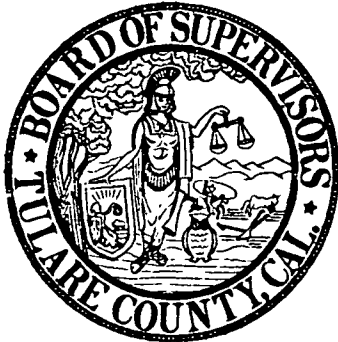


**BEFORE THE BOARD OF SUPERVISORS  
COUNTY OF TULARE, STATE OF CALIFORNIA**

IN THE MATTER OF TREASURER'S )  
INVESTMENT POOL'S COMPREHENSIVE ) Resolution No. 2018-0489  
ANNUAL FINANCIAL REPORT (CAFR) )  
FOR FISCAL YEAR 2017 )

UPON MOTION OF SUPERVISOR ENNIS, SECONDED BY SUPERVISOR CROCKER, THE FOLLOWING WAS ADOPTED BY THE BOARD OF SUPERVISORS, AT AN OFFICIAL MEETING HELD JUNE 26, 2018, BY THE FOLLOWING VOTE:

AYES: SUPERVISORS CROCKER, VANDER POEL, SHUKLIAN, WORTHLEY,  
AND ENNIS  
NOES: NONE  
ABSTAIN: NONE  
ABSENT: NONE



ATTEST: MICHAEL C. SPATA  
COUNTY ADMINISTRATIVE OFFICER/  
CLERK, BOARD OF SUPERVISORS

BY: Hilary Rehillo  
Deputy Clerk

\*\*\*\*\*

That the Board of Supervisors:  
Accepted the Treasurer's Investment Pool Comprehensive Annual Financial Report  
for the Fiscal Year ended June 30, 2017.



**Treasurer-Tax Collector  
COUNTY OF TULARE  
AGENDA ITEM**

**BOARD OF SUPERVISORS**

KUYLER CROCKER  
District One

PETE VANDER POEL  
District Two

AMY SHUKLIAN  
District Three

J. STEVEN WORTHLEY  
District Four

MIKE ENNIS  
District Five

**AGENDA DATE:** June 26, 2018

Public Hearing Required	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Scheduled Public Hearing w/Clerk	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Published Notice Required	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Advertised Published Notice	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
County Counsel Sign-Off	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Meet & Confer Required	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Electronic file(s) has been sent	Yes	<input checked="" type="checkbox"/>	N/A	<input type="checkbox"/>
Budget Transfer (Aud 308) attached	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Personnel Resolution attached	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
Agreements are attached and signature line for Chairman is marked with tab(s)/flag(s)	Yes	<input type="checkbox"/>	N/A	<input checked="" type="checkbox"/>

CONTACT PERSON: Hiley Wallis    PHONE: 559.636.5265

**SUBJECT:** Treasurer's Investment Pool Comprehensive Annual Financial Report for Fiscal Year 2016-17.

**REQUEST(S):**

That the Board of Supervisors:  
Accept the Treasurer's Investment Pool Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2017.

**SUMMARY:**

The Treasurer's Investment Pool Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017 was prepared by Treasury staff and audited by Brown Armstrong Accountancy Corporation (the Independent Auditor). Their audit included the following components:

- An audit of the Treasurer's Investment Pool's Financial Statements 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. Those standards require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free from material misstatement.
- A review of the Treasury's internal control and compliance in order to determine the scope and depth of planned audit procedures.
- An examination of management's assertion that the Treasurer's Investment Pool complied with the provisions of California Government Code and the County's Investment Policy.

**SUBJECT:** Treasurer's Investment Pool Comprehensive Annual Financial Report for Fiscal Year 2016-17.

**DATE:** June 26, 2018

The Independent Auditor has issued an unmodified or "clean" opinion stating that the financial statements present fairly, in all material respects, the financial position of the Treasurer's Investment Pool as of June 30, 2017 in conformity with accounting principles generally accepted in the United States of America (CAFR page 10) The Independent Auditor also found no significant deficiencies or material weaknesses with regard to the Treasurer's internal control over financial reporting (CAFR page 32). The examination of management's assertion that the Treasurer's Investment Pool complied with the provisions of California Government Code and the County's Investment Policy also provided an unmodified or "clean" opinion (CAFR page 34).

The Treasurer's Investment Pool CAFR is presented in four main sections:

1. The Introductory Section, which is unaudited, consists of a Letter of Transmittal, including a profile of the Tulare County Investment Pool, acknowledgments, and a list of the Treasury Oversight Committee Members.
2. The Financial Section provides management's discussion and analysis, the financial statements, and notes to the financial statements. This section also contains the unmodified opinion of the Independent Auditor.
3. The Investment Section, which is unaudited, provides an overview of the Treasurer's investment program. This section contains information relating to the investment activities of the Treasury, including a summary of the Treasury's investment policies, the Treasurer's Investment Pool asset allocation, and other portfolio information.
4. The Statistical Section, which is unaudited, consists of various tables and schedules depicting trends and miscellaneous, relevant data concerning Treasury Investment Pool investments.

The Treasurer's Investment Pool CAFR has been reviewed by the Treasury Oversight Committee and is submitted for your consideration and acceptance.

**FISCAL IMPACT/FINANCING:**

There is no fiscal impact associated with this request.


**LINKAGE TO THE COUNTY OF TULARE STRATEGIC BUSINESS PLAN:**

The County's five-year strategic plan includes the Organizational Performance Initiative to provide the public with accessible high quality information and an objective evaluation and measurement of performance. Audited financial statements provide a level of accountability for investment officials and promotes a public trust in investment decisions and reporting.

**SUBJECT:** Treasurer's Investment Pool Comprehensive Annual Financial Report  
for Fiscal Year 2016-17.

**DATE:** June 26, 2018

**ADMINISTRATIVE SIGN-OFF:**

  
\_\_\_\_\_  
Cass Cook  
Auditor-Controller/Treasurer-Tax Collector

cc: County Administrative Office

Attachment(s) Treasurer's Investment Pool Comprehensive Annual Financial Report



# TULARE COUNTY TREASURER'S INVESTMENT POOL

---



## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2017

---

Issued By:

**Cass Cook**

**Auditor-Controller /Treasurer-Tax Collector**

Under the Direction of:

Frank Vigario, Chief Accountant – Treasury

## **Mission Statement**

It is the Mission of the Tulare County Treasury to provide the citizens, agencies, and employees of Tulare County with effective, high-quality financial services in a manner that is professional, courteous, responsive and efficient. To meet our service obligations, we employ modern, cost-effective and flexible methodologies in the receipt, investment and security of public monies in an overall effort to maintain the highest levels of customer service satisfaction and public confidence.



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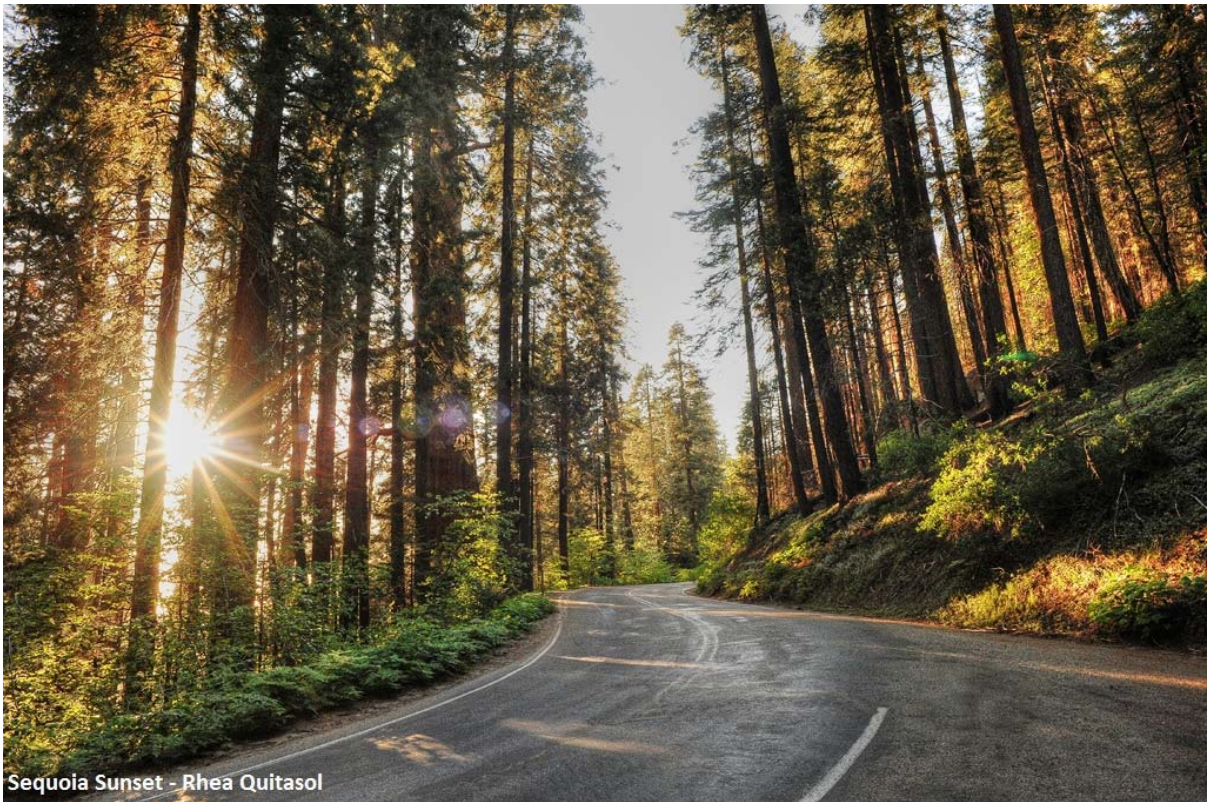
## STATISTICAL SECTION

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# INTRODUCTORY SECTION



Sequoia Sunset - Rhea Quitasol

# County of Tulare

221 S Mooney Blvd Room 103-E  
Visalia, California 93291-4593



Cass Cook  
Auditor-Controller/Treasurer-Tax Collector

Hiley Wallis, Chief Deputy Treasurer-Tax Collector

Telephone: (559) 636-5290

Fax: (559) 730-2532

[www.tularecounty.ca.gov/treasurertaxcollector](http://www.tularecounty.ca.gov/treasurertaxcollector)



February 28, 2018

Board of Supervisors &  
Treasury Oversight Committee  
County of Tulare  
Tulare County Administration Building  
Visalia, California 93291

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Tulare County Investment Pool (the Investment Pool) for the fiscal year ended June 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Tulare County Treasurer's Office. A framework of internal controls has been established to (1) provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded; and (2) keep reasonably detailed records which accurately and fairly reflect financial activities.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is reported in a manner designed to present fairly the financial position and changes in financial position of the Investment Pool in conformity with accounting principles generally accepted in the United States of America (GAAP). All disclosures necessary to enable the reader to gain an understanding of the Investment Pool's financial activities have been included.

The Investment Pool's financial statements have been audited, in accordance with auditing standards generally accepted in the United States, by Brown Armstrong Accountancy Corporation, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Investment Pool, for the year ended June 30, 2017, were free of material misstatement. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an

unmodified opinion that the Investment Pool's financial statements as of and for the fiscal year ended June 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Management provides a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Investment Pool's MD&A can be found after the independent auditor's report.

