Orange County Treasurer-Tax Collector Noncompliance Report Summary For the Month Ended December 31, 2000

During December there was one noncompliance incident in the Educational Investment Pool and none in the County or John Wayne Airport Investment Pools. Although certain Investment Policy Statement guidelines were temporarily exceeded, the Treasurer believes there was no material impact of a negative nature to the Educational Investment Pool.

Educational Investment Pool

12-04 The percentage of overall portfolio holdings for a single issuer exceeded 5 percent of the market value of the portfolio.

Due to a calculation error an additional \$25 million of Southern Company commercial paper was purchased, bringing total holdings to 5.32 percent. On December 5, the next business day, \$19 million matured bringing the overall holdings for a single issuer back into compliance.

Technical Incident

County, Educational and John Wayne Airport Investment Pools

Issues regarding technical incident are reported as follows:

12-31 The Rating on Commercial Paper Issuers does not meet the criteria set forth by the Investment Policy Statement (IPS).

On December 21, 2000, both Moody's and S&P lowered their commercial paper and long term ratings on Lucent Technologies from A1/P1 to A2/P2 and A-/A2 to BBB+/A3, respectively, making them an ineligible issuer. The IPS requires medium-term note issuers to be rated "A" or better by at least two of the nationally recognized rating agencies: Standard and Poor's, Moody's, or Fitch. Furthermore, if the medium-term note issuer has a commercial paper rating, it must have at least two of the following ratings: "A-1" by Standard & Poor's, "P-1" by Moody's, or "F-1" by Fitch. As of December 31, our holdings of Lucent Technologies in the County Pool totaled &45.8 million with \$20 million of commercial paper maturing January 26 and \$25.8 million medium-term notes maturing July 15. The Educational Pool's holdings of \$26 million of commercial paper matured on January 2. John Wayne Airport Investment Pool's holdings of \$2 million maturing January 31. The Treasurer has decided to hold the respective securities until maturity.