

**YOLO COUNTY FINANCIAL OVERSIGHT COMMITTEE**

**MINUTES OF MEETING NOVEMBER 06, 2018**

County Administration Building, County Admin Room  
625 Court Street  
Woodland, CA 95695

Members present: Duane Chamberlain (Chair - Supervisor), Crissy Huey (Education), , Eric Will (Public), and Kristin Sicke (Special District).

Members excused: Matt Rexroad (Supervisor), Richard Horan (Vice-Chair Public), Patrick Blacklock (CAO), Howard Newens (CFO), and Paul Navazio (Cities).

Others present: Mary Khoshmashrab (Internal Audit Manager), Mindi Nunes (Asst. CAO), Chad Rinde (Asst. CFO), Edward Burnham (Treasury Manager), Allison Kaune (PFM), Sarah Meacham (PFM), Karlee Ransom (VTD), and Josh Iverson (Accounting Manager).

Recorded by Mary Khoshmashrab.

- 1) Chair Chamberlain called the meeting to order at 3:12 PM. Four voting members were present; Duane, Crissy, Eric, and Kristin; a quorum was formed.
- 2) The agenda was reviewed and approved; agenda adopted (Sicke/Will).
- 3) Introductions were given by members and others in attendance. Special District Member, Kristin Sicke was introduced and welcomed. Matt Rexroad (Supervisor), Richard Horan (Vice-Chair Public), Patrick Blacklock (CAO), Howard Newens (CFO), and Paul Navazio (Cities) were noted as absent.
- 4) There were no follow-up items open from prior meeting.
- 5) Public comments: There were no public comments.
- 6) Approval of the 08/22/18 meeting minutes was accepted and approved (Will/Huey).
- 7) Independent Auditor's (VTD) verbally reported updates on (a) The CAFR; and (b) status update on audits of the treasury for quarters ended 6/30/2018 and 9/30/2018. Interim worked was completed on the CAFR which included test of controls, preliminary work, and background understanding and updates. The remainder of the work is underway and due to start in the upcoming week and scheduled to be completed by early December with a report issuance date of December 21<sup>st</sup> 2018; there are currently no findings. The Single Audit will follow with fieldwork starting sometime in January of 2019. Karlee (VTD) noted that the treasury reports for quarter ending 6/30/2018 and 9/30/2018 would be issued at the same time the CAFR report is issued.

- 8) Review Treasury and Cash Investments for Third Quarter 2018 (PFM)- Allison and Sarah provided an economic update and overview of the investment portfolio performance for the Third Quarter 2018.
- 9) Members received a copy of the 2019 Investment Policy. Rinde and Burnham provided the members with a brief walkthrough of the document. Burnham highlighted the major changes that resulted due to changes in the governing codes.
- 10) A verbal report was provided by Accounting Manager Iverson regarding the upcoming RFP for independent audit services for fiscal year ended June 30, 2019. An invitation was extended to FOC members that have interest in participating in the RFP process. Members requested that FOC staff support Khoshmashrab send an email to the members seeking interest in participating in the process.
- 11) A verbal report was provided by Treasury Manager Burnham regarding the planning and RFP for investment advisory services for June 30, 2019. An invitation was extended to FOC members that have interest in participating in the RFP process. Members requested that FOC staff support Khoshmashrab send an email to the members seeking interest in participating in the process.
- 12) Budget Officer Haynes provided members with a verbal update on the Countywide budget. Haynes shared that a report to the Board on November 20, 2019 will provide detail on the variances and analysis of the prior year budget and current year budget revisions.
- 13) Update on internal audit activities- Aa status update on internal audit activity was provided and included a verbal update on (a) the completion of the CAO's risk assessment that is pending the CAO's response to the report prior to issuance and distribution; HHSA's staff is being scheduled for training to begin the risk assessment process, with selected staff to complete risk training in November and December; (b) the status of the ongoing engagements of the purchase card, and the review of cash; (c) the completion of the follow-up Infor report that is nearing completion and scheduled to be issued final by the middle of December; and (c) an update on the budget approved 2 year-limited term Auditor I/II and the intention to update the annual audit plan to make use of the added resources.
- 14) Asst. CAO Nunes provided members with several options available to members that were interested in participating in the recruitment and hiring process of the Chief Financial Officer. Member Eric Will expressed interest in participating in the full process. Members requested that FOC staff support Khoshmashrab send an email to the members seeking interest in participating in the process which included the options discussed and Nunes would arrange for those interested in participating to get involved.
- 15) Members confirmed the next meeting date for February 12, 2019 at 3PM in the CAO Conference Room, 625 Court Street, Woodland CA, Administrative Building, Second Floor.
- 16) Committee members and staff announcement: Member Huey (Education) announced that Sandra Fowles has retired and her replacement and designee for Education is Veronica Moreno as of December 3, 2018.
- 17) Meeting Adjourned at 4:16 PM.

**YOLO COUNTY FINANCIAL OVERSIGHT AND AUDIT SUBCOMMITTEE**

**UPDATE - DIVISION OF INTERNAL AUDIT ACTIVITY**

To: Members of the Financial Oversight Committee and Audit Subcommittee

From: Mary Khoshmashrab, MSBA, CPA

Re: Update- Division of Internal Audit Activity Quarterly Report

Members of the Financial Oversight and Audit Subcommittee, the following updates are provided for this Quarter:

**(a) Provide update on the County risk assessment –**

- The CAO Risk Assessment Report was completed in October of 2018. A response was provided by the CAO in January of 2019 and the final report was issued. The FOC, the CAO, and the BOS was provided an electronic copy along with the CAO's response.
- The HHSA Risk Assessment is in progress and moving along well. The staff selected by management to participate (total of 120 randomly selected) were provided a 3 to 4-hour risk assessment training in November and December to help them understanding the consideration of risk and go over the risk assessment survey. The surveys were sent out to participants on January 4<sup>th</sup> and will close on February 10<sup>th</sup>. Because the staff time and commitment is limited to portions of time to complete the survey, the survey required the ability for participants to be able to save a partial survey and go back periodically until completed, this created some issues in the settings which needed to be worked out, but staff are now able to save the survey and go back to complete. I will work with HHSA and give them additional time should this be necessary to support full participation in the process. Once the surveys are completed, the results will be compiled and summarized in the RA report format approved by the prior CFO and the FOC when the process started in 2015. It is estimated that the draft will be issued to HHSA management by June 1.
- The next department scheduled to start the process will be the Sheriff's Office.
- The Community Services Department, Probation and Public Defender is recommended for RA process during FY 2019/20.

**(b) Provide status update of current in-progress and completed engagements –**

- **In progress**
  - Risk Assessment – HHSA – June
  - PA and PG CAP being reviewed and will be vouched - March
  - Sept and Dec Quarterly Treasury Cash Counts – Feb
  - P- Card Audit Report – March
  - P –Card continuous auditing - March
  - Land Fill Cash – March
  - Claims continuous auditing – June
- **Completed**
  - INFOR – Report provided to FOC
  - CAO Risk Assessment – Report provided to FOC
  - Cannabis AUP
  - Probation AUP

- Provided training on OMB Grants Countywide training

(c) **Provide update of any proposed changes to the annual audit plan and audit resources**

- The FOC and Audit Subcommittee approved the Division's Annual Audit Plan in August of 2018. The plan has not materially changed and as of 1-22-2019 the projects budgeted for FY18/19 have been 60% completed. The Audit Plan is updated quarterly and posted on the Division of Internal Audit's Website. The Audit Task List (Annual Audit and Business Plan) is available at the following link:

<https://www.yolocounty.org/home/showdocument?id=56343>

If at any time you would like more information on the plan, or would like to discuss audit activity, please contact me at [mary.khoshmashrab@yolocounty](mailto:mary.khoshmashrab@yolocounty) and we can arrange a one-on-one meeting.

- We are excited that we received approval for a 2 year Limited Term Auditor II position. David Estrada joined the team in January of 2019. Though David does not have prior audit experience and will take some time to train, David comes to us with a wealth of Yolo County experience gained while working with the Department of Financial Services and Department of Ag. Based on the additional resources, and consideration of training that is anticipated, the additional resources will allow the Division to add additional reviews that have been requested by the Sheriff Lopez, and support and give training around the audits that are already scheduled. Next year's audit plan will incorporate the audit position resources and be used to perform internal control and other operational audits that have been lagging due to limited resources.



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## INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Supervisors  
County of Yolo, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Yolo, California, (County) as of, and for the year ended, June 30, 2018 and the related notes to the financial statements, which collectively comprise the County'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.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of First 5 Yolo and Yolo County Housing, which represent 81.75 percent, 67.83 percent, and 89.72 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for First 5 Yolo and Yolo County Housing, is based solely on the reports of the other auditors. 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.