This CAFR is presented in four (4) major sections:

1. The Introductory Section, which is unaudited, consists of this letter of transmittal, including a profile of the Investment Pool, description of investment policies and objectives, discussion of significant market events, acknowledgments, and a list of the Treasury Oversight Committee Members.
2. The Financial Section provides management's discussion and analysis, the basic financial statements, and notes to the basic financial statements. This section also contains the unmodified opinion of the independent auditor.
3. The Investment Section, which is unaudited, provides an overview of the Tulare County Treasurer's investment program. This section contains information relating to the investment activities of the Treasury, including a summary of the Treasury's investment policies, the Investment Pool's asset allocation, and other portfolio information.
4. The Statistical Section, which is unaudited, is the final section of the report and consists of various tables and schedules depicting trends and miscellaneous relevant data concerning the Investment Pool investments.

### **Profile of the Investment Pool**

The Investment Pool is a local government pool with more than \$1.4 billion in assets as of June 30, 2017. The responsibility for management of the Investment Pool has been delegated by the Tulare County Board of Supervisors to the Auditor-Controller/Treasurer-Tax Collector, an elected official who is responsible for tax collection, banking, investment, disbursement, and accountability of public funds. The Investment Pool is managed by the Treasurer's Office on behalf of the Investment Pool participants.

The County of Tulare's (the County) portion of the Investment Pool assets as of June 30, 2017, was \$443 million (31%), while the external participants, which are not part of the County, represented \$974 million (69%) of the investment portfolio. Depositors in the Investment Pool include both mandatory and voluntary participants.

Mandatory participants include the County, K-12 school districts, the College of the Sequoias, various special districts, and other accounts controlled by the County Board of Supervisors. Mandatory participants are defined as those agencies required by law to deposit their funds with the County Treasurer's Office. Mandatory participants comprise the majority of the Investment Pool's assets, approximately \$1,333 million (94%), as of June 30, 2017.

Voluntary participants are those agencies that are not required to place their funds in the Investment Pool, and do so only as an investment option. Voluntary participants include the Tulare County Employees' Retirement Association, cities, and various special district and other local government agencies. As of June 30, 2017, voluntary participants accounted for approximately \$84 million (6%) of the Investment Pool.

In addition to investment management, the Treasurer's Office also provides cash management and banking services to all mandatory participants. These services include, but are not limited to: warrant redemption, Automated Clearing House (ACH) transactions, Federal wire payments, and the acceptance of deposits.

### **Investment Policies and Objectives**

The Investment Pool's primary objective is the *safety* and preservation of capital. The second objective is the continual maintenance of *liquidity* (or always having the ability to cover reasonably anticipated cash flow needs of its participants). The third objective is *yield*.

In order to achieve these objectives, the Investment Pool invests in high quality fixed income securities consistent with the County's Investment Policy and California Government Code. The Treasurer's Office utilizes two investment managers to manage a longer-term benchmark portfolio. These "sub-portfolios" are designed to be positioned at a point on the yield curve that is expected to perform well throughout a full interest rate cycle. Active management of these "sub-portfolios" has allowed the Investment Pool to take advantage of interest rate movements and opportunities to trade between sectors to safely increase the portfolio's return potential. The remainder of the portfolio is invested to build cash flows to meet future participant obligations.

The following operational goals have been set for the next fiscal year 2017/2018:

- Provide further transparency through the submission of the Investment Policy to the California Municipal Treasurers Association (CMTA) Certification Program for review.
- Provide fiscal stability by continuing to earn a total rate of return that is approximately equal to or greater than the benchmarks established by the Investment Policy.
- Continue to evaluate current processes and look for opportunities for (1) greater efficiency; (2) reduced cost; (3) improved cash management; and (4) increased levels of customer service and public confidence.

The Treasurer's Office prepares the Investment Policy on an annual basis to ensure the integrity of the Investment Pool and to provide guidelines for its operation. Upon completion of the Investment Policy by the Treasurer's Office, it is presented for review to the Treasury Oversight Committee, and then to the County Board of Supervisors for their approval at a public meeting. The Treasurer's Office has also implemented a system of internal controls designed to ensure the reliability of reported investment information. The Treasurer's Office provides monthly and quarterly investment reports to both the Board of Supervisors and the Treasury Oversight Committee.

The maturity distribution of the Investment Pool is limited by the Investment Policy, which places restrictions on the securities that may be purchased. Cash, temporarily idle during the year, was invested in obligations of the U.S. Treasury, U.S. government agencies, supranationals, municipal obligations, corporate commercial paper and medium-term notes, negotiable certificates of deposit, money market accounts, and federally insured and/or collateralized deposits. The maturities of the investments may range from one day to five years, and as of June 30, 2017, had a weighted average maturity of 786 days. The weighted average effective yield to maturity (annualized) of the portfolio as of June 30, 2017 was 1.41%. To safeguard the investments, a custodian is employed to safekeep, settle, and accept interest payments on investments held by the Investment Pool. In addition, in order to facilitate internal security and safeguards, the Investment Policy requires an annual audit and the establishment and maintenance of internal control procedures.

The Investment Pool remains invested in a diversified portfolio of high quality fixed-income investments. The increase in interest rates throughout the year translated into higher investment earnings for the Investment Pool's portfolio. For the 2016/2017 fiscal year, the Investment Pool earned a 1.25% annualized earnings rate (net of fees). The Investment Pool's average rate of return (net of fees) over the last three years was 1.18% and an average of 1.14% over the last five years.

Please refer to the Investment Section (pages 35-43) of this CAFR for additional information on investments.

### **Significant Market Events and Outlook for Fiscal Year 2017-2018**

Over the fiscal year, the Federal Reserve continued tightening monetary policy, raising the short-term interest rate three times, by  $\frac{1}{4}$  percent each time, citing continued economic strength and growth in the U.S. labor market. At fiscal year end, the federal funds rate stood at a target range of 1.00% to 1.25%, up from 0.25% to 0.50% at the beginning of the year. Additionally, the Federal Reserve announced plans to reduce the size of its very large balance sheet holdings of U.S. Treasuries and Agency mortgage-backed securities, beginning in October 2017. As a result of the Federal Reserve rate increases, interest rates across all parts of the Treasury yield curve rose, with the yield on the 2-year Treasury note rising from 0.58% to 1.38% over the year. Longer-term rates also rose, with the yield on the 10-year Treasury note rising from 1.47% to 2.30% over the same period. Stock markets in the U.S. and around the globe had a strong year amid synchronized global economic growth and strong corporate profits. The S&P 500 rose over 15%, reaching a new all-time high.

The U.S. economy in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2017 recorded its strongest back-to-back quarters of growth since 2014. Although the current economic expansion in the U.S. is in its 9<sup>th</sup> year, long by historical standards, the risk of recession in the near term appears low. However, there are uncertainties created by tax reform and other policy issues, as well as various global geopolitical risks. After three rate increases in 2017, the Federal Reserve is expected to continue to raise interest rates in 2018, but the number and amount will depend on emerging market conditions, and may be effected by the change in leadership at the Federal Reserve.

Higher yields in the upcoming fiscal year are a plus, but narrow yield spreads and rising rates may present challenges. The overall portfolio will continue to emphasize safety, liquidity, and diversification. Short-term investments will be maintained in sufficient quantity to ensure adequate liquidity. Longer-term investments will maintain high quality and broad diversification, with a focus on meeting longer-term performance objectives.

### **Acknowledgments**

The preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Treasurer's Office and our advisors, PFM Asset Management and Chandler Asset Management. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and determining responsible management of the funds in the Investment Pool.

### **Requests for Information**

This financial report is designed to provide a general overview of the Investment Pool's activities during fiscal year 2016-2017. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Tulare County Treasurer. A copy of the comprehensive annual financial report, our Investment Policy, and monthly and quarterly reports including a complete listing of our holdings can be obtained from our website at <http://www.tularecounty.ca.gov/treasurertaxcollector> under the *TREASURER* drop down menu.

Respectfully,



Cass Cook  
Tulare County Auditor-Controller/Treasurer-Tax Collector

## **TREASURY OVERSIGHT COMMITTEE MEMBERS**

<b>Eric Limas, Chairman</b>	<b>Business Manager Lower Tule River Irrigation District</b>
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<b>Marc Lippincott, Vice Chair</b>	<b>Financial Advisor Public Member</b>
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<b>Stanley Bennett</b>	<b>Business Owner Public Member</b>
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<b>Michael C. Spata</b>	<b>County Administrative Officer County of Tulare</b>
-------------------------	-----------------------------------------------------------

<b>John Snavely</b>	<b>Superintendent Porterville Unified School District</b>
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<b>Steve Tsuboi</b>	<b>Superintendent-Principal Sunnyside Union Elementary District</b>
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<b>John Wilborn</b>	<b>Director, External Business Services Tulare County Office of Education</b>
---------------------	-----------------------------------------------------------------------------------

<b>Cass Cook</b> (Appointed October 7, 2017)	<b>Auditor-Controller/Treasurer-Tax Collector County of Tulare</b>
-------------------------------------------------	------------------------------------------------------------------------

<b>Rita Woodard</b> (Retired October 6, 2017)	<b>Auditor-Controller/Treasurer-Tax Collector County of Tulare</b>
--------------------------------------------------	------------------------------------------------------------------------

## **TREASURY STAFF**

<b>Hiley Wallis</b>	<b>Chief Deputy Treasurer-Tax Collector</b>
---------------------	---------------------------------------------

<b>Frank Vigario</b>	<b>Chief Accountant-Treasury</b>
----------------------	----------------------------------

<b>Catarino Galicia</b>	<b>Investment Officer</b>
-------------------------	---------------------------

<b>Monica Martin</b>	<b>Treasury Teller/Financial Technician</b>
----------------------	---------------------------------------------

<b>Julie Niday</b>	<b>Treasury Teller/Financial Technician</b>
--------------------	---------------------------------------------

<b>Debbie Castleberry</b>	<b>Secretary</b>
---------------------------	------------------

## **FINANCIAL ADVISORS**

**PFM Asset Management**

**Chandler Asset Management**

## **SAFEKEEPING AGENT**

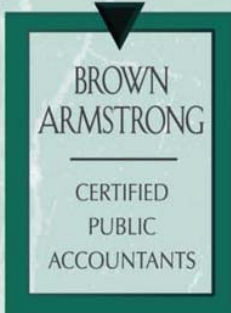
**Union Bank**



# FINANCIAL SECTION



Walnuts in Fall - Ruth Medlin



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
County of Tulare, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Treasurer's Investment Pool of the County of Tulare (the County) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Treasurer's Investment Pool's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### BAKERSFIELD OFFICE

(MAIN OFFICE)

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FAX 661.324.4997  
EMAIL [info@bacpas.com](mailto:info@bacpas.com)

#### FRESNO OFFICE

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FRESNO, CA 93720  
TEL 559.476.3592

#### LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE  
SUITE 255  
LAGUNA HILLS, CA 92653  
TEL 949.652.5422

#### STOCKTON OFFICE

5250 CLAREMONT  
AVENUE  
SUITE 150  
STOCKTON, CA 95207  
TEL 209.451.4833

REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Treasurer's Investment Pool, as of June 30, 2017, and results of its investment activity thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Treasurer's Investment Pool's basic financial statements. The introductory section, investment section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory, investment, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018, on our consideration of the County's internal control over financial reporting relating to the Treasurer's Investment Pool 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 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 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's internal control over financial reporting and compliance relating to the Treasurer's Investment Pool.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
February 28, 2018

**Tulare County Investment Pool  
Management's Discussion and Analysis  
June 30, 2017 (Unaudited)**

As management of the Tulare County Investment Pool (the Investment Pool), we offer readers of the Investment Pool's financial statements this narrative overview and analysis of the financial activities of the Investment Pool for the fiscal year ended June 30, 2017. The following analysis primarily focuses on the Investment Pool's current year results in comparison with the prior year. We hope that the information presented here, and in the Letter of Transmittal, provides you with a solid understanding of the Investment Pool's financial status as of June 30, 2017.

