16, March 9, and March 30, 2001. The scope of Fitch's review was limited to the agreed upon procedures.

With regard to the agreed upon procedures, Fitch identified the following exceptions and is of the opinion that, in all other regards, the Orange County Commingled and Educational pool portfolio holdings are in compliance with the County's investment policy statement and California Government Code Section 53601, Section 53635, and all other relevant Government Code provisions as of the sampled dates.

DATE	PORTFOLIO	VIOLATION
01/26/01	692/694	Although in compliance at the time of purchase, the rating on Lucent commercial paper and medium-term notes does not meet the criteria set forth by the IPS. These issues were either sold or matured by January 31 <sup>st</sup> , 2001.
01/26/01	692	The dollar weighted average maturity (WAM) of the Money Market Fund exceeded 90 days. The following business day, the violation was brought back into compliance.
01/26/01 02/16/01 03/06/01 03/30/01	694	Although in compliance at the time of purchase, the rating on Edison International commercial paper and medium term notes does not meet the criteria set forth by the IPS. \$20 million in commercial paper matured on January 31 <sup>st</sup> and the remaining \$20 million in medium-term notes matures on July 18 <sup>th</sup> , 2001.

In addition, Fitch reviews the noncompliance report in the Orange County Treasurer's Management Report on a monthly basis, to determine the materiality of certain Investment Policy Statement guideline violations, if any.

We note the following additional violations for the quarter ended March 30, 2001:

<u>DATE</u>	<u>PORTFOLIO</u>	<u>VIOLATION</u>
02/01/01	692	Due to a calculation error, the percentage of overall portfolio holdings for a single issuer exceeded 5 percent of the market value of the portfolio. The portfolio was brought back into compliance on February 5 <sup>th</sup> .
03/02/01	694	Due to a calculation error, the percentage of overall portfolio holdings for a single issuer exceeded 5 percent of the market value of the portfolio. On March 6 <sup>th</sup> , the portfolio was brought back into compliance.
03/26/01	699	The dollar WAM of the Extended Fund exceeded 547 days. On March 28 <sup>th</sup> , the WAM was brought back into compliance.

Although certain Investment Policy Statement guidelines were temporarily exceeded, Fitch finds no material impact of a negative nature to the Orange County Commingled and Educational Pools for the quarter ended March 30, 2001.

Fitch has relied, without independent verification, upon documents delivered to us by Orange County, and/or Orange County's custodial bank. Fitch relied solely on the County, its staff, and custodial bank as to the accuracy of such information.

Fitch does not represent, warrant or guarantee: (i) that it is providing any financial advice, auditing, accounting, appraisal or actuarial services; (ii) the accuracy, correctness, integrity, completeness or timeliness of any part of the services described herein, due to the fact that all the results of Fitch's analysis are based on information provided solely by the County of Orange; or (iii) that the information, analyses and agreed upon procedures contained in, and constituting a part of, the services described herein will fulfill any of the County's particular purposes or needs. Fitch is not responsible for any underwriting, credit, or investment decision, or damages or other losses resulting from use of the services described herein.

Regardless of the basis on which the county or any third party may be entitled to recover damages from Fitch (including: breach of warranty, contract or fiduciary duty; fraud, negligence, misrepresentation or other tort; or indemnity), Fitch's liability in connection with the services described herein is limited to actual direct damages that can be proven up to an amount not to exceed the greater of \$5,000, and the aggregate of the fees paid in connection with the services described herein. Furthermore, the party suffering such damages or losses must first exhaust any available legal and equitable remedies against parties other than Fitch. Fitch shall in no event be liable to the county or any third party (including the county's employee's and agents) for any special, incidental, indirect or consequential damages (including lost profits, savings, revenues, business opportunities or business advantages) in any way in connection with the services described herein whatsoever, even if Fitch has been advised of the possibility of such damages.

This compliance review is rendered solely for your benefit and may not be relied upon by any other person without our prior written consent. Please call me at (212) 908-0619 or Lara Storm at (212) 908-0243 with any questions.