## *Opinions*

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Emphasis of Matter*

As described in Note 1 to the financial statements, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in the net pension liability and related ratios, the schedules of pension contributions, the schedules of changes in the net OPEB liability and related ratios, the schedules of OPEB contributions, and budgetary comparison schedules, as listed in the table of contents, 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 County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory 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 December 21, 2018, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

*Vavrinick, Trine, Day & Co. LLP*

Sacramento, California

December 21, 2018



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 Certified Public Accountants

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To the Honorable Board of Supervisors  
 County of Yolo, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Yolo, California (County) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting with you on April 10, 2018. Professional standards also require that we communicate to you the following information related to our audit.

We are currently performing the compliance audit of the County's Federal award programs (the single audit) and plan to issue our reports thereon prior to March 31, 2019.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. As described in Note 1 to the financial statements, the County adopted Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. Accordingly, the cumulative effect of the accounting changes as of the beginning of the year is reported in Note 19. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management estimates were used in establishing allowances for accounts receivable, estimating date of collection to comply with period of availability for certain non-exchange revenues, establishing self-insurance reserves, estimating closure and post closure care costs, estimating pollution remediation obligations, estimating the fair value of investments, valuation of certain infrastructure, and estimates related to the net pension and net OPEB liabilities, related deferred inflows of resources and deferred outflows of resources, and disclosures. We evaluated the key factors and assumptions used in developing these estimates and they appeared reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

As disclosed in Note 12 of the financial statements, the valuation of the County's net pension liability and related deferred outflows/inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed in Note 12, a one percent increase or decrease in the discount rate has a material effect on the County's net pension liability.

As disclosed in Note 13 of the financial statements, the valuation of the County's net OPEB liability and related deferred outflows/inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the discount rate and healthcare cost trend rate. As disclosed in Note 13, a one percent increase or decrease in the discount rate has a material effect on the County's net OPEB liability.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material misstatements that were identified as a result of our audit procedures were brought to the attention of, and corrected by, management and are attached in the Schedule of Corrected Misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letters dated December 21, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

We applied certain limited procedures to the management's discussion and analysis, the schedules of changes in the net pension liability and related ratios, the schedules of pension contributions, the schedules of changes in the net OPEB liability and related ratios, the schedules of OPEB contributions, and budgetary comparison schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

### **Restriction on Use**

This information is intended solely for the use of the Board of Supervisors, Audit Committee, and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
December 21, 2018

**COUNTY OF YOLO, CALIFORNIA  
CORRECTED MISSTATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Number</u>	<u>Fund /Opinion Unit</u>	<u>Account/Description</u>	<u>Debit</u>	<u>Credit</u>
1	Mental Health Managed Care Fund	Charges For Services Deferred Inflows - Unavailable Revenue	\$ 750,872	\$ 750,872
		<i>(To defer the revenue recognition for 6/30/18 receivables not received in accordance with the County's period of availability)</i>		
2	Juvenile Facilities Fund	Aid From Other Government Deferred Inflows - Unavailable Revenue	\$ 239,227	\$ 239,227
		<i>(To defer the revenue recognition for 6/30/18 receivables not received in accordance with the County's period of availability)</i>		



# Yolo County

## Investment Review Fourth Quarter 2018

Presented By

**Sarah Meacham, Managing Director**  
**Allison Kaune, Senior Managing Consultant**

February 12, 2019

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PFM Asset  
Management LLC  
[pfm.com](http://pfm.com)

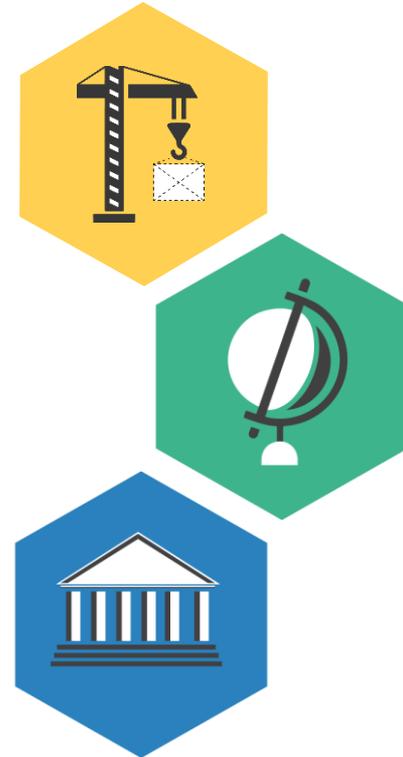


# **Economic and Interest Rate Update**



## 2018 Market Update

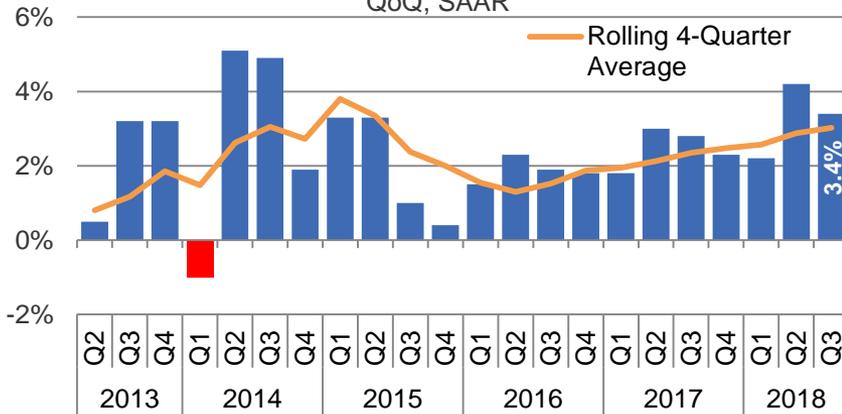
- Recent economic conditions were characterized by:
  - Solid GDP growth in the U.S., slowing global growth
  - Continued strength in the domestic labor market
  - Inflation just below the Fed's 2% target
  - Equity market sell-off late in the year
  - Interest rates increased most of the year before reversing course in fourth quarter
  - Four rate hikes by the Federal Reserve throughout the year