**Summary of Market Events – Fiscal Year 2016-2017**

The U.S. economy continued to expand at a moderate pace over the fiscal year, with real GDP growing at an average pace of 2.2%. Growth was primarily driven by personal consumption as consumer confidence remained high, and by private investment as business conditions remained strong. The labor market remained strong as employers added over 2.2 million jobs, pushing the unemployment rate down from 4.9% to 4.4% as of June 30, 2016 and 2017, respectively. Inflation remained subdued as it continued to run well below the Federal Reserve's 2% target and housing trends continued to be favorable.

Over the fiscal year, the Federal Reserve continued tightening monetary policy, raising the short-term interest rate three times, by  $\frac{1}{4}$  percent each time, citing continued economic strength and growth in the U.S. labor market. At fiscal year end, the federal funds rate stood at a target range of 1.00% to 1.25%, up from 0.25% to 0.50% at the beginning of the year. The June rate hike was the Federal Open Market Committee's (FOMC) fourth rate hike since the 2008 financial crisis. Additionally, the Federal Reserve announced plans to reduce the size of its very large balance sheet holdings of U.S. Treasuries and Agency mortgage-backed securities, beginning in October 2017.

As a result of the Federal Reserve rate increases, interest rates across all parts of the Treasury yield curve rose, with the yield on the 2-year Treasury note rising from 0.58% to 1.38% over the year and the 5-year yield was at 1.89% as of June 30, 2017. Longer-term rates also rose, with the yield on the 10-year Treasury note rising from 1.47% to 2.30% over the same period. Stock markets in the U.S. and around the globe had a strong year amid synchronized global economic growth and strong corporate profits. The S&P 500 rose over 15%, reaching a new all-time high.

## **Investment Pool Objectives**

The Investment Pool's primary objective is the *safety* and preservation of capital. The second objective is the continual maintenance of *liquidity* (or always having the ability to cover the reasonably anticipated cash flow needs of its participants). The third objective is *yield*.

In order to achieve these objectives, the Investment Pool invests in high quality fixed income securities consistent with the County of Tulare's (County) Investment Policy and California Government Code. The Treasurer's Office utilizes the services of two investment advisors to manage longer-term benchmarked portfolios. These "sub-portfolios" are actively managed allowing the portfolio to take advantage of interest rate volatility and opportunities to trade between sectors to safely increase the portfolio's return potential. The remainder of the portfolio is invested in short-term securities and deposit instruments to build cash flows to meet future participant obligations.

## **Financial Outcomes**

- ▶ The assets of the Investment Pool held for Pool Participants at the close of the 2017 fiscal year was \$1.4 billion (net position).
- ▶ The Investment Pool's total net position increased by \$73.3 million. This represents a net increase of 5.5% compared to the prior fiscal year.
- ▶ The net investment income of the Investment Pool decreased by 83.3% from \$24.5 million for the fiscal year ended June 30, 2016, to \$4.1 million for the fiscal year ended June 30, 2017 (includes market value adjustments).
- ▶ During the fiscal year, the Investment Pool distributed earnings of \$16.2 million to participants compared to the previous fiscal year's distribution of \$14.0 million. This represents an increase of \$2.2 million (16.1%) from the previous fiscal year.
- ▶ The Investment Pool's expense ratio was competitive at 0.13% of the average daily balance for each of the past two fiscal years.
- ▶ As of June 30, 2017, the fair value of the Investment Pool showed an undistributed and net unrealized loss of \$2.4 million compared to an undistributed and net unrealized gain of \$11.3 million as of June 30, 2016.
- ▶ The overall yield to maturity (365) of the County's investment program as of June 30, 2017 was 1.41%, an increase of 28 basis points (0.28%) from June 30, 2016.

## **Outlook for Fiscal Year 2017-2018**

The U.S. economy in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2017 recorded its strongest back-to-back quarters of growth since 2014, as positive contributions came from consumer spending, private investment including inventories, and net exports. The Federal Reserve's Summary of Economic Projections suggests that policymakers anticipate the labor market to tighten further over the coming years without much impact on inflation. With the economy expected to continue on its path of moderate growth, the American consumer will continue to be the main economic driver as the labor market remains strong and confidence runs high. Business investment is also expected to be a positive contributor as business confidence remains high and corporate earnings strong. The labor market trends remain strong, with the unemployment rate at just 4.4% in June, and inflation is expected to remain subdued, at least until wages pick up. Although the current economic expansion in the U.S. is in its 9<sup>th</sup> year, long by historical standards, the risk of recession in the near term appears low. However, there are uncertainties created by potential tax reform and other policy issues, as well as various global geopolitical risks.

Over the long-run, the Federal Reserve still expects the federal funds rate to reach 3.0%. After three rate increases in 2017, the Federal Reserve is expected to continue to raise interest rates in 2018, but the number and amount will depend on emerging market conditions. It may also be effected by a change in leadership at the Federal Reserve as Janet Yellen's term ended February 3, 2018. She was succeeded as Chair of the Board of Governors of the Federal Reserve System by Jerome Powell.

Further Federal Reserve rate increases may put upward pressure on short-term rates, but long-term yields may be held back by low inflation expectations, resulting a somewhat flatter yield curve. Yield spreads across all sectors have continued to narrow, reducing some of their attractiveness.

Higher yields in the upcoming fiscal year are a plus for the portfolio, but narrow yield spreads and rising rates may present challenges. The overall portfolio will continue to emphasize safety, liquidity, and diversification. Short-term investments will be maintained in sufficient quantity to ensure adequate liquidity. Longer-term investments will maintain high quality and broad diversification, with a focus on meeting longer-term performance objectives.

## Overview of the Investment Pool's Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Investment Pool's basic financial statements. The basic financial statements consist of two components:

- (1) Statement of Net Position and Statement of Changes in Net Position;
- (2) Notes to the Basic Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

### Net Position

The Statement of Net Position presents information on the Investment Pool's assets and liabilities, with the difference between the two reported as *net position*. The Investment Pool's net position increased by \$73.3 million (5.5%) for the fiscal year ended June 30, 2017.

The majority of the increase can be attributed to the large additions from various school district building funds. The County also received increases in state funding for health and other social services programs.

A summary of the Investment Pool's net position is presented below.

<b>STATEMENT OF NET POSITION (in thousands)</b>				
	FY 2017	FY 2016	Increase/ (Decrease)	Percentage Change
<u>Assets</u>				
Cash and Receivables	\$ 169,200	\$ 203,868	\$ (34,668)	-17.0%
Investments at Fair Value	1,248,284	1,140,297	107,987	9.5%
<b>Total Assets</b>	<b>1,417,484</b>	<b>1,344,165</b>	<b>73,319</b>	<b>5.5%</b>
<u>Liabilities</u>				
Due to Pool Participants	47	-	47	
<b>Total Liabilities</b>	<b>47</b>	<b>-</b>	<b>47</b>	
<b>Net Position Held in Trust for Pool Participants</b>	<b>\$ 1,417,437</b>	<b>\$ 1,344,165</b>	<b>\$ 73,272</b>	<b>5.5%</b>

## Changes in Net Position

The Statement of Changes in Net Position presents information on how the Investment Pool's net position changed during the most recent fiscal year. The additions include deposits to pooled investments, interest income and changes in the fair value of investments. The deductions consist of withdrawals from pooled participant investments, income distributions to the Investment Pool participants and operating expenses. Both the additions to and deductions from the Pooled Investments include interfund activity.

All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. As a result, additions and deductions are reported in this statement for some items that will result in cash flows in future fiscal periods.

A summary of the changes in the Investment Pool's net position is presented below.

<b>STATEMENT OF CHANGES IN NET POSITION (in thousands)</b>				
	2017	2016	Increase/ (Decrease)	Percentage
<u>Additions</u>				
Participants' Deposits	\$ 7,665,541	\$ 7,346,264	\$ 319,277	4.3%
Total Investment Income Earned	4,096	24,511	(20,415)	-83.3%
<b>Total Additions</b>	<b>7,669,637</b>	<b>7,370,775</b>	<b>298,862</b>	<b>4.1%</b>
<u>Deductions</u>				
Participants' Withdrawals	7,578,544	7,217,395	361,149	5.0%
Income Apportioned to Participants	16,209	13,960	2,249	16.1%
Operating Expenditures	1,612	1,528	84	5.5%
<b>Total Deductions</b>	<b>7,596,365</b>	<b>7,232,883</b>	<b>363,482</b>	<b>5.0%</b>
<b>Changes in Net Position</b>	<b>73,272</b>	<b>137,892</b>	<b>(64,620)</b>	<b>-46.9%</b>
<b>Net Position Beginning of Year</b>	<b>1,344,165</b>	<b>1,206,273</b>	<b>137,892</b>	<b>11.4%</b>
<b>Net Position End of Year</b>	<b>\$ 1,417,437</b>	<b>\$ 1,344,165</b>	<b>\$ 73,272</b>	<b>5.5%</b>



## **BASIC FINANCIAL STATEMENTS**

**County of Tulare  
Treasurer's Investment Pool  
Statement of Net Position  
June 30, 2017 (in thousands)**

ASSETS:

Cash on Hand and Bank Deposits (Note 3)	\$	164,413
Interest Receivable		4,787
Investments (Note 4)		1,248,284
		1,417,484
Total Assets	\$	1,417,484

LIABILITIES AND NET POSITION:

Liabilities:

Due to Pool Participants (Note 7)	\$	47
		47
Total Liabilities	\$	47

Net Position:

Held in Trust for Treasury Pool Participants	\$	1,417,437
		1,417,437
Total Net Position	\$	1,417,437

The notes to the basic financial statements are an integral part of this statement.

**County of Tulare**  
**Treasurer's Investment Pool**  
**Statement of Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2017 (in thousands)**

Additions:

Participants' Deposits	\$	7,665,541
Investment Income: (Note 5)		
Interest and Dividends	\$	17,119
Gain on Sale of Investments		702
Net Decrease in Fair Value		(13,725)
		4,096
Total Investment Income Earned		4,096
Total Additions		7,669,637

Deductions:

Participants' Withdrawals (Note 6)		7,578,544
Income Apportioned to Participants (Note 6)		16,209
Treasury Fees		1,612
		7,596,365
Total Deductions		7,596,365
Increase in Net Position		73,272
Beginning Net Position Held in Trust for Pool Participants		1,344,165
		1,417,437
Ending Net Position Held in Trust for Pool Participants	\$	1,417,437

The notes to the basic financial statements are an integral part of this statement.