Sincerely,

John Schiavetta, CFA  
Managing Director

Orange County Portfolio      Portfolio Dated      1/26/2001  
 Commingled Pool & Extended Pool      692 & 699

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days) 69	90	91.68	No
Weighted Avg. Maturity (Days) 69	547.0000	447.5289	Yes
Minimum NAV	0.9950	0.9993	Yes
Maximum NAV	1.01	1.00	Yes

	% Market	Maximum	Minimum	Comply
Sector	Value	Limits	Limits	Yes/No
GOVT	0.00%	100%	0%	Yes
AGENCY	16.21%	100%	0%	Yes
CP	28.12%	40%	0%	Yes
CD	23.34%	30%	0%	Yes
REPO	2.42%	50%	0%	Yes
BA	4.54%	40%	0%	Yes
MMF	1.12%	20%	0%	Yes
MTN	24.27%	30%	0%	Yes
CASH	0.00%	0%	0%	Yes
OTHER	0.00%	0.3	0	Yes
	100.0%			Yes

	Guideline	Actual	Comply Yes/No
Individual Security			Yes/No
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes*
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes

All US Dollar Denominated

\* not in compliance due to a technical incident

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days)	90	80.00	Yes
Minimum NAV	0.9950	1.0000	Yes
Maximum NAV	1.0050	1.0000	Yes

Sector	% Market Value	Maximum Limits	Minimum Limits	Comply Yes/No
GOVT	0.00%	100%	0%	Yes
AGENCY	5.50%	100%	0%	Yes
CP	38.95%	40%	0%	Yes
CD	27.38%	30%	0%	Yes
REPO	1.90%	50%	0%	Yes
BA	3.33%	40%	0%	Yes
MMF	1.00%	20%	0%	Yes
MTN	21.94%	30%	0%	Yes
CASH	0.00%	0%	0%	Yes
OTHER	0.00%	0%	0%	Yes
	100.0%			Yes

Individual Security	Guideline	Actual	Comply Yes/No
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes*
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes
All US Dollar Denominated			

\* not in compliance due to a technical incident

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

**Orange County Portfolio** Portfolio Dated 2/16/2001  
 Commingled Pool & Extended Fund 692 & 699

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days) (	90	83.00	Yes
Weighted Avg. Maturity (Days) (	547	475	Yes
Minimum NAV	0.9950	0.9995	Yes
Maximum NAV	1.01	1.00	Yes

	% Market	Maximum	Minimum	Comply
Sector	Value	Limits	Limits	Yes/No
GOVT	0.00%	100%	0%	Yes
AGENCY	15.48%	100%	0%	Yes
CP	30.30%	40%	0%	Yes
CD	22.18%	30%	0%	Yes
REPO	2.84%	50%	0%	Yes
BA	2.27%	40%	0%	Yes
MMF	3.16%	20%	0%	Yes
MTN	23.78%	30%	0%	Yes
CASH	0.00%	0%	0%	Yes
OTHER	0.0%	0.3	0	Yes
	100.0%			Yes

	Guideline	Actual	Comply Yes/No
Individual Security			
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes

All US Dollar Denominated

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

**Orange County Portfolio**

Portfolio Dated 2/16/2001

Educational Pool

694

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days)	90	88.00	Yes
Minimum NAV	0.9950	1.0001	Yes
Maximum NAV	1.0050	1.0001	Yes

Sector	% Market Value	Maximum Limits	Minimum Limits	Comply Yes/No
GOVT	0.00%	100%	0%	Yes
AGENCY	4.14%	100%	0%	Yes
CP	38.13%	40%	0%	Yes
CD	27.42%	30%	0%	Yes
REPO	3.09%	50%	0%	Yes
BA	3.09%	40%	0%	Yes
MMF	0.80%	20%	0%	Yes
MTN	23.34%	30%	0%	Yes
CASH	0.00%	0%	0%	Yes
OTHER	0.00%	0%	0%	Yes
	100.0%			Yes

Individual Security	Guideline	Actual	Comply Yes/No
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes*
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes
All US Dollar Denominated			

\* not in compliance due to a technical incident

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

**Orange County Portfolio** Portfolio Dated 3/9/2001  
 Commingled Pool & Extended Fund 692 & 699

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days) 6	90	75.00	Yes
Weighted Avg. Maturity (Days) 6	547.0000	461.0000	Yes
Minimum NAV	0.9950	1.0002	Yes
Maximum NAV	1.01	1.00	Yes