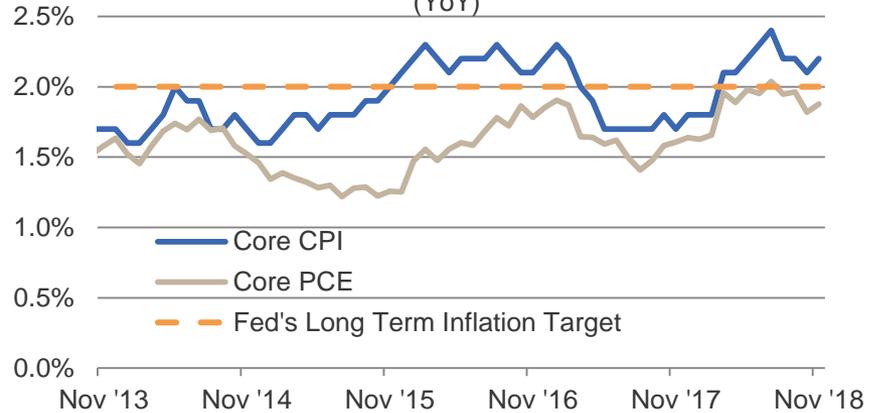


# Economic Summary

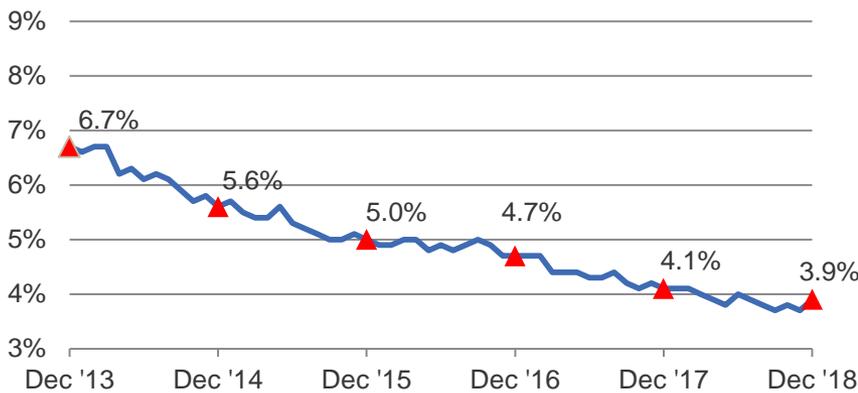
### U.S. Real GDP QoQ, SAAR



### Inflation Measures (YoY)



### Unemployment Rate



### Consumer Confidence

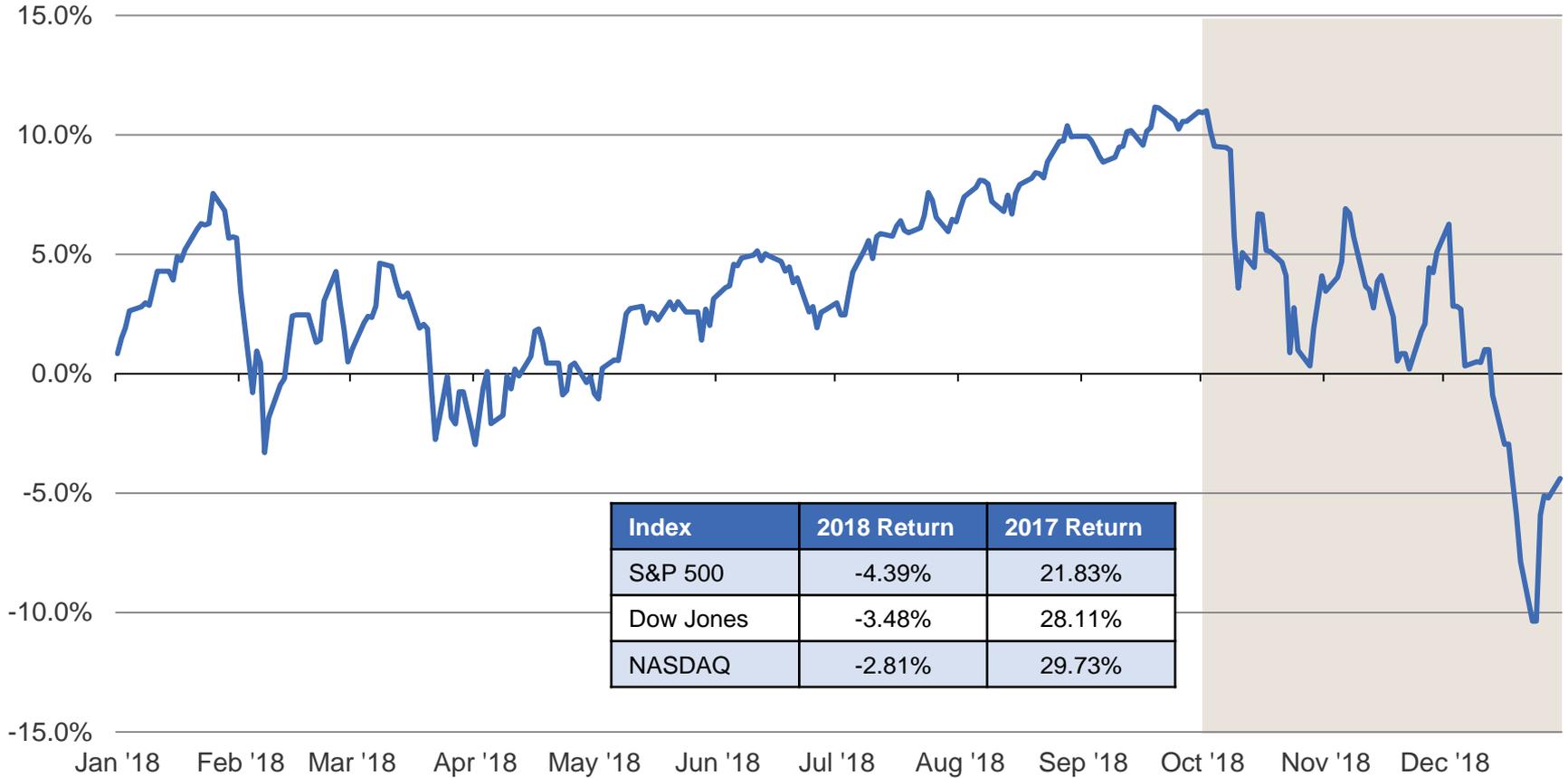


Source: Bloomberg, as of third quarter 2018. SAAR is seasonally adjusted annualized rate.



## Fourth Quarter Stock Sell-Off Erases Year-to-Date Gains

S&P 500 Cumulative Total Return Year-to-Date



Source: Bloomberg, as of 12/31/2018.



## Treasury Yields Fall from Recent Highs

**2-Year Treasury Yields**  
December 31, 2017 – December 31, 2018

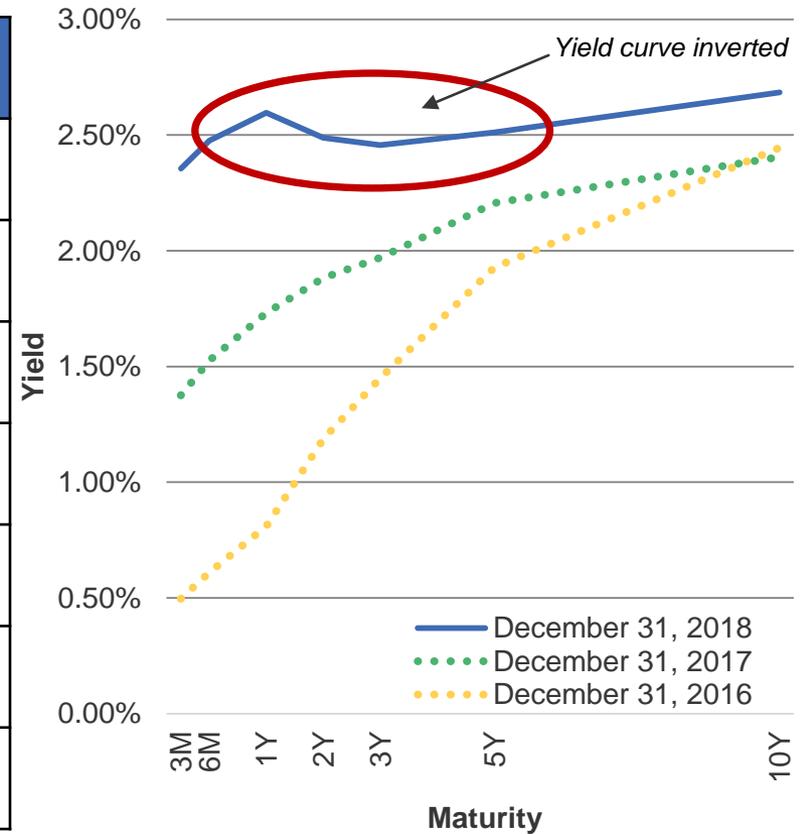


Source: Bloomberg, as of 12/31/2018.



# U.S. Treasury Yield Curve

	4Q2018 12/31/18	4Q2017 12/31/17	4Q2016 12/31/16
3-month	2.35%	1.38%	0.50%
6-month	2.48%	1.53%	0.61%
1-year	2.60%	1.73%	0.81%
2-year	2.49%	1.88%	1.19%
3-year	2.46%	1.97%	1.45%
5-year	2.51%	2.21%	1.93%
10-year	2.68%	2.41%	2.44%



Source: Bloomberg, as of 12/31/2018.



## Credit Spreads Widen with Market Volatility

- Volatility in equity markets in the fourth quarter caused an increase in demand for haven assets like Treasury bonds, widening credit spreads further to the highest level since 2016.