**County of Tulare**  
**Treasurer's Investment Pool**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017 (in thousands)**

**Note 1 – Description**

The Tulare County Treasurer's Investment Pool (the Investment Pool) is part of the County of Tulare (the County) and is responsible for assets of approximately \$1.4 billion as of June 30, 2017. The Investment Pool participants include the County, local school districts, a local community college, and other special purpose authorities. The cash balances of all participants are pooled and invested by the County Treasurer-Tax Collector for the purpose of increasing earnings through investment activities. The Investment Pool is administered by the County Treasurer-Tax Collector and is not registered with the Securities and Exchange Commission. The Investment Pool's investment objectives are to safeguard principal, meet the liquidity needs of the participants, and return an acceptable yield within the parameters of prudent risk management (California Government Code Sections 27000.5 and 53600.5).

Pursuant to Government Code Sections 27130-27137 of the California Government Code, the Board of Supervisors has established a Treasurer's Oversight Committee (TOC) whose function is to review and monitor compliance with the Investment Policy. The TOC is comprised of County officials, representatives from various pool participants, and members of the public. The Treasurer-Tax Collector also reports on a monthly basis to the Board of Supervisors.

**Note 2 – Summary of Significant Accounting Policies**

**A. Reporting Method**

The Investment Pool follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and operating expenses when incurred, regardless of the timing of the related cash flows.

B. Investment Valuation

Treasury Pool investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value in the Statement of Net Position and recognize the corresponding change in fair value of investments in the year in which the change occurred. The fair value of pooled investments is determined monthly and is based upon valuation provided by the Investment Pool's safekeeping agent who utilizes a pricing vendor. The pricing vendor uses numerous inputs to obtain their fair value measurements including pricing feeds, broker pricing information, matrix pricing, and other market data.

C. Investment Income and Apportionment

The County Treasurer calculates and records all interest earned, received, and accrued for the Treasurer's Investment Pool on a monthly basis. Gains or losses as a result of market value fluctuations are not reflected in the apportionment to pool participants unless the security is actually sold. Income earned on the pooled investments is apportioned quarterly based on the average daily balance of each pool participant. It is the County's policy to charge interest to a participant whose average daily equity is negative.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Accordingly, actual results could differ from those estimates.

**Note 3 – Cash Deposits**

Cash deposits consist of cash in banks as well as non-negotiable time deposits. As of June 30, 2017, the Investment Pool's cash deposits had a carrying amount of \$164,413 and the balance per the financial institutions totaled \$163,826. The difference between the carrying amount and the bank balance includes temporary reconciling items such as cash on hand, outstanding checks, and deposits in transit.

Of the balances in the financial institutions, \$523 was covered by the Federal Deposit Insurance Corporation (FDIC) and the remaining \$163,303 was collateralized pursuant to California Government Code. The collateral is held by the pledging financial institution's trust department or its agent and is considered to be held in the County's name.

#### **Note 4 - Investments**

The Investment Pool's cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer. The objectives of the policy, in order of priority, are: preservation of capital, liquidity, and yield. The County's Investment Policy, in compliance with California Government Code Sections 53601 and 53635, authorizes the Treasurer to invest in the following:

- Obligations issued by the County of Tulare
- Obligations of the U.S. Treasury
- Obligations issued by a State or Local Agency
- Obligations of Federal Agencies or U.S. Government Sponsored Enterprises
- Obligations of Supranationals rated "AA" or better
- Bankers Acceptances eligible for purchase by the Federal Reserve
- Commercial Paper rated "A-1/P-1"
- Negotiable Certificates of Deposit rate "A" or better
- Medium Term Corporate Notes rated "A" or better
- Money Market Funds
- Repurchase and Reverse Repurchase Agreements
- Local Agency Investment Fund (LAIF)
- Managed Investment Pools pursuant to §53601
- Asset-Backed Securities rated "AA" or better.

As of June 30, 2017, the Investment Pool's investments totaled \$1,248,284 and had no investment in Structured Notes nor any derivative products as defined by Governmental Accounting Standards Board Statement No. 53.

The Investment Pool's investments as of June 30, 2017, are as follows:

	Carrying Value	Reported/Fair Value	Weighted Average Maturity (days)	Stated Interest Rate	Maturity Range
U.S. Treasury Obligations	\$ 278,869	\$ 278,185	1,271	0.875% - 3.500%	02/28/2019 - 02/28/2022
Federal Agency Obligations	299,829	297,856	1,093	0.875% - 2.000%	02/25/2018 - 04/05/2022
Supranational Obligations	48,221	48,175	860	1.000% - 2.125%	06/15/2018 - 01/18/2022
Corporate Notes/Bonds	343,856	344,113	892	0.670% - 6.000%	06/15/2017 - 01/27/2022
Municipal Obligations	13,745	13,752	999	1.472% - 2.054%	05/15/2018 - 08/31/2020
Commercial Paper	40,860	40,860	47	1.010% - 1.330%	07/03/2017 - 10/02/2017
Negotiable Time Deposits	96,819	96,948	425	1.070% - 2.050%	09/11/2017 - 05/03/2019
	<u>1,122,199</u>	<u>1,119,889</u>			
Other Investments:					
Money Market Funds	2,813	2,813			
LAIF Managed Pool	65,000	64,931			
CAMP Managed Pool	60,651	60,651			
Total Other Investments	<u>128,464</u>	<u>128,395</u>			
Total Investments	\$ <u>1,250,663</u>	\$ <u>1,248,284</u>			

### Mortgage and Asset-Backed Securities

Mortgage and asset-backed securities entitle the Investment Pool to receive a share of the cash flows (principal and interest repayments) associated with a pool of loans, leases, credit card debt, or other non-mortgage receivables. As of June 30, 2017, 6.85% of the Investment Pool's total assets is invested in AA rated or better mortgage and asset-backed securities.

Issuer	Amount	Percentage Of Assets	S&P Rating
Ally Auto Receivables Trust	\$ 6,958	0.49	AAA
Carmax Auto Owner Trust	1,861	0.13	AAA
Chase Issuance Trust	6,811	0.48	AAA
Citibank Credit Card Issuance Trust	4,275	0.30	AAA
Federal Home Loan Mortgage Corporation	7,632	0.54	AA+
Federal National Mortgage Association	9,133	0.64	AA+
Honda Auto Receivables Trust	21,960	1.55	AAA
Hyundai Auto Receivables Trust	4,755	0.34	AAA
John Deere Owner Trust	12,180	0.86	NR <sup>1</sup>
Nissan Auto Receivables Trust	11,212	0.79	NR <sup>1</sup>
Toyota Auto Receivables Trust	10,339	0.73	AAA

<sup>1</sup> These securities were not rated by Standard & Poors (S&P), however are rated Aaa by Moody's Investors Service (Moody's).

### California Local Agency Investment Fund (LAIF)

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without penalty or loss of interest. The value of the County's shares in LAIF that may be withdrawn is determined on an amortized cost basis, which may be different from the fair value of the County's position in the pool.

As of June 30, 2017, the Investment Pool's investment in LAIF is \$64,931. The total amount recorded by all public agencies in LAIF at that date is \$22,812,818. Of that amount, 97.11% is invested in non-derivative financial products and 2.89% of the portfolio is invested in Medium-Term and Short-Term Structured Notes and Asset-Backed Securities.

### California Asset Management Program (CAMP)

The CAMP Pool is a short-term money market portfolio and cash management vehicle managed to maintain a dollar-weighted average portfolio maturity of 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. CAMP invests in obligations of the United States Government and its agencies, high quality, short-term debt obligations of U.S. companies and financial institutions and is AAAM rated by Standard & Poor's.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes specific criteria used to determine whether a qualifying investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The statement also establishes additional note disclosures to qualifying external investment pools. There was no material impact on the Tulare County Investment Pool's statement as a result of the implementation of GASB Statement No. 79.



### Repurchase Agreements

Repurchase agreements are contracts in which a broker/dealer sells securities to the Investment Pool with an agreement to repurchase those securities for a fixed price at an agreed-upon date. The Government Code requires that California public entities that utilize repurchase agreements collateralize the investments that underlay the repurchase agreements with amounts that exceed cost. The fair value of the securities underlying the repurchase agreements must be valued at 102% or greater. The Investment Policy reflects this requirement. As of June 30, 2017, the portfolio had no outstanding repurchase agreements.

### Fair Value Measurements

The County categorizes its fair value measurements within the framework established by GASB Statement No. 72, *Fair Value Measurements and Application*. That framework provides a three-tiered fair value hierarchy as follows:

*Level 1 – reflect unadjusted quoted prices in active markets for identical assets.*

*Level 2 – reflect inputs that are based on a similar observable inputs either directly or indirectly.*

*Level 3 – reflect unobservable inputs.*

The County obtains its fair values from its Safekeeping Agent who utilizes a pricing vendor. The pricing vendor uses numerous inputs to obtain their fair value measurements including pricing feeds, broker pricing information, matrix pricing, and other market data. All prices were obtained from the Safekeeping Agent and were considered Level 2, with the exception of a short-term loan agreement/promissory note with the Tulare County Transportation Authority, which was considered Level 3.

The County has the following recurring fair value measurements as of June 30, 2017:

	Fair Value Measurements			Total
	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
U.S. Treasury Obligations	\$ -	\$ 278,185	\$ -	\$ 278,185
Federal Agency Obligations	-	297,856	-	297,856
Supranational Obligations	-	48,175	-	48,175
Corporate Notes/Bonds	-	344,113	-	344,113
Municipal Obligations	-	3,752	10,000	13,752
Commercial Paper	-	40,860	-	40,860
Negotiable Time Deposits	-	96,948	-	96,948
	<u>\$ -</u>	<u>\$ 1,109,889</u>	<u>\$ 10,000</u>	1,119,889
Other investments:				
Money Market Funds				2,813
LAIF Managed Pool				64,931
CAMP Managed Pool				60,651
Total other investments				<u>128,395</u>
Total Investments				<u>\$ 1,248,284</u>

## Credit Risk

Credit risk exists when there is the possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. To mitigate this risk, the Investment Policy, which is more restrictive than the California Government Code, places a minimum standard on the rating of investments held in the Investment Pool. As of June 30, 2017, the County invested in primarily high quality investments as shown below:

Credit Ratings	
AAA	13%
A-1 (short-term rating)	4%
AA	58%
A	17%
Not Rated**	8%
Total	100%

Standard & Poor's (S&P) Ratings [includes all ratings in this category (e.g., A-, A, A+)].

\*\* The portion of the portfolio reported as not rated represents the \$64,931 deposited in LAIF, the State of California Investment Fund. The remaining portion not rated represents individual securities which were not rated by S&P, however were rated by Moody's of A3 or Fitch of A- or better.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment with a single issuer. The Investment Pool mitigates these risks by holding a diversified portfolio of high quality investments and limits the percentage of the total investments to the type of investment and to any one issuer by type of allowable investment instrument.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, the Investment Pool held investments (excluding deposit accounts) in excess of 5% of the total year-end investments for the following issuers:

<u>Issuer</u>	<u>Amount</u>	<u>Percentage</u>
United States Treasury	\$ 278,185	22.3%
Federal National Mortgage Association	175,432	14.1%
California Local Agency Investment Fund	64,931	5.2%
California Asset Management Program	60,651	5.1%

### Custodial Credit Risk

Custodial credit risk for an investment exists when, in the event of failure of the counterparty to a transaction, the County will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Securities purchased by the Investment Pool are held by a third party custodian, Union Bank, in their trust and custody department to mitigate custodial credit risk.

In accordance with the GASB Statement No. 40, the County is required to disclose custodial credit risk for investment securities that are uninsured and unregistered in the County's name and are held by either (a) the counterparty or (b) by the counterparty's trust department or agent but not in the County's name.