	% Market	Maximum	Minimum	Comply
Sector	Value	Limits	Limits	Yes/No
GOVT	0.0%	100%	0%	Yes
AGENCY	14.5%	100%	0%	Yes
CP	34.3%	40%	0%	Yes
CD	22.7%	30%	0%	Yes
REPO	1.8%	50%	0%	Yes
BA	4.3%	40%	0%	Yes
MMF	0.7%	20%	0%	Yes
MTN	21.6%	30%	0%	Yes
CASH	0.0%	0%	0%	Yes
OTHER	0.0%	0.3	0	Yes
	100.0%			Yes

	Guideline	Actual	Comply Yes/No
Individual Security			
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes

All US Dollar Denominated

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

**Orange County Portfolio**

Portfolio Dated

3/9/2001

Educational Pool

694

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days)	90	87.00	Yes
Minimum NAV	0.9950	1.0002	Yes
Maximum NAV	1.0050	1.0002	Yes

Sector	% Market Value	Maximum Limits	Minimum Limits	Comply Yes/No
GOVT	0.00%	100%	0%	Yes
AGENCY	4.39%	100%	0%	Yes
CP	37.02%	40%	0%	Yes
CD	27.20%	30%	0%	Yes
REPO	3.28%	50%	0%	Yes
BA	4.21%	40%	0%	Yes
MMF	0.69%	20%	0%	Yes
MTN	23.21%	30%	0%	Yes
CASH	0.00%	0%	0%	Yes
OTHER	0.00%	0%	0%	Yes
	100.0%			Yes

Individual Security	Guideline	Actual	Comply Yes/No
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes*
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes
All US Dollar Denominated			

\* not in compliance due to a technical incident

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

**Orange County Portfolio** Portfolio Dated 3/30/2001  
 Commingled Pool & Extended Fund 692 & 699

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days) (	90	77.00	Yes
Weighted Avg. Maturity (Days) (	547	525	Yes
Minimum NAV	0.9950	0.9990	Yes
Maximum NAV	1.01	1.00	Yes

	% Market	Maximum	Minimum	Comply
Sector	Value	Limits	Limits	Yes/No
GOVT	0.00%	100%	0%	Yes
AGENCY	16.49%	100%	0%	Yes
CP	29.21%	40%	0%	Yes
CD	24.07%	30%	0%	Yes
REPO	2.13%	50%	0%	Yes
BA	5.36%	40%	0%	Yes
MMF	1.16%	20%	0%	Yes
MTN	20.05%	30%	0%	Yes
CASH	0.00%	0%	0%	Yes
OTHER	1.5%	0.3	0	Yes
	100.0%			Yes

	Guideline	Actual	Comply Yes/No
Individual Security			Yes/No
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes

All US Dollar Denominated

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

**Orange County Portfolio**

Portfolio Dated

3/30/2001

Educational Pool

694

Portfolio	Guideline	Actual	Comply Yes/No
Weighted Avg. Maturity (Days)	90	85.00	Yes
Minimum NAV	0.9950	1.0004	Yes
Maximum NAV	1.0050	1.0004	Yes

Sector	% Market Value	Maximum Limits	Minimum Limits	Comply Yes/No
GOVT	0.0%	100%	0%	Yes
AGENCY	10.7%	100%	0%	Yes
CP	38.9%	40%	0%	Yes
CD	25.0%	30%	0%	Yes
REPO	1.8%	50%	0%	Yes
BA	1.9%	40%	0%	Yes
MMF	0.2%	20%	0%	Yes
MTN	21.4%	30%	0%	Yes
CASH	0.0%	0%	0%	Yes
OTHER	0.0%	0%	0%	Yes
	100.0%			Yes

Individual Security	Guideline	Actual	Comply Yes/No
Final Maturity	13 Months(1)		Yes
Credit Quality	AAA		Yes*
Repo Counterparty Rating	A1/F1		Yes
Issuer Bank BA Limit	5%		Yes
Issuer CP Limit	5%		Yes
Single Issuer Limit	5%(2)		Yes
All US Dollar Denominated			

\* Not in compliance due to a technical incident

(1) No BA or CP has a final maturity of greater than 180 days.

(2) Up to 10% for MMF and up to 100% for obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

## Attachment I

### **Portfolio Compliance Monitoring Agreed Upon Procedures**

Fitch will provide an ongoing quarterly compliance report of the Orange County's investment portfolio based on the following agreed upon procedures. The scope of the work to be performed will be limited to these agreed upon procedures and the procedures will be included as an appendix to all compliance reports issued by Fitch.

