



OFFICE OF THE TREASURER-TAX COLLECTOR

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September 10, 2007

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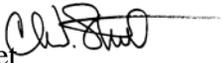
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TO: Board of Supervisors
Thomas G. Mauk, County Executive Officer
Treasury Oversight Committee
Treasurer's Advisory Committee
Participants

FROM: Chriss W. Street 
Treasurer-Tax Collector

SUBJECT: Treasurer's Management Report for August 31, 2007

Attached please find the Treasurer's Management Report for the County of Orange for the month ended August 2007. The information provided herein, including all charts, tables, graphs and numerical representations, is provided to readers solely as a general overview of the economic and market conditions which the Treasurer utilizes in making investment decisions. In addition, a complete version of this report is also available for download at our website www.ttc.ocgov.com.

TREASURER'S REPORT

In order to assist you in reading this report, please note that the current balances reflect the investments recorded in the portfolios for each particular fund for the period ending August 31. Each money market fund has an average maturity of less than ninety days, with a net asset value (NAV) falling within the range of \$0.9950 and \$1.0050. The extended fund will have an average maturity of up to 549 days and a fluctuating NAV. All investments are marked to the market at the end of the reporting period due to the narrow valuation range prescribed by the Pools' Investment Policy Statement.

The reports reflect the par value (face value), the book value (cost to the County of the investment) and market value (the price of each security at the close of the market on the last trading day of the month). Market values are derived from the Bloomberg Professional Service, a premier provider of instant access to real-time and historical financial data. The difference between the market value and book value is the unrealized gain or (loss). The Detail Transaction Report Section is provided in compliance with California Government Code Section 53607, which requires that the Treasurer file such a report with the Board of Supervisors, from whom his investment authority has been delegated.

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Investment Pool's July 2007 interest apportionment. We anticipate posting the July 2007 interest apportionment to participants' cash accounts in the County general ledger by approximately October 3, 2007.

CHANGES IN ELIGIBLE CREDITS

In the month of August, there was one change to the Treasurer's approved eligibility list.

The following was removed from the Domestic Bank Eligibility list:

1) First Tennessee Bank

The Treasury Investment Committee also discussed Lockhart Funding.

Please see the attached report detailing the reasons the above action was taken by the Treasurer

CREDIT RATINGS OBSERVATIONS

Credit rating changes in our investment universe have been fairly quiet this month even in the midst of current market turmoil. Strong credit quality remains a significant focus at the TTC. A restrictive Investment Policy Statement, continual financial analysis, and conservative investment practices support portfolio quality.

The Treasurer's Investment Policy Statement sets a high bar which limits investments to only the top-tier of investment grade. For perspective, consider that this restriction alone cuts out over 70% of the Fortune 500. Such conservative investment guidelines mean that many large well-known investment grade companies like FedEx, Time Warner and Black and Decker can't even be considered by the Treasurer's credit analysts.

Fundamental company and industry research further refines the list of approved issuers. Face-to-face meetings and open lines of communication with management supplement our more quantitative analysis. Eligible issuers are drawn from the most financially sound industries and tend to be the best positioned amongst their peer group. Conservative credit selection further winnows this group resulting in a CP and MTN "Eligibility List" that represents less than 7% of these top-tier issuers.

The TTC's conservative approach has resulted in a 12-year portfolio track record with zero defaults. It's no surprise that the overall credit quality of the pools' investments contribute to their highest ratings possible from Moody's and Fitch. During the increasingly challenging credit markets, rather than chasing the highest yielding issuers, the TTC has reduced its risk

tolerance further, strengthening the portfolios' weighted-average credit rating to its highest levels ever (see "Month-End Weighted-Average Credit Ratings").

MARKET OBSERVATIONS

August will undoubtedly be remembered as the tipping point in the most recent business cycle. First the financial markets were whipsawed by problems in hedge funds due to greater than expected defaults in the subprime markets. Later, additional problems in Europe (due to the inability to correctly determine the value of thinly traded securities) caused market participants to begin moving out of riskier securities and into Treasuries. This move took on the look of a stampede as even the ultra conservative short-term money market segment began to refuse to purchase commercial paper and instead opted for the safety of Treasury Bills. Companies with sterling credit ratings, whom only weeks before had ample access to borrow from the financial markets, found themselves squeezed out of the market and forced to find alternative sources of funding. All of this has led to a very unorganized market with rates changing dramatically day to day as everyone strives to sort out the details. During this period of turmoil it might be helpful to remember the many safeguards built into the process of running the investment pools managed by the Treasurer's office.

First, the monies are invested under one of the most conservative investment policy statements (IPS) in the state. One of its main objectives is to limit the amount of money that can be invested in any single company as well as in one type of security. This has allowed us to react quickly to changing market conditions while maintaining the safety and liquidity of our investments.

Second, there has been an ongoing commitment to fund the purchase of advanced trading and accounting systems that help safeguard the investments. We employ software at the beginning of each trade that checks against our IPS and prohibits a trade that would cause the trade/ pool to fall out of compliance. At the end of every day, accounting software makes the same checks and continues to monitor each investment along with pool specific criteria.

Finally, none of this would work smoothly unless there were quality people using these tools. Multiple managers review trading activity and meet at least once each week to review current market activity and to refine the investment process. The majority of these managers have been with the Treasurer's office for over a decade and have been instrumental in creating these processes and procedures.

We believe the market will continue to exhibit above-average volatility over the next few weeks. Rates should stabilize over the near term as expectations for a Federal Reserve rate cut at the next meeting on September 18th increase. We will maintain our strategy of selectively extending the duration of our portfolios on the belief that rates will trend lower over the coming months.

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The Treasurer's Office appreciates your continued confidence as well as the opportunity to provide you exemplary portfolio and cash management services in the future.

Interest Rate Forecast

The Treasurer's Investment committee is currently estimating an interest yield of 4.50 percent for the portfolio during fiscal year 2007-2008.

Please call with any questions.