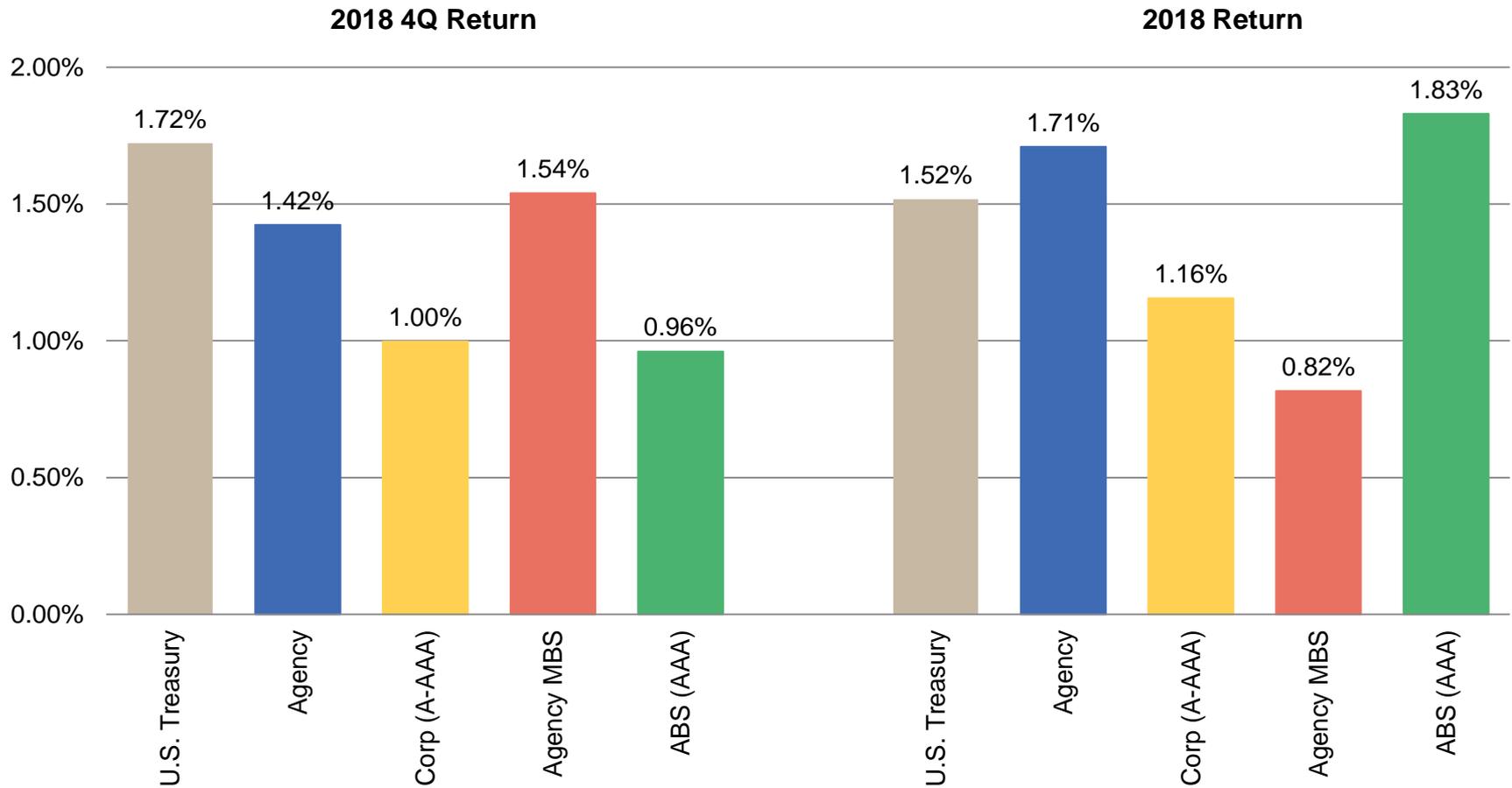
Yield Spread (OAS) of 1-5 Year AAA-A Corporate Index



Source: ICE BofAML Indices, as of 12/31/2018. OAS is option-adjusted spread versus a comparable-maturity Treasury.



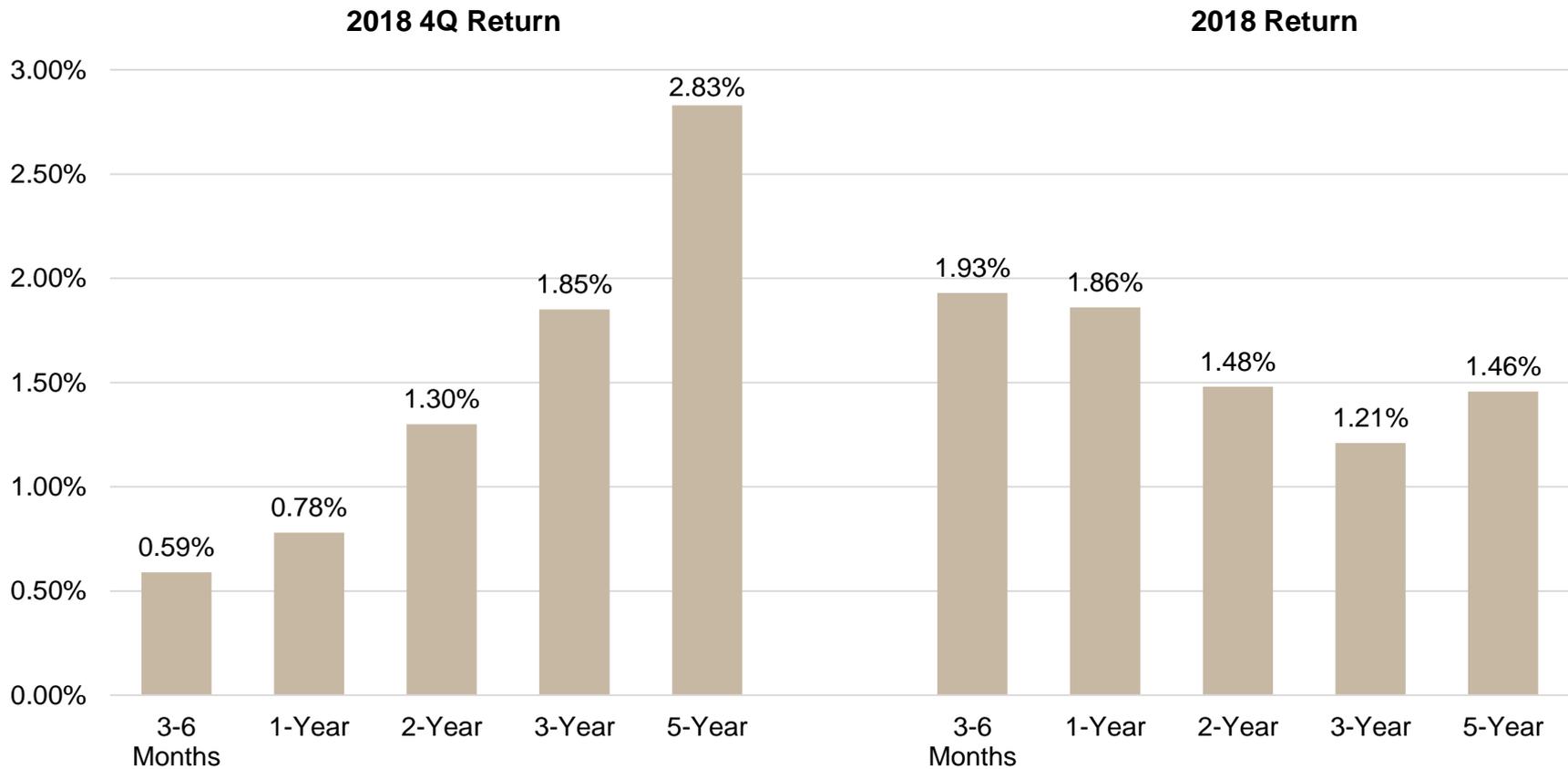
## Fixed Income Sector Performance (1-5 Year Indices)



Source: ICE BofAML Indices, as of 12/31/2018. MBS and ABS indices are 0-5 year, based on weighted average life.



## Fixed Income Maturity Performance (U.S. Treasury Sector)



Source: ICE BofAML Indices, as of 12/31/2018.



# Portfolio Update



## Fourth Quarter Portfolio Strategy

- Managing portfolio with a slightly conservative duration position relative to benchmark.
- Portfolio strategy was conservative and defensive in a period of heightened volatility and uncertainty.
- During the quarter we found relative value in:
  - U.S. Treasuries
    - Fourth quarter performance was led by the U.S. Treasury sector
    - Additions to the portfolio's Treasury sector helped to reduce relative underperformance versus the benchmark
  - Negotiable Certificates of Deposit & Commercial Paper
    - Spreads on negotiable bank certificates of deposit and commercial paper issuers rebounded in the fourth quarter from 12-month lows in the third quarter.
    - As a result, the portfolio benefited from additional allocations to these high-quality, short-term credit instruments at attractive yields.
  - Federal Agencies
    - As spreads widened between Treasuries and Federal Agencies, we found opportunities to add to the Agency sector, particularly with new issues.
    - Agencies outperformed credit sectors for the quarter.