Fitch will evaluate the County's Commingled, Extended, and Educational pools as of the last day of each quarter in order to determine whether the County's pools are in compliance as of that date with the following guidelines. These guidelines were updated on December 2000 in accordance with the provisions in the Orange County Treasurer Investment Policy Statement (the IPS) effective July 2000. As per the IPS and at the request of the Orange County Treasurer's office (Orange County), the Commingled and Extended pools will be evaluated by Fitch as a single entity for compliance purposes, except for in the evaluation of weighted average maturity and net asset value. The monitoring for the Educational pool will not change. Additionally, in performing the compliance review, Fitch recognizes that Orange County makes the distinction between "noncompliance incidents" and "technical incidents". As per the IPS, as long as the percentage constraints are adhered to at the time of purchase, later changes in percentage due to a change in value or assets will not result in a violation, or noncompliance incident. The same applies to a change in credit rating subsequent to purchase. The above mentioned will be considered a "technical incident". If a percentage or credit rating is out of compliance at the time of purchase, it will be booked as a "noncompliance incident", or "violation".

At the request of Orange County, only noncompliance incidents will be reported in detail in the quarterly monitoring letter provided to the County by Fitch. Technical incidents will be noted by Fitch, but not described in detail.

#### A) Maturity

- 1) For both the Commingled and Educational pools, no individual security has a final maturity date greater than 13 months. For the Extended pool, no individual security has a final maturity date greater than three years.
- 2) The weighted average maturity (WAM) of both the Commingled and Educational pool is less than 90 days. The weighted average maturity (WAM) of the Extended pool is limited to 18 months or less.
- 3) No commercial paper has a final maturity of greater than 270 days.
- 4) No Bankers' Acceptance has a final maturity of greater than 180 days.
- 5) No receivable-backed security greater than 90 days maturity.

Fitch will rely on the final maturity dates provided by Orange County when performing the calculations. Fitch will not independently verify the accuracy of such information.

#### B) Credit Risk

Commercial Paper	at least F1, A-1, or P-1
Negotiable Certificates	at least F1, A-1, or P-1
Bankers' Acceptances	at least F1, A-1, or P-1
Receivable-Backed Securities	at least AA
Medium Term Notes	at least A
State and Local Agency	at least A

- C) Collateral Counterparty Risk - All counterparties to repurchase agreements are rated at least F1 / A-1.
- D) Net Asset Value (NAV) - Maintained within a range of 99.5 - 1.005 for both the Commingled and Educational pools. As per the IPS and as described to Fitch by Orange County, only the Commingled and Educational pools have specific NAV requirements. Fitch will rely on the NAV provided from Orange County or the custodial bank.
- E) Diversification Guidelines - Maximum percentage concentration of the portfolio at the time of purchase

U.S. Treasury	100%
U.S. Government Agencies	100%
Commercial Paper (CP)	40%
Certificates of Deposit	30%
Repurchase Agreements	50%
Bankers' Acceptances	40%
Money Market Funds	20%
Receivable Backed Securities	10%
Medium Term Notes	30%
State and Local Agency	10%

At the time of purchase, no more than 5% of the total market value may be invested in securities of one issuer with the exception that up to 10% of the total market value may be invested in the shares of one money market fund and up to 100% of the total market value may be invested in obligations of the U.S. government, U.S. government agencies, or U.S. government sponsored enterprises.

Fitch will rely on the security types and issuers provide by Orange County when performing these calculations. Fitch will not independently verify the accuracy of such information and will not "look-through" to the underlying assets of any money market fund held.

- F) All investments are U.S. dollar denominated.

Fitch does not intend to verify the type or level of over-collateralization associated with the pools' repurchase agreements and/or its time deposits exceeding \$100,000.

Additionally, Fitch will employ a random sample of not less than 3 observations from among the daily data received from Orange County to determine whether the County's pools were in compliance as of the sampled dates with regard to the aforementioned guidelines.

Fitch, in its normal course of monitoring a rated portfolio's assets, performs additional surveillance tests based on Fitch's published ratings guidelines. Fitch intends to continue to perform this surveillance function, however, Fitch does not plan to broaden the scope of these agreed upon procedures to include additional procedures used in the surveillance process.