As of June 30, 2017, none of the investments in the County's portfolio meet the custodial credit risk disclosure requirement. The entire portfolio, with the exception of investments in money market funds and the managed investment pools, consists of investment securities that are insured or registered, or securities held by the County or its agent in the County's name. The investment in money market funds and managed investment pools are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk

Interest rate risk is the risk that fluctuations in interest rates will adversely affect the fair value of an investment. Generally, investments of longer maturities are more sensitive to changes in market interest rates. The Investment Pool mitigates this risk limiting the dollar-weighted average maturity of the investment portfolio to 3.5 years and invests in longer-term securities only with funds that are not needed for current cash flow purposes. The weighted average maturity as of June 30, 2017, was 786 days (2.15 years).

Foreign Currency Risk

The Investment Pool does not have any foreign currency risk as all investments are in U.S. dollar-denominated assets.

**Note 5 – Investment Pool Income**

Investment Pool investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value in the Statement of Net Position and the change in value in the year in which the change occurred. The fair value fluctuates with interest rates, and increasing rates could cause the value of investments to decline below original cost. Treasury management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

<u>Investment Pool Income</u>	
Interest and Dividends	\$ 17,119
Net Decrease in the Fair Value	(13,023)
Less: Treasury Fees	<u>(1,612)</u>
Total Treasury Pool Income	\$ <u>2,484</u>

For the 2016-2017 fiscal year, the Investment Pool’s earnings (interest and dividends) totaled \$17,119. During the same period, the net decrease in the value of investments was \$13,023. This amount takes into account all changes (realized and unrealized), including a net gain on the sale of investments of \$702 that occurred during the year. The GASB Statement No. 31 fair value adjustment on investments held as of June 30, 2017, was a decrease of \$13,725.

California Government Code Section 27013 authorizes the Treasurer’s Office to deduct operational costs related to investments. All income is distributed quarterly to pool participants after deducting these operational costs. Unrealized gains or losses as a result of market value fluctuations are not reflected in the earnings distribution to participants.

**Note 6 – Income Apportionment and Participant Withdrawals**

The County Treasurer calculates and records all interest earned, received, and accrued for the Investment Pool on a daily basis. The apportionment of investment earnings to the various funds participating in the Investment Pool is done at the end of each calendar quarter pursuant to California Government Code Section 53647.

The apportioned amount is computed as follows:

$$\text{Participating Share of Pool Income} = \frac{(\text{Fund's Avg. Daily Equity} \times \text{Total Distributed Income})}{\text{Total Pool Average Daily Equity}}$$

The value of the participant’s shares in the pool that may be withdrawn is determined on an amortized cost basis, which may be different from the fair value of the participant’s position in the Investment Pool.

**Note 7 – Interfund Balance**

Distributions Payable represents current outstanding balances due to Investment Pool Participants at the end of the fiscal period. Interest income associated with variable rate investments, such as LAIF, as well as expenditure accruals are estimated at the time of the interest allocations. The recording of these corrections, for activity which occurred during the fiscal year, but which are entered to the system after the interest allocation, result in an interfund receivable/payable. The balance due to Investment Pool Participants at June 30, 2017 was \$47.

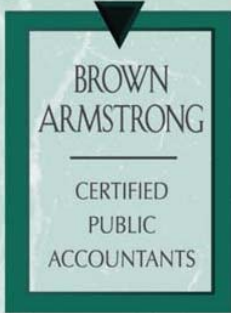
**Note 8 – Subsequent Events**

Subsequent events have been evaluated through February 28, 2018, which is the date the basic financial statements were available to be issued, noting no event that needed to be disclosed.

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# OTHER INDEPENDENT AUDITOR'S REPORTS





# BROWN ARMSTRONG

*Certified Public Accountants*

## **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 Supervisors  
County of Tulare, California

We have audited, in accordance with the 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 financial statements of the Treasurer's Investment Pool of the County of Tulare (the County) as of and for the year ended June 30, 2017, which collectively comprise the Treasurer's Investment Pool's basic financial statements, and have issued our report thereon dated February 28, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) relating to the Treasurer's Investment Pool to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control relating to the Treasurer's Investment Pool. Accordingly, we do not express an opinion on the effectiveness of the County's internal control relating to the Treasurer's Investment Pool.

*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 may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Treasurer's Investment Pool's financial statements are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect

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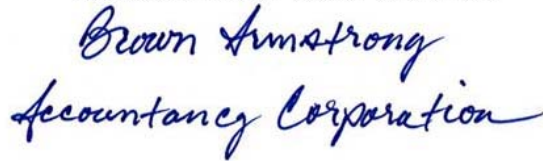


on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

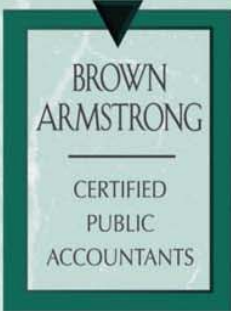
**Purpose of this Report**

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 County's internal control or on compliance relating to the Treasurer's Investment Pool. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance relating to the Treasurer's Investment Pool. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

Bakersfield California  
February 28, 2018



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Supervisors  
County of Tulare, California

### Report on Compliance

We have audited management's assertion, included in its representation letter dated February 28, 2018, that the Treasurer's Investment Pool of the County of Tulare (the County) complied with the provisions of the California Government Code and the County's investment policy during the year ended June 30, 2017.

### Management's Responsibility

As discussed in the representation letter, management is responsible for the County's compliance with those requirements.

### Auditor's Responsibility

Our responsibility is to express an opinion on management's assertion about the County's compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the County's operations and investment activities occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with the specified requirements.

### Opinion

In our opinion, management's assertion that the County complied with the aforementioned requirements for the year ended June 30, 2017, is fairly stated, in all material respects.

This report is intended solely for the information and use of the County Treasury Oversight Committee, the County Board of Supervisors, management, and applicable legislative bodies. However, this report is a matter of public record and its distribution is not limited. In addition, an audit report providing an opinion as to the financial position of the Treasurer's Investment Pool of the County as of June 30, 2017, was issued separately.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
February 28, 2018

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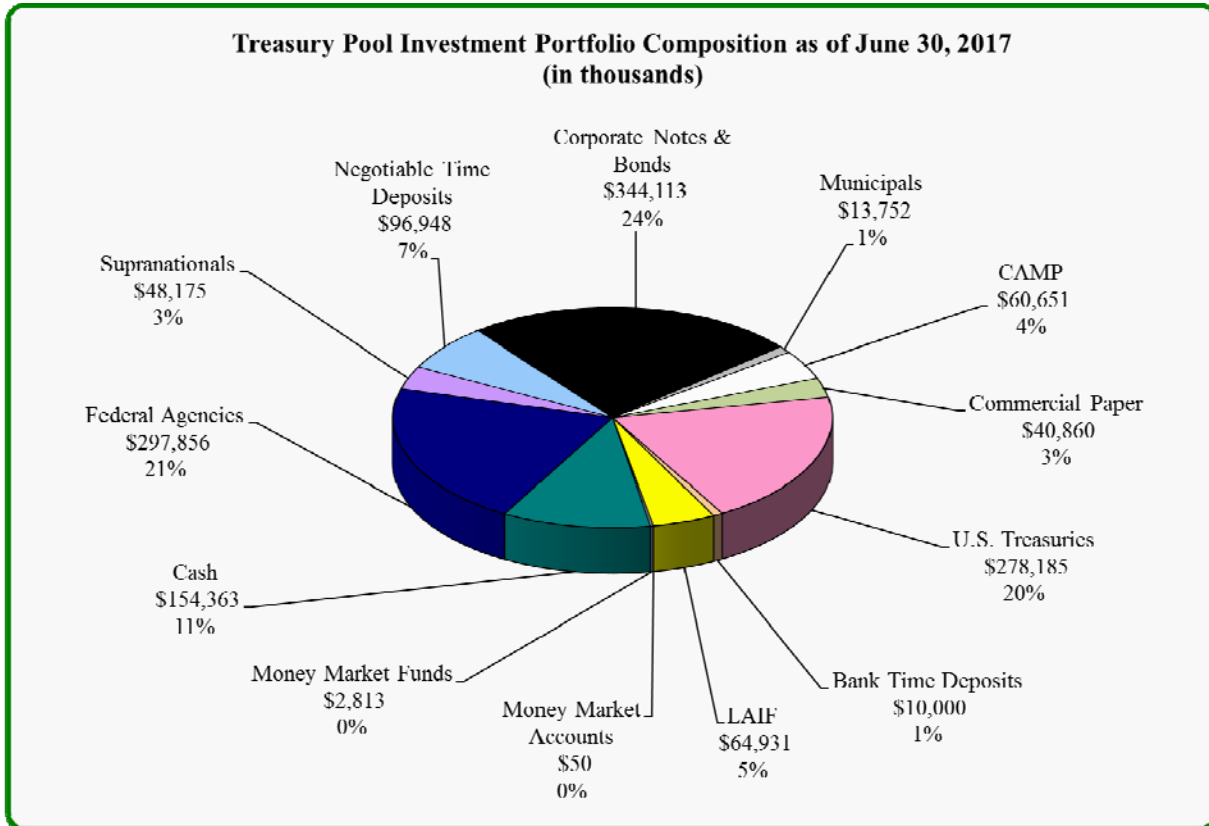
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# INVESTMENT SECTION





**Administrative Overview**

During the fiscal year 2016-17, the Tulare County Treasurer's Investment Pool's (the Investment Pool) activities included the following:

- The Investment Pool had an increase in weighted average days to maturity from 699 days at June 30, 2016, to 786 days at June 30, 2017.
- The Investment Pool's total net position increased by 5.5% from \$1.3 billion on June 30, 2016, to \$1.4 billion on June 30, 2017.
- The unrealized change in fair value of investments during the year was adjusted from a \$9.0 million gain as of June 30, 2016 to a \$13.7 million loss at June 30, 2017.
- The Investment Pool's expense ratio remained competitive at 0.13 basis points for both fiscal year 2016-17 and fiscal year 2015-16.
- The net effective or realized earnings rate of the Investment Pool increased from 1.18% for the fiscal year ended June 30, 2016 to 1.25% for the fiscal year ended June 30, 2017.
- The overall yield to maturity (365 days) of the County's investment program as of June 30, 2017 was 1.41%, an increase of 28 basis points (0.28%) from June 30, 2016.

### Outline of the Investment Policy

The Investment Pool is managed in accordance with prudent money management principles and California Government Code Sections 27000.1-27000.5, 27130-27137, and 53600-53686.

The objectives of the Investment Pool, in order of priority, are:

1. **Safety** – The investment portfolio shall safeguard capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud, or error.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to enable the Treasury Pool to meet the operating requirements of its participants.
3. **Yield** – The investment portfolio shall achieve a competitive rate of return within the parameters of prudent risk management and the other primary goals of Safety and Liquidity.

The investment portfolio is managed in accordance with the parameters specified within the Investment Policy. The investment performance objective for the portfolio shall be to earn a total rate of return which is approximately equal to or greater than the return on a portfolio/index of securities with commensurate risk. These will include the Local Agency Investment Fund (LAIF) and the average two-year Treasury Note.

On an annual basis, the Treasury Oversight Committee (TOC) reviews and approves the Investment Policy. Once the TOC has recommended approval, the Board of Supervisors reviews and adopts the Investment Policy in a public forum. The Investment Policy focuses on risk management by setting limits on principal exposure by type of security, by issuer of debt, and by minimum credit ratings and by placing return as the least important objective compared to safety and liquidity.