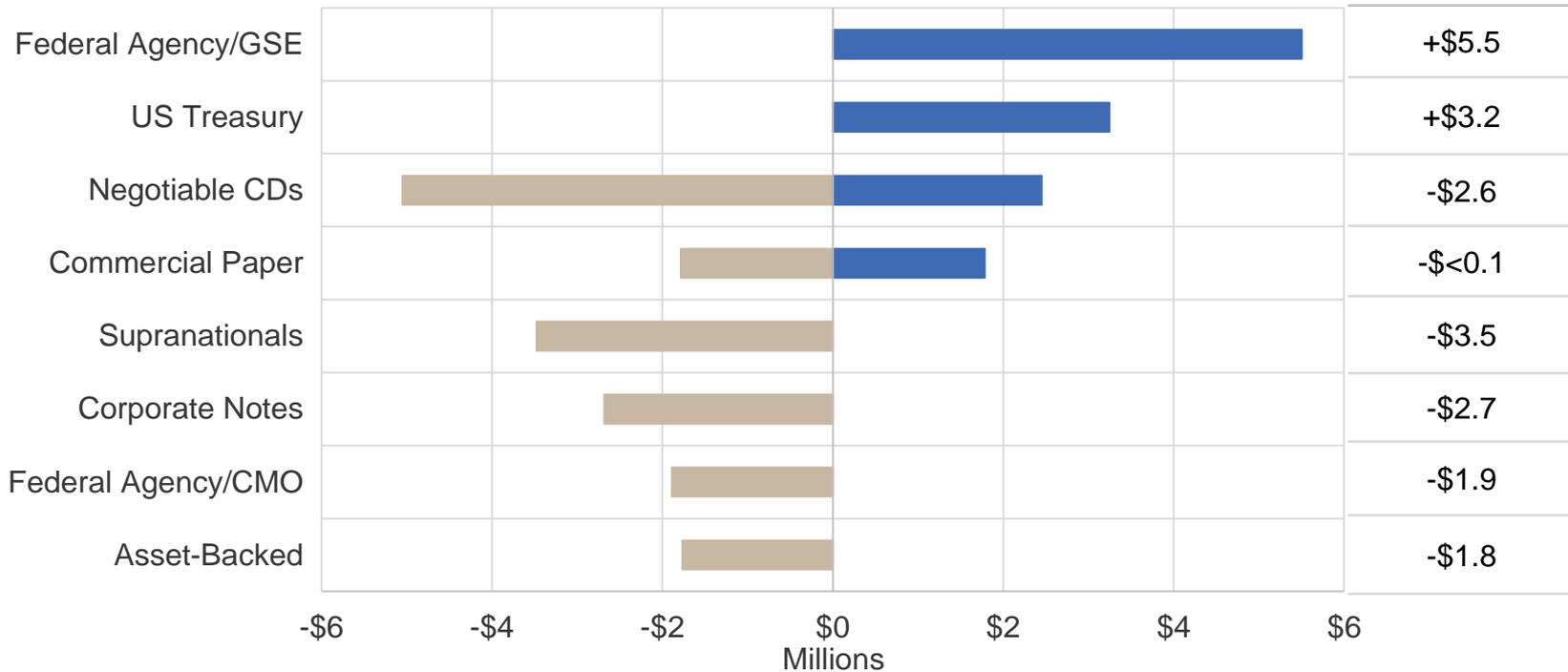


## Summary of Trade Activity

### Summary of Portfolio Trade Activity September 30, 2018 – December 31, 2018

■ Sales/Maturities    ■ Purchases

**Net Activity**



◆ Purchases during the quarter totaled \$13 million and had an average yield of 3.02%

*Based on par value of purchases, sells, maturities, and pay downs.*

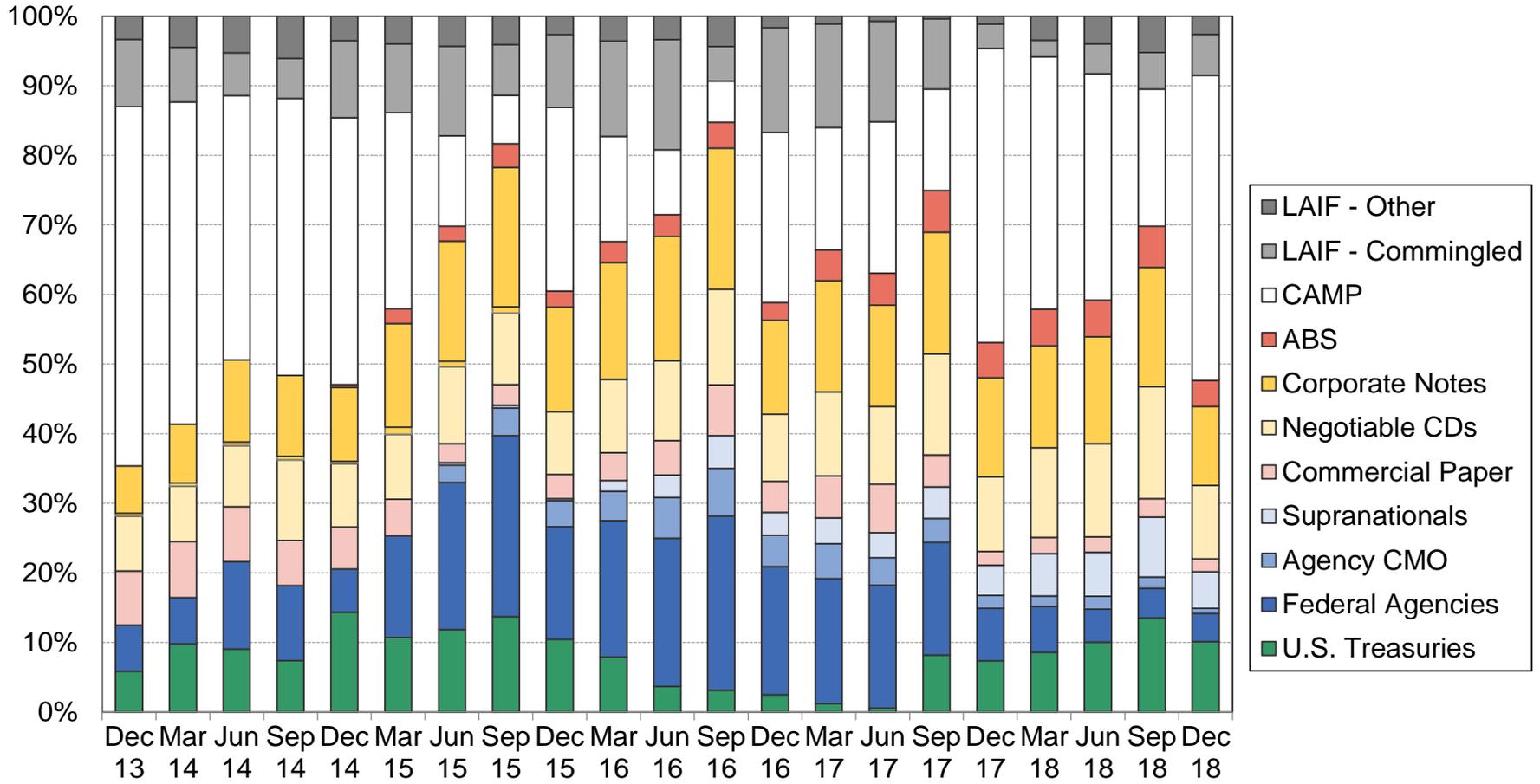


## Portfolio Composition

Security Type	Market Value as of 12/31/18	% of Portfolio	% Change vs. 9/30/18	Permitted by Policy	In Compliance
U.S. Treasury	\$51,767,252	10.4%	-3.1%	100%	✓
Federal Agency	\$20,713,918	4.1%	-0.1%	100%	✓
Federal Agency CMOs	\$3,817,809	0.8%	-0.8%	100%	✓
Supranationals	\$27,059,533	5.4%	-3.2%	30%	✓
Negotiable CDs	\$54,179,764	10.9%	-5.2%	30%	✓
Corporate Notes	\$58,070,870	11.6%	-5.5%	30%	✓
Commercial Paper	\$9,442,369	1.9%	-0.8%	40%	✓
Asset-Backed Securities	\$19,159,122	3.8%	-2.1%	20%	✓
<b>Securities Sub-Total</b>	<b>\$244,210,638</b>	<b>48.9%</b>			
Accrued Interest	\$1,431,717				
<b>Securities Total</b>	<b>\$245,642,355</b>				
CAMP	\$224,881,023	45.0%	+25.3%	100%	✓
LAIF - Total	\$30,178,900	6.0%	-4.4%	\$65 million per account	✓
<b>Total Investments</b>	<b>\$500,702,277</b>	<b>100.0%</b>			