No investment shall be made in any security with a maturity greater than five years and the dollar-weighted average maturity of the portfolio shall not exceed 3.5 years. Some investments are restricted to terms less than five years. These maturity limitations are described in the following table.

# Tulare County Treasurer's Pool

# Investment Report

Allowable Instruments	County Maximum % of Portfolio	Government Code Maximum % of Portfolio	County Maximum Maturity	Government Code Maximum Maturity	County % per Issuer <sup>1</sup>
U.S. Treasury Obligations (§53601(b))	100	100	5 Years	5 Years	100
U.S. Agency Obligations or U.S. Government Sponsored Enterprises (§53601(f))	75	100	5 Years	5 Years	100
Supranational Obligations (§53601(q))	30	30	5 Years	5 Years	10
Medium Term Notes (Corporate) (§53601(k))	30	30	5 Years	5 Years	10
Mortgage and Asset-Backed Securities (§53601(o))	20	20	5 Years	5 Years	10
Bankers' Acceptances (§53601(g))	40	40	180 Days	180 Days	10
Negotiable Certificates of Deposit (§53601(i))	30	30	5 Years	5 Years	10
Repurchase Agreements (§53601(j))	50	None	30 Days	1 Year	N/A
Reverse Repurchase Agreements (§53601(j))	20	20	92 Days	92 Days	10
Bank Time Deposits (§53650 et seq.)	30	None	3 Years	None	25
Bank Time Deposits – through deposit placement service (§53601.8)	30	30	3 Years	None	25
Money Market Accounts (§53630 et seq.)	50	None	N/A	None	25
Commercial Paper (§53601(h) and (§53635(a))	40	40	270 Days	270 Days	10
Money Market Funds (§53601(l))	15	20	N/A	N/A	10
Obligations issued by State or local agencies within California or any of the other 49 States (§53601(d)(e))	30	100	5 Years	5 Years	10
Tulare County (§53601(a))	15	100	5 Years	5 Years	10
LAIF (§16429.1)	Maximum Allowed	Per State Treasury Policy	N/A	N/A	N/A
Managed Investment Pool pursuant to §53601(p)	50	None	N/A	N/A	N/A

<sup>1</sup> With the exception of insured and/or bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer. Commercial paper is further limited to 5% of the outstanding paper of the issuing corporation.

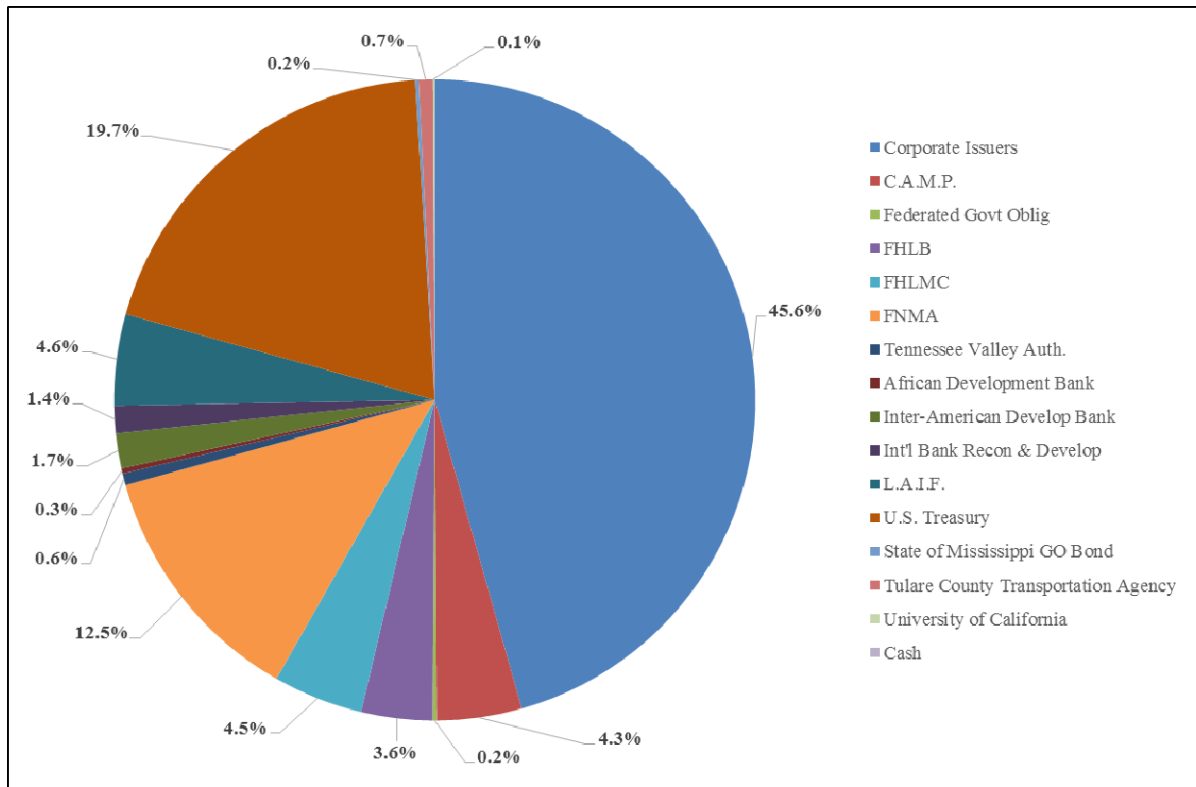
**Credit Risk and Concentration of Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment(s) with a single issuer. As of June 30, 2017, the Investment Pool mitigated these risks by holding a diversified portfolio of high quality investments.

<b>Credit Ratings</b>	
AAA	12%
A-1 (short-term rating)	3%
AA	51%
A	15%
Not Rated**	7%
Collateralized CD	1%
Cash	11%
<b>Total</b>	<b>100%</b>

Standard & Poor's (S&P) Ratings [includes all ratings in this category (e.g., A-, A, A+)].

\*\* The portion of the portfolio reported as not rated represents the \$64,931 deposited in LAIF, the State of California Investment Fund. The remaining portion not rated represents individual securities which were not rated by S&P, however were rated by Moody's of A3 or Fitch of A- or better.



**Tulare County Pool Characteristics by Corporate Issuer (in thousands)**

	BOOK	MARKET	% OF		S&P	WAM
	VALUE	VALUE	CORPORATE	ISSUERS	RATING	(IN DAYS)
Ally Auto Receivables Trust	\$ 6,959	\$ 6,958	1.1%		AAA	1,440
American Express	11,278	11,317	1.7%		A-	635
Apple Inc.	16,153	16,176	2.5%		AA+	736
Bank of Montreal Chicago	12,000	12,070	1.9%		A+	586
Bank of New York Mellon	6,789	6,827	1.1%		A	802
Bank of Nova Scotia	10,500	10,494	1.6%		A+	643
Bank of the Sierra <sup>1</sup>	5	5	0.0%		CASH	1
Bank of Tokyo Mitsubishi	16,619	16,620	2.6%		A-1	10
Union Bank - Money Market <sup>1</sup>	50	50	0.0%		A-1	1
Union Bank - Checking <sup>1</sup>	153,713	153,713	23.8%	26.4%	CASH	1
Berkshire Hathaway	7,522	7,495	1.2%		AA	649
Burlington North Sante Fe	2,409	2,392	0.4%		A	822
Canadian Imp Bk Comm NY	9,455	9,500	1.5%		A+	517
CarMax Auto Owner Trust	1,864	1,861	0.3%		AAA	775
Chase Issuance Trust	6,814	6,811	1.1%		AAA	807
Chevron Corporation	4,528	4,462	0.7%		AA-	1,152
Chevron Funding	4,146	4,148	0.6%	1.3%	AA-	157
Chubb INA Holdings Inc.	6,111	6,120	0.9%		A	1,221
Cisco Systems	5,307	5,343	0.8%		AA-	608
Citibank Credit Card Issuance	4,269	4,275	0.7%		AAA	565
Cooperatieve Rabobank	9,270	9,270	1.4%		A-1	93
Costco Wholesale Corp.	3,478	3,474	0.5%		A+	959
Credit Agricole CIB NY	4,983	4,984	0.8%		A-1	93
Exxon Mobile Corp.	6,320	6,306	1.0%		AA+	1,339
G.E. Capital	23,567	23,696	3.7%		AA-	772
G.E. Capital Treasury	4,988	4,985	0.8%	4.4%	A-1+	86
Honda/American Honda	10,924	10,976	1.7%		A+	473
Honda Auto Receivables Trust	13,844	13,824	2.1%		AAA	959
Honda Auto Receivables Trust	8,140	8,136	1.3%	5.1%	NR <sup>2</sup>	1,053
HSBC Bank USA	10,023	10,048	1.6%		A	722
Home Depot Inc.	2,768	2,771	0.4%		A	1,070
Hyundai Auto Receivables Trust	4,774	4,755	0.7%		AAA	1,442
IBM Corp.	10,605	10,631	1.6%		A+	905
Intel Corp.	5,301	5,299	0.8%		A+	167
John Deere Owner Trust	12,194	12,180	1.9%		NR <sup>2</sup>	872
John Deere Capital Corp.	12,821	12,796	2.0%	3.9%	A	833
J.P. Morgan Chase	13,962	13,942	2.2%		A-	875
J.P. Morgan Securities LLC	5,000	5,000	0.8%	2.9%	A-1	2
Mastercard Inc.	4,467	4,471	0.7%		A	1,604
Microsoft Corp.	6,590	6,512	1.0%		AAA	1,400
Nissan Auto Receivables	11,225	11,212	1.7%		NR <sup>2</sup>	881
Nordea N.A.	9,460	9,500	1.5%		AA-	517
Oracle Corp.	11,497	11,637	1.8%		AA-	1,537
PACCAR Financial Corp.	6,268	6,322	1.0%		A+	1,502
Pepsi, Inc.	4,809	4,802	0.7%		A+	303
Praxair, Inc.	6,149	6,165	1.0%		A	494
Qualcomm Inc.	6,587	6,683	1.0%		A	1,054
Royal Bank of Canada NY	6,755	6,767	1.0%		AA-	251
Skandinav Enskilda Bk NY	11,250	11,250	1.7%		A+	138
State Street Corp.	5,296	5,273	0.8%		A	1,418
Sumitomo Mitsui Bank	10,000	10,000	1.5%		A	671
Suncrest Bank <sup>1</sup>	10,000	10,000	1.5%		CASH	206
Svenska Handelsbanken NY	12,000	11,967	1.9%		AA-	558
Toyota Motor Credit	16,179	16,170	2.5%		AA-	424
Toyota Auto Receivables Trust	10,345	10,339	1.6%	4.1%	AAA	794
Unilever Capital Corp.	5,218	5,225	0.8%		A+	1,039
US Bancorp	8,170	8,246	1.3%		A+	1,019
US Bancorp	10,399	10,401	1.6%	2.9%	AA-	72
Walmart	2,640	2,635	0.4%		AA	284
Wells Fargo Bank	5,000	4,999	0.8%		AA-	44
Wells Fargo Securities	15,546	15,401	2.4%	3.2%	A	1,258
	\$ 645,303	\$ 645,687	100.0%			546