## Adding Value Through Sector Allocation





## Portfolio Issuer Distribution

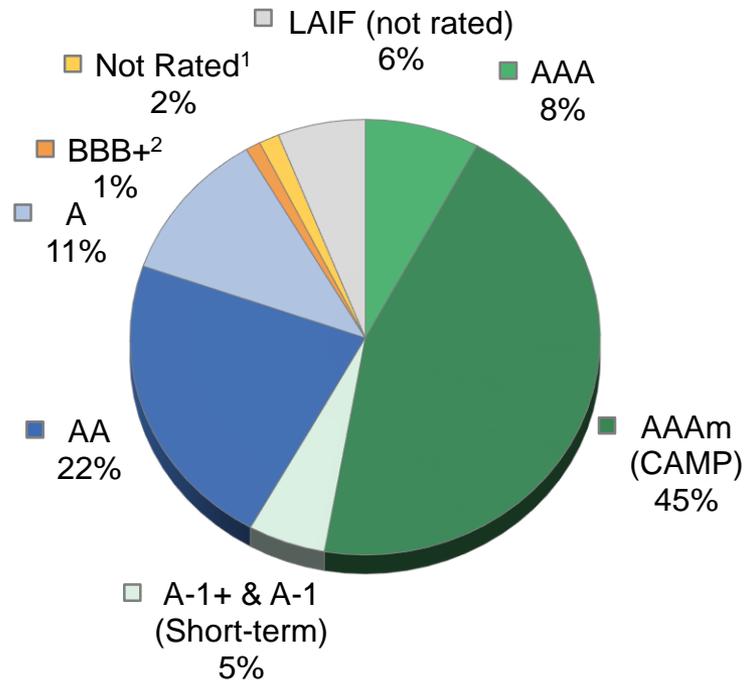
U.S. Treasury	21.2%	Apple Inc	1.4%
Intl Bank of Reconstruction and Dev	6.5%	JP Morgan Securities LLC	1.3%
Fannie Mae	5.5%	Canadian Imperial Bank of Commerce	1.3%
Freddie Mac	4.3%	JP Morgan Chase	1.2%
Credit Agricole	2.8%	Wells Fargo	1.2%
Svenska Handelsbanken	2.6%	Toyota Auto Receivables	1.2%
International Finance Corporation	2.5%	Bank of Tokyo Mitsubishi, U.S.	1.1%
American Express	2.4%	Credit Suisse	1.1%
Sumitomo Mitsui Bank	2.3%	IBM	1.1%
Toyota Motor Credit	2.1%	Visa	1.1%
Swedbank	2.1%	Bank of America	1.1%
Inter-American Development Bank	2.1%	LendingClub	1.1%
Honda Auto Receivables	2.1%	BB&T	1.0%
Skandinav Enskilda Banken NY	2.0%	Goldman Sachs (FDIC)	1.0%
American Honda Finance	2.0%	Cisco Systems	1.0%
Bank of New York	2.0%	BNP Paribas	0.7%
Ally Auto Receivables Trust	1.9%	Chevron Corp.	0.7%
Bank of Montreal Chicago	1.8%	United Parcel Service	0.6%
Westpac Banking Corp (NY)	1.8%	John Deere Owner Trust	0.6%
Hyundai Auto Receivables	1.8%	Berkshire Hathaway	0.5%
Bank of Nova Scotia Houston	1.8%	National Rural Utilities Cooperative Finance Corporation	0.4%
Exxon Mobil	1.7%	Nissan Auto Receivables	0.2%
Nordea Bank	1.6%	Federal Home Loan Bank	0.2%
UBS	1.6%	Unilever Capital Corp.	0.2%



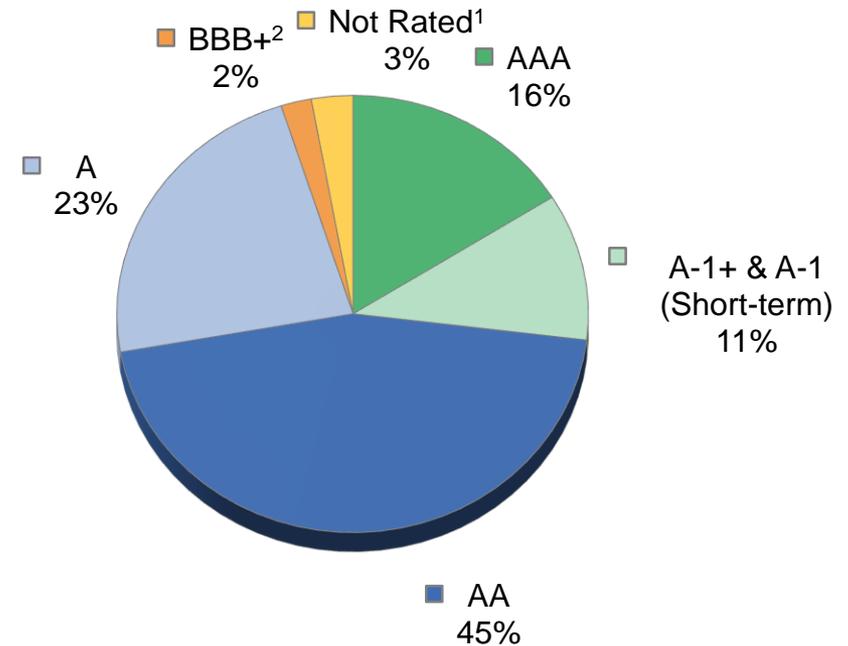
## Portfolio Credit Quality

- The County's portfolio comprises high-quality securities.

### Including Liquid Accounts



### Excluding Liquid Accounts

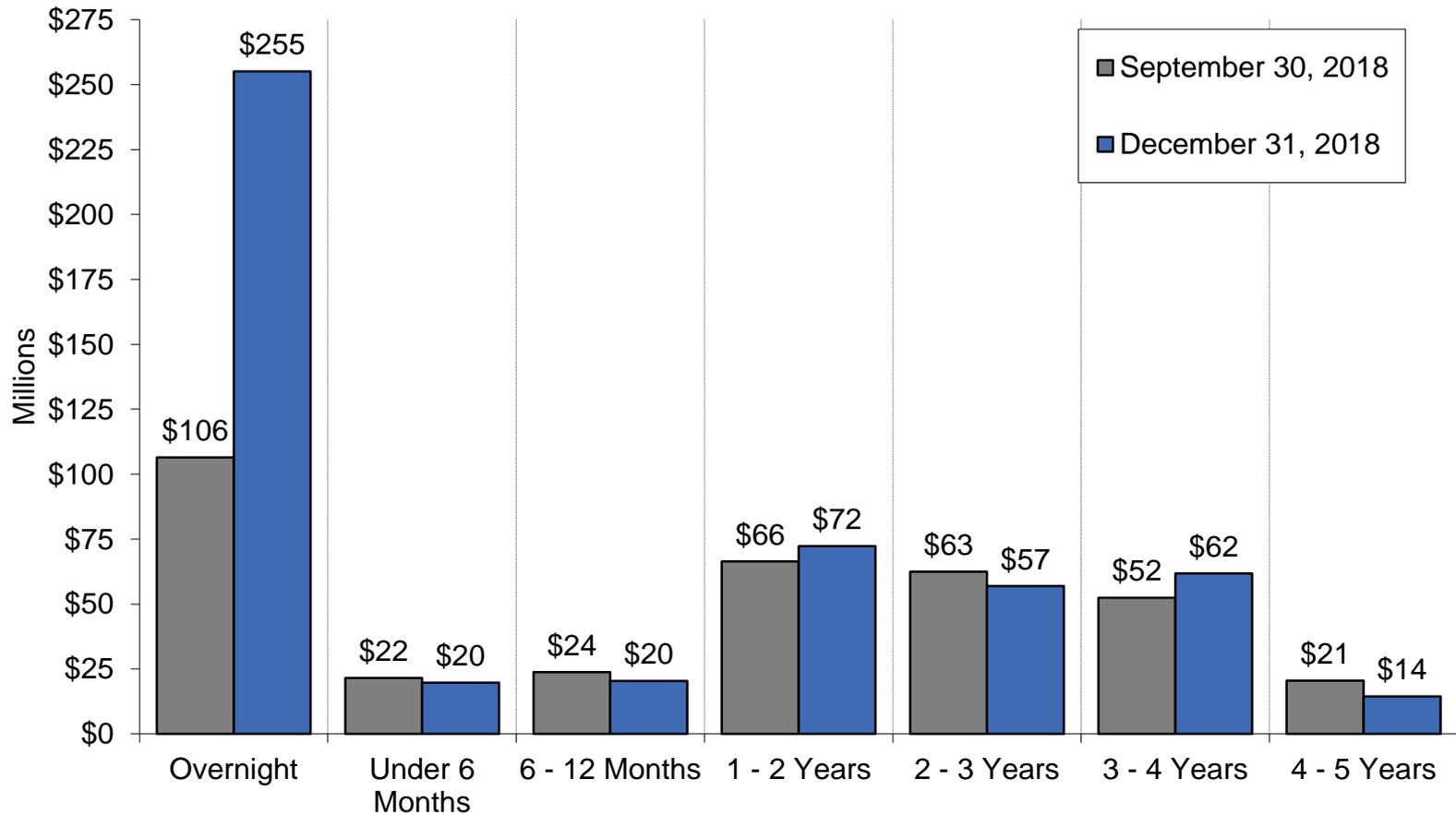


As of December 31, 2018. Percentages may not sum to 100% due to rounding.  
Ratings are based on Standard & Poor's.

- The "Not Rated" category comprises asset-backed securities rated Aaa by Moody's.
- The "BBB+" category comprises securities rated in a rating category of A or better by at least one NRSRO.



## Portfolio Maturity Distribution



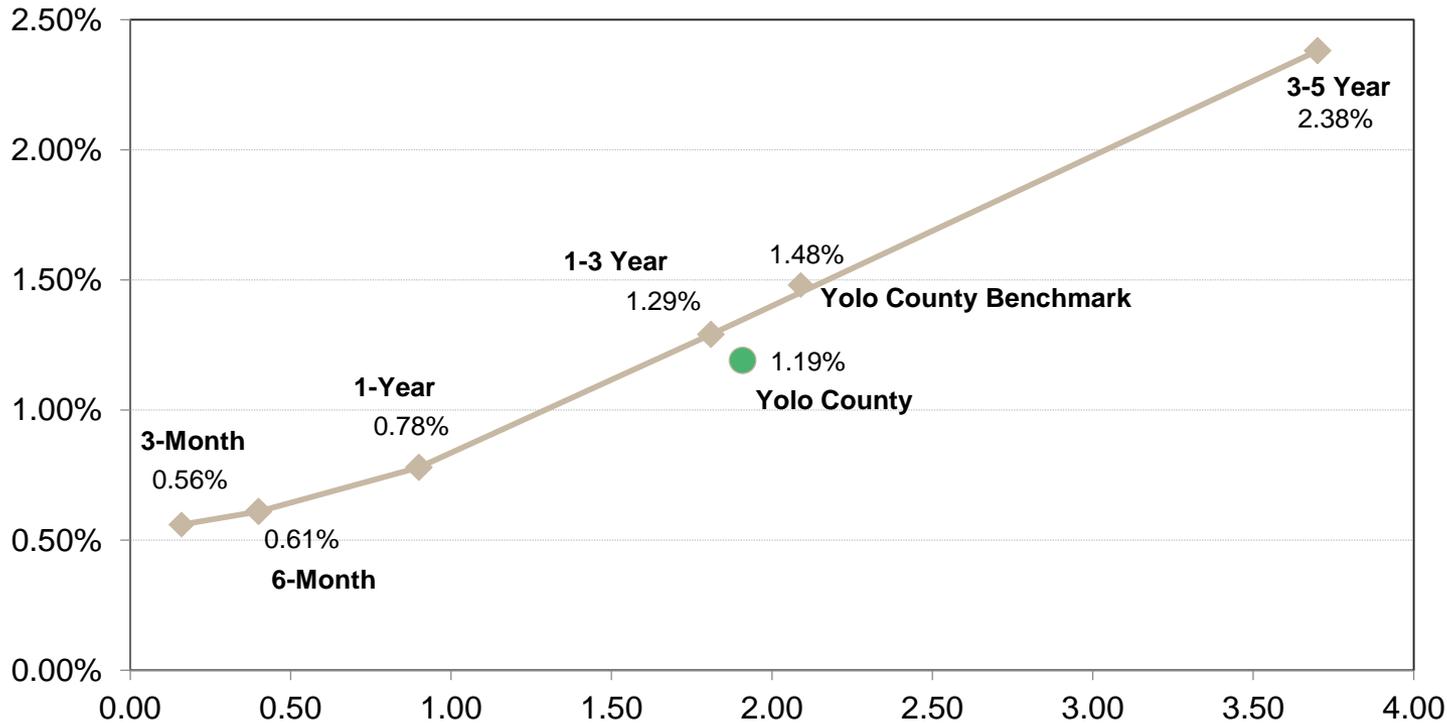
Callable and floating-rate securities are included in the maturity distribution analysis to their stated maturity date.



# Longer-Duration Strategies Outperformed as Rates Fell in Fourth Quarter

## Quarterly Total Returns

Yolo County, Yolo County Benchmark, and Various ICE BofA Merrill Lynch Treasury Indices



## Yields

### Portfolio Yield and LAIF Quarterly Apportionment Rate

Yolo County	2.22%
LAIF	2.40%

- For periods ending December 31, 2018
- Yolo County yield is the weighted average yield at cost
- Source: Bloomberg, LAIF website.
- The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



## Total Return Performance

- Falling interest rates resulted in strong absolute returns for all fixed income sectors.
- The Portfolio underperformed the benchmark for the quarter due to a flight to quality resulting in widening yield spreads and a conservative duration position.
- Historically, the Portfolio continues to outperform the benchmark by a wide margin.

### Total Return For periods ended December 31, 2018

	Duration (years)	Past Quarter	Past 1 Year	Past 5 Years	Past 10 Years	Since Inception
Yolo County	1.91	1.19%	1.70%	1.03%	1.29%	3.10%
Treasury Benchmark	2.09	1.48%	1.61%	0.67%	0.64%	2.45%

- Performance on a trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Bank of America Merrill Lynch indices provided by Bloomberg Financial Markets.
- Inception date is June 30, 1998.
- Performance, yield, and duration calculations exclude holdings in CAMP, LAIF, and the money market fund.
- The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



## Earnings Analysis

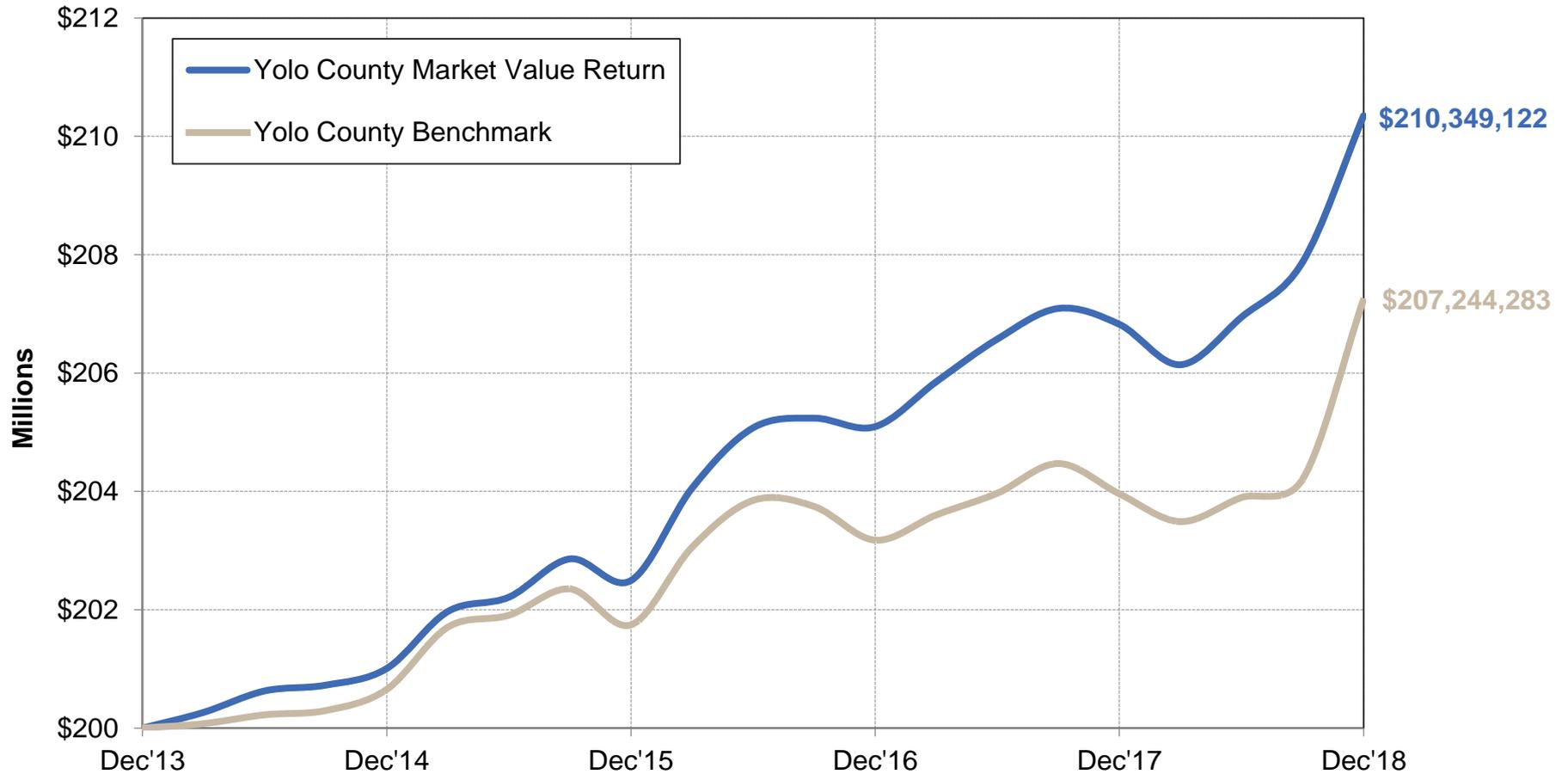
As of December 31, 2018

Period	Q1 18	Q2 18	Q3 18	Q4 18	12-Mo. Totals
Interest Earned	\$1,155,071	\$1,217,773	\$1,263,935	\$1,270,176	\$4,906,955
Change in Value	(\$165,844)	(\$353,615)	(\$123,550)	\$44,993	(\$598,016)
<b>MV Portfolio Earnings</b>	<b>\$989,227</b>	<b>\$864,157</b>	<b>\$1,140,385</b>	<b>\$1,315,169</b>	<b>\$4,308,938</b>
<b>Total Return</b>	<b>-0.33%</b>	<b>0.39%</b>	<b>0.45%</b>	<b>1.19%</b>	<b>1.70%</b>
<b>Change in 2-Yr Treasury</b>	<b>0.40%</b>	<b>0.38%</b>	<b>0.26%</b>	<b>0.29%</b>	<b>-0.33%</b>

- Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Quarterly returns are presented on an unannualized basis.
- May not sum to total due to rounding.