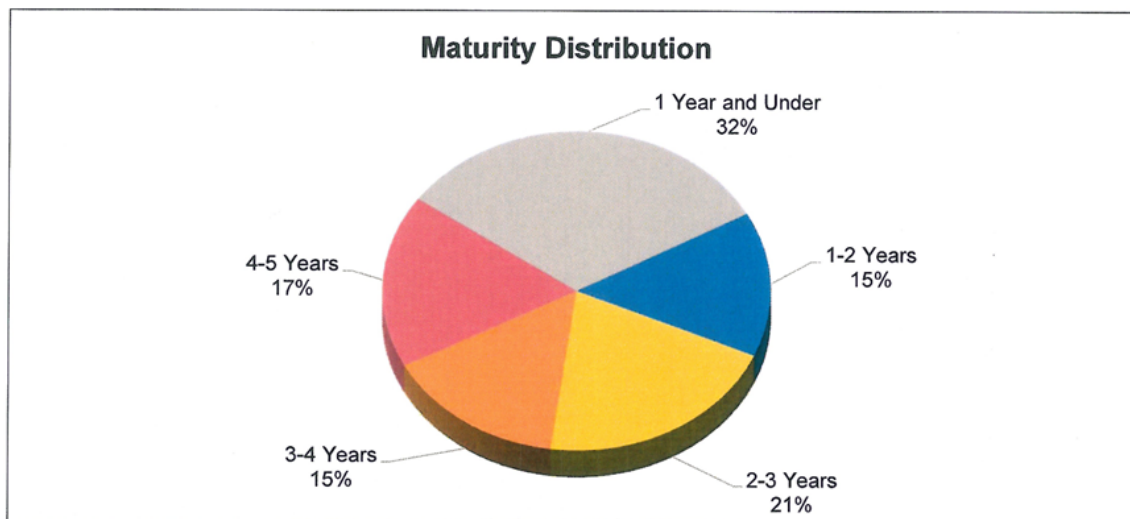
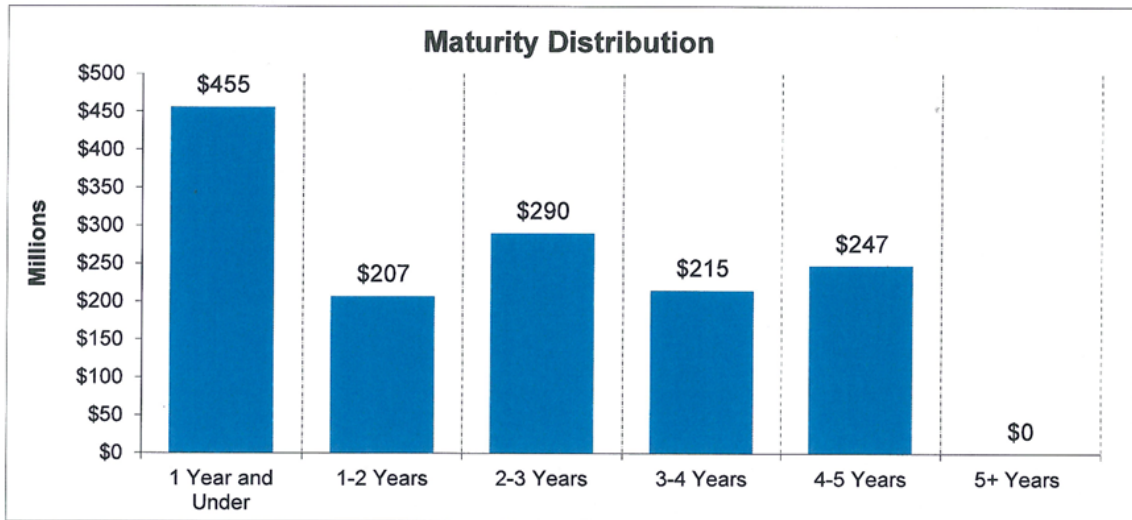
**Notes:**

1. The deposits with Union Bank, Suncrest Bank, and Bank of the Sierra are collateralized in accordance with the California Government Code.
2. The securities denoted as NR are not rated by S&P, however, they are rated AAA by both Moody's and Fitch.



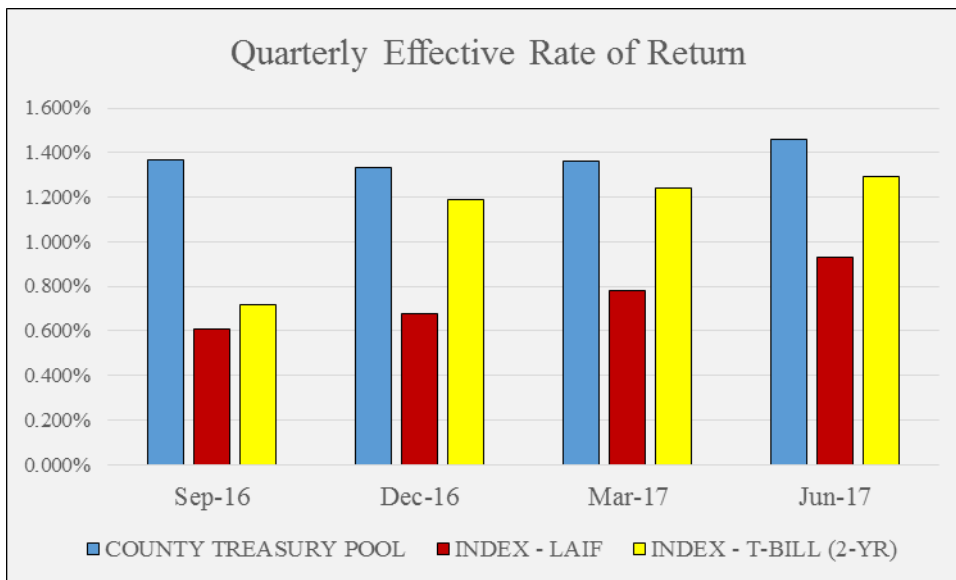
**Interest Rate Risk**

This is the risk that fluctuations in interest rates will adversely affect the fair value of an investment. The Investment Pool mitigates this risk by investing in longer-term securities only with funds that are not needed for current cash flow purposes. As of June 30, 2017, the investment portfolio had a high degree of liquidity with a weighted average maturity of 786 days (2.15 years).



**Investment Results and Income Allocation**

The investment portfolio was managed in accordance with the parameters specified within the investment policy. The investment performance objective for the portfolio shall be to earn a total rate of return which is approximately equal to or greater than the return on a portfolio/index of securities with commensurate risk. These benchmarks include LAIF and the average two-year Treasury Note. A chart of the Investment Portfolio versus the identified benchmarks is shown below.



The interest earned by each Investment Pool participant is proportionate to the quarterly average daily balance of the participant. Prior to distribution, expenses incurred by the County Treasury are deducted from the realized earnings. The Investment Pool's expense ratio for fiscal year 2016-2017 was 0.13% of the average daily balance. Apportionments are not paid out by warrants; all earnings are reinvested in the Investment Pool.

	Statement of Interest Earned and Rate of Return (in thousands)				
	QTR 1	QTR 2	QTR 3	QTR 4	ANNUALIZED
Average Daily Balance	\$ 1,203,921	\$ 1,236,656	\$ 1,325,497	\$ 1,391,564	\$ 1,289,166
Total Earnings	4,161	4,135	4,432	5,053	17,781 1.38%
Treasury Fees	(387)	(396)	(414)	(414)	(1,611) 0.12%
Earnings - Net of Fees	3,774	3,739	4,018	4,639	16,170 1.25%

**Investment Holdings Summary**

<b>Tulare County Treasury Investment Pool Statistics - June 30, 2017 (dollars in thousands)</b>								
	<b>PERCENT OF PORTFOLIO</b>	<b>FAIR VALUE</b>	<b>BOOK VALUE</b>	<b>ACCRUED INTEREST</b>	<b>UNREALIZED GAIN/(LOSS)</b>	<b>YTM (365)</b>	<b>DAYS TO MATURITY</b>	
Cash	10.93%	\$ 154,363	\$ 154,363	\$ 78	\$ -	0.454	1	
Money Market Accounts	0.00%	50	50	0	-	0.100	1	
Bank Time Deposits	0.71%	10,000	10,000	42	-	0.954	206	
Money Market Funds	0.20%	2,812	2,812	2	-	0.820	1	
Negotiable Time Deposits	6.86%	96,948	96,819	510	129	1.748	425	
Commercial Paper - Discount	2.89%	40,860	40,860	-	0	1.229	47	
U.S. Treasury Notes	19.69%	278,185	278,869	1,155	(684)	1.556	1,271	
Federal Agency Notes	19.90%	281,092	282,897	919	(1,806)	1.467	1,120	
Fed. Agency Mortgage-Backed	1.19%	16,765	16,932	24	(167)	1.017	647	
Supranationals	3.41%	48,175	48,221	184	(45)	1.470	860	
Corporate Notes/Bonds	18.67%	263,762	263,427	1,541	335	1.903	873	
Asset-backed Securities	5.69%	80,351	80,429	72	(78)	1.527	956	
Municipal Bonds	0.26%	3,752	3,745	13	7	1.603	576	
Municipal Promissory Notes	0.71%	10,000	10,000	46	-	1.860	1,158	
Local Agency Investment Fund	4.60%	64,931	65,000	149	(69)	0.950	1	
Other Investment Pools	4.28%	60,651	60,651	52	-	1.050	1	
	<b>100.00%</b>	<b>\$ 1,412,697</b>	<b>\$ 1,415,074</b>	<b>\$ 4,787</b>	<b>\$ (2,378)</b>	<b>1.414</b>	<b>770</b>	

A complete list of the Investment Pool's holdings is available on the internet at:  
<http://www.tularecounty.ca.gov/treasurertaxcollector/index.cfm/treasurer/reports/>

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# STATISTICAL SECTION



## Objectives

This section presents detailed information on the Investment Pool with historical perspective as a context for understanding and using the information in the financial statements, note disclosures, and required supplementary information. The following schedules contain ten-year trend information to help the reader assess the changes over time.

### *Schedule of Additions/Deductions and Changes in Net Position*

<b>SCHEDULE OF ADDITIONS/DEDUCTIONS AND CHANGES IN NET POSITION (IN THOUSANDS)</b>					
	<b>FY 2017</b>	<b>FY 2016</b>	<b>FY 2015</b>	<b>FY 2014</b>	<b>FY 2013</b>
<u>Additions</u>					
Participants' Deposits	\$ 7,665,541	\$ 7,346,264	\$ 7,363,560	\$ 6,456,141	\$ 6,358,380
Total Investment Income Earned	4,096	24,511	12,511	13,917	3,215
<b>Total Additions</b>	<b>7,669,637</b>	<b>7,370,775</b>	<b>7,376,071</b>	<b>6,470,058</b>	<b>6,361,595</b>
<u>Deductions</u>					
Participants' Withdrawals	7,578,544	7,217,395	7,107,562	6,483,357	6,288,283
Income Apportioned to Participants	16,209	13,960	12,107	10,388	11,367
Operating Expenditures	1,612	1,528	1,445	1,444	1,492
<b>Total Deductions</b>	<b>7,596,365</b>	<b>7,232,883</b>	<b>7,121,114</b>	<b>6,495,189</b>	<b>6,301,142</b>
<b>Changes in Net Position</b>	<b>73,272</b>	<b>137,892</b>	<b>254,957</b>	<b>(25,131)</b>	<b>60,453</b>
<b>Net Position Beginning of Year</b>	<b>1,344,165</b>	<b>1,206,273</b>	<b>951,316</b>	<b>976,447</b>	<b>915,994</b>
<b>Net Position End of Year</b>	<b>\$ 1,417,437</b>	<b>\$ 1,344,165</b>	<b>\$ 1,206,273</b>	<b>\$ 951,316</b>	<b>\$ 976,447</b>

<b>SCHEDULE OF ADDITIONS/DEDUCTIONS AND CHANGES IN NET POSITION</b>					
	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
<u>Additions</u>					
Participants' Deposits	\$ 6,509,499	\$ 6,159,912	\$ 6,227,997	\$ 6,363,330	\$ 5,998,927
Total Investment Income Earned	18,282	15,801	28,318	39,815	43,007
<b>Total Additions</b>	<b>6,527,781</b>	<b>6,175,713</b>	<b>6,256,315</b>	<b>6,403,145</b>	<b>6,041,933</b>
<u>Deductions</u>					
Participants' Withdrawals	6,491,769	6,083,400	6,334,725	6,226,762	5,971,028
Income Apportioned to Participants	16,279	21,572	22,576	30,946	32,196
Operating Expenditures	1,595	1,268	1,295	1,101	1,098
<b>Total Deductions</b>	<b>6,509,643</b>	<b>6,106,240</b>	<b>6,358,596</b>	<b>6,258,809</b>	<b>6,004,322</b>
<b>Changes in Net Position</b>	<b>18,138</b>	<b>69,473</b>	<b>(102,281)</b>	<b>144,336</b>	<b>37,611</b>
<b>Net Position Beginning of Year</b>	<b>897,856</b>	<b>828,383</b>	<b>930,664</b>	<b>786,328</b>	<b>748,717</b>
<b>Net Position End of Year</b>	<b>\$ 915,994</b>	<b>\$ 897,856</b>	<b>\$ 828,383</b>	<b>\$ 930,664</b>	<b>\$ 786,328</b>

## Schedule of Investment Asset Allocation

Investment Pool Asset Allocation - Fair Market Value (dollar amount in thousands)															
	06/30/2017			06/30/2016			06/30/2015			06/30/2014			06/30/2013		
	AMOUNT	%	WAM	AMOUNT	%	WAM	AMOUNT	%	WAM	AMOUNT	%	WAM	AMOUNT	%	WAM
U.S. Treasury Notes	\$ 278,185	19.7%	1,271	\$ 258,826	19.4%	1,348	\$ 194,452	16.2%	1,195	\$ 201,775	21.1%	990	\$ 170,218	17.5%	1,076
U.S. Treasury - Discount	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Agency Notes	281,092	19.9%	1,120	292,942	22.0%	925	288,528	24.0%	985	327,420	34.3%	1,056	285,843	29.4%	1,054
Federal Agency - Discount	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Agency - Step-ups	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Agency - Floating Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Agency Mortgage Backed	16,765	1.2%	647	18,804	1.4%	999	4,526	0.4%	999	-	-	-	-	-	-
Supranationals	48,175	3.4%	860	33,673	2.5%	762	8,988	0.7%	1,080	-	-	-	-	-	-
Municipal Bonds	3,752	0.3%	576	6,185	0.5%	720	26,580	2.2%	617	16,553	1.7%	939	7,141	0.7%	1,199
Municipal Bonds - Discount	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Promissory Notes	10,000	0.7%	1,158	10,000	0.7%	427	10,000	0.8%	428	20,000	2.1%	793	20,000	2.1%	62
Corp. Medium Term Notes (MTN)	263,762	18.7%	873	205,596	15.4%	848	244,775	20.3%	1,008	207,686	21.7%	930	200,987	20.6%	931
Corporate MTN - Floating Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate MTN - FDIC Insured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset-Backed Securities	80,351	5.7%	956	49,263	3.7%	978	56,391	4.7%	1,028	25,323	2.7%	1,100	-	-	-
Negotiable Time Deposits	96,948	6.8%	425	86,772	6.5%	395	60,014	5.0%	661	8,963	0.9%	685	8,957	0.9%	667
Neg. Time Deposits - Floating	-	-	-	5,303	0.4%	419	13,798	1.1%	272	29,564	3.1%	693	31,015	3.2%	445
Commercial Paper	-	-	-	-	-	-	5,050	0.4%	93	-	-	-	-	-	-
Commercial Paper - Discount	40,860	2.9%	47	8,880	0.7%	117	8,692	0.7%	118	22,559	2.4%	109	21,283	2.2%	101
Bank Time Deposits	10,000	0.7%	206	15,000	1.1%	242	10,000	0.8%	207	10,000	1.0%	207	-	-	-
Local Agency Investment Fund	64,931	4.6%	1	65,040	4.9%	1	50,019	4.2%	1	50,015	5.2%	1	50,014	5.1%	1
Other Investment Pools	60,651	4.3%	1	55,296	4.1%	1	20,185	1.7%	1	180	0.0%	1	50,166	5.2%	1
Money Market Funds	2,812	0.2%	1	43,717	3.3%	1	2,422	0.2%	1	2,898	0.3%	1	1,414	0.1%	1
Money Market Accounts	50	0.0%	1	488	0.0%	1	80,463	6.7%	1	10,406	1.1%	1	356	0.0%	1
Cash	154,363	10.9%	1	179,059	13.4%	1	118,864	9.9%	1	22,669	2.4%	1	126,102	13.0%	1
	<b>\$ 1,412,697</b>	<b>100.0%</b>	<b>770</b>	<b>\$ 1,334,844</b>	<b>100.0%</b>	<b>699</b>	<b>\$ 1,203,747</b>	<b>100.0%</b>	<b>750</b>	<b>\$ 956,011</b>	<b>100.0%</b>	<b>867</b>	<b>\$ 973,496</b>	<b>100.0%</b>	<b>723</b>

	06/30/2012			06/30/2011			06/30/2010			06/30/2009			06/30/2008		
	AMOUNT	%	WAM	AMOUNT	%	WAM	AMOUNT	%	WAM	AMOUNT	%	WAM	AMOUNT	%	WAM
U.S. Treasury Notes	\$ 138,394	15.2%	1,218	\$ 113,067	12.6%	1,010	\$ 116,731	14.2%	833	\$ 141,645	15.3%	1,012	\$ 104,345	13.4%	1,281
U.S. Treasury - Discount	-	-	-	-	-	-	7,103	0.9%	49	1,283	0.1%	169	-	-	-
Federal Agency Notes	301,035	33.2%	1,060	279,420	31.3%	847	320,888	38.9%	975	217,128	23.4%	985	221,855	28.4%	925
Federal Agency - Discount	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Agency - Step-ups	-	-	-	-	-	-	-	-	-	6,750	0.7%	338	27,504	3.5%	664
Federal Agency - Floating Rate	100	0.0%	96	8,308	0.9%	509	499	0.0%	827	698	0.1%	1,192	896	0.1%	1,557
Federal Agency Mortgage Backed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Supranationals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Bonds	-	-	-	-	-	-	-	-	-	2,231	0.2%	639	2,158	0.3%	1,004
Municipal Bonds - Discount	-	-	-	-	-	-	3,039	0.4%	45	2,945	0.3%	410	2,765	0.4%	775
Municipal Promissory Notes	20,000	2.2%	427	20,000	2.2%	793	11,908	1.4%	1,460	26,550	2.9%	1	-	-	-
Corp. Medium Term Notes (MTN)	188,262	20.7%	884	176,334	19.7%	1,081	98,681	12.0%	1,101	83,342	9.0%	701	134,890	17.3%	716
Corporate MTN - Floating Rate	-	-	-	-	-	-	5,529	0.7%	854	15,705	1.7%	551	4,877	0.6%	727
Corporate MTN - FDIC Insured	13,358	1.5%	175	56,844	6.4%	379	88,832	10.8%	712	58,874	6.4%	1,093	-	-	-
Asset-Backed Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Negotiable Time Deposits	22,971	2.5%	591	20,512	2.3%	285	-	-	-	-	-	-	-	-	-
Neg. Time Deposits - Floating	23,789	2.6%	-	-	-	-	-	-	-	-	-	-	93,000	11.9%	1
Commercial Paper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial Paper - Discount	24,113	2.7%	71	12,999	1.5%	12	-	-	-	-	-	-	48,736	6.2%	68
Bank Time Deposits	-	-	-	20,000	2.2%	17	25,000	3.0%	78	170,000	18.4%	42	50,000	6.4%	44
Local Agency Investment Fund	50,061	5.5%	1	50,078	5.6%	1	30,049	3.6%	1	40,052	4.3%	1	39,998	5.1%	1
Other Investment Pools	40,085	4.4%	1	40,054	4.5%	1	15,542	1.9%	1	100,433	10.8%	1	-	-	-
Money Market Funds	419	0.1%	1	2,512	0.3%	1	91,809	11.1%	1	54,795	5.9%	1	34,718	4.4%	1
Money Market Accounts	12,857	1.4%	1	52,856	5.9%	1	-	-	-	-	-	-	-	-	-
Cash	72,804	8.0%	1	41,463	4.6%	1	8,854	1.1%	1	4,153	0.5%	1	15,415	2.0%	1
	<b>\$ 908,248</b>	<b>100.0%</b>	<b>753</b>	<b>\$ 894,447</b>	<b>100.0%</b>	<b>657</b>	<b>\$ 824,464</b>	<b>100.0%</b>	<b>740</b>	<b>\$ 926,584</b>	<b>100.0%</b>	<b>539</b>	<b>\$ 781,157</b>	<b>100.0%</b>	<b>609</b>

***Schedule of Earnings, Expenses, Average Daily Balances, and Returns***

<b>SCHEDULE OF EARNINGS, EXPENSES, AVERAGE DAILY BALANCES, AND RETURNS - NET OF FEES (dollar amounts in thousands)</b>								
<b>FISCAL YEAR</b>	<b>AVERAGE BALANCE</b>	<b>INTEREST EARNINGS</b>	<b>TREASURY FEES</b>	<b>ANNUALIZED Y-T-D</b>	<b>ANNUALIZED RATE OF RETURN</b>			
					<b>1st Qtr.</b>	<b>2nd Qtr.</b>	<b>3rd Qtr.</b>	<b>4th Qtr.</b>
2007 - 2008	\$ 728,941	\$ 33,294	\$ (1,098)	4.42%	4.68%	4.77%	4.42%	3.85%
2008 - 2009	803,188	32,047	(1,101)	3.85%	4.08%	5.71%	2.99%	3.01%
2009 - 2010	874,196	23,876	(1,300)	2.58%	2.73%	2.18%	2.71%	2.71%
2010 - 2011	834,529	22,840	(1,268)	2.58%	3.72%	2.88%	1.65%	2.28%
2011 - 2012	949,951	17,874	(1,595)	1.71%	1.86%	1.83%	1.69%	1.48%
2012 - 2013	955,888	12,859	(1,492)	1.19%	1.45%	1.19%	1.07%	1.19%
2013 - 2014	1,041,165	11,832	(1,444)	1.00%	0.95%	1.10%	0.91%	1.03%
2014 - 2015	1,103,478	13,552	(1,445)	1.10%	1.04%	1.10%	1.09%	1.15%
2015 - 2016	1,178,643	15,489	(1,528)	1.18%	1.09%	1.16%	1.19%	1.27%
2016 - 2017	1,289,166	17,781	(1,612)	1.25%	1.24%	1.20%	1.22%	1.34%