## County's Strategy Continues to Be Effective



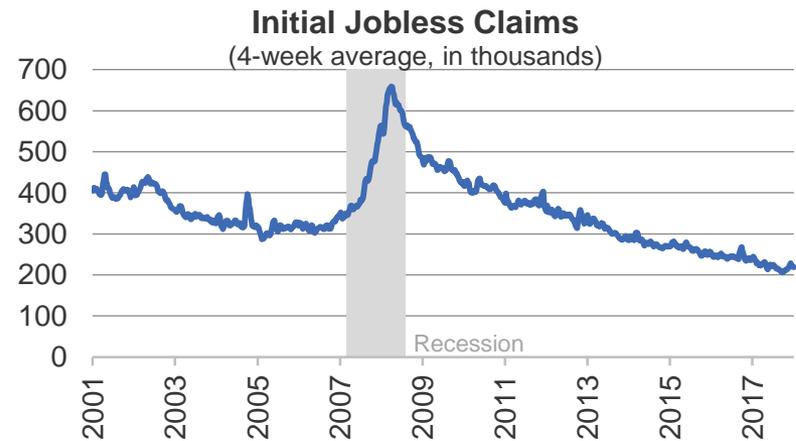
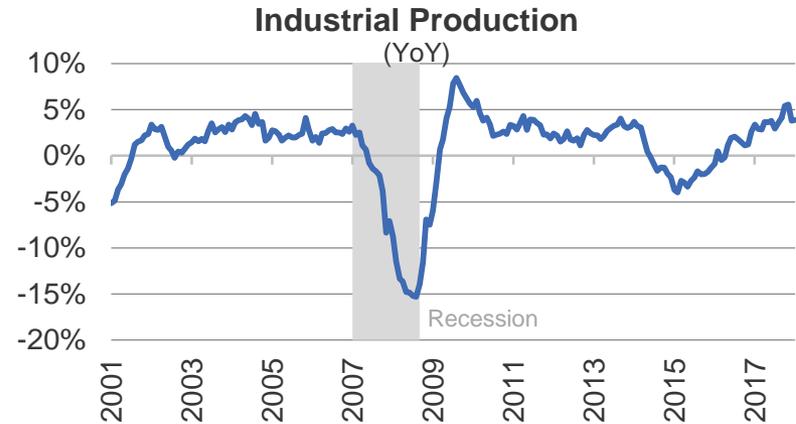
- Source: Bloomberg.
- Hypothetical growth of \$200 million.
- Past performance is not indicative of future performance.



# Outlook



## U.S. Recession Indicators: Risks Appear Low in the Near Term



Source: Bloomberg, latest data available as of 12/31/2018. SA is seasonally adjusted.



## The Fed's Latest (December) Economic Projections Less Optimistic

Indicator	2018		2019		2020		2021		Longer run	
	Sept.	Dec.	Sept.	Dec.	Sept.	Dec.	Sept.	Dec.	Sept.	Dec.
Real GDP (YoY)	3.1%	<b>3.0%</b>	2.5%	<b>2.3%</b>	2.0%	2.0%	1.8%	1.8%	1.8%	<b>1.9%</b>
Unemployment Rate	3.7%	3.7%	3.5%	3.5%	3.5%	<b>3.6%</b>	3.7%	<b>3.8%</b>	4.5%	<b>4.4%</b>
PCE Inflation (YoY)	2.1%	<b>1.9%</b>	2.0%	<b>1.9%</b>	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%
Core PCE (YoY)	2.0%	<b>1.9%</b>	2.1%	<b>2.0%</b>	2.1%	<b>2.0%</b>	2.1%	<b>2.0%</b>	-	-
Federal Funds Rate (Median)	2.4%	2.4%	3.1%	2.9%	3.4%	3.1%	3.4%	3.1%	3.0%	2.8%

Source: Federal Reserve, as of December 2018. Green denotes an improved projection in December compared to September, red for lower projection.



## Investment Strategy Outlook

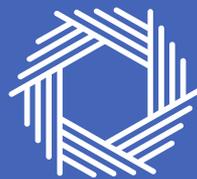
- ◆ The Federal Reserve is recalibrating monetary policy, reducing the number of expected rate hikes for 2019.
  - As a result, we are less defensive about rates and plan to increase portfolio duration.
  - Manage portfolio duration to be closer to the benchmark.
- ◆ Current challenges to finding value in the market include:
  - Extremely flat to inverted yield curve
  - Volatile markets
  - Heightened risk from political gridlock
- ◆ Corporate spreads continued to widen in November and December.
  - Wide spreads create opportunities to add corporates at more attractive levels.
  - We also find continued value in asset-backed securities.
- ◆ Our 2019 strategy will emphasize income over anticipated changes in market value.
- ◆ Broad diversification across all investment-grade sectors remains a key component of our portfolio strategy while maintaining a high credit quality for the County's portfolio.



## Disclosures

*This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.*

# Thank You



pfm

**From:** [Mary Khoshmashrab](#)  
**To:** [Crissy Huey](#); [Dotty Pritchard](#); [Duane Chamberlain](#); [Eric Will- Public Member](#); [Gary Sandy](#); [Kristin \(Special District Member\)](#); [Pascoe, Monica](#); [Paul Navazio](#); [Richard Horan \(Public Member\)](#)  
**Cc:** [Mary Khoshmashrab](#); [Chad Rinde](#)  
**Subject:** FW: Yolo County Strategic Plan Input  
**Date:** Thursday, January 3, 2019 9:53:07 AM

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Good morning FOC Members:

I will place this item on the February 12<sup>th</sup> Agenda for discussion between members (as suggested).

Thank you and Happy New Year!

Mary

**From:** Carolyn Jhajj  
**Sent:** Friday, December 21, 2018 10:13 AM  
**To:** Mary Khoshmashrab <[Mary.Khoshmashrab@yolocounty.org](mailto:Mary.Khoshmashrab@yolocounty.org)>  
**Subject:** RE: Yolo County Strategic Plan Input

**Good Morning Financial Oversight Committee,**

As previously emailed, the County is beginning the process of developing their new Strategic Plan for the organization and would like to invite all of the County's committees, advisory bodies and special districts to share their input on priorities and/or areas in need of resources.

Below is a link to a voluntary survey for the County's committees, advisory bodies and special districts to complete as a body. If your group would like to participate and share your input with the County, we ask that you review and discuss the survey questions as a body, fill out the survey, and submit it **by March 5, 2019**. The survey link is as follows:

<https://www.surveymonkey.com/r/XZ8878C>

For your convenience a fillable Word document of the survey has also been attached above. If your group would prefer, you may type up your answers in the Word document, instead of utilizing the online survey, and either email or mail it to Carolyn Jhajj at the information below.

The County will also be releasing a different survey to the public in January from which members of the committees, advisory bodies and special districts may participate in as individual residents.

Feel free to contact me with any questions. A copy of the current County strategic plan has also been attached above for your reference.

Sincerely,

**Carolyn Jhaji**  
*Senior Management Analyst*  
Yolo County Administrator's Office  
625 Court Street, Suite 202  
Woodland, CA 95695  
Phone: (530)406-5775  
Email: [carolyn.jhaji@yolocounty.org](mailto:carolyn.jhaji@yolocounty.org)

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**From:** Mary Khoshmashrab  
**Sent:** Monday, December 03, 2018 6:54 AM  
**To:** Crissy Huey ; Dotty Pritchard; Duane Chamberlain; Eric Will- Public Member; Gary Sandy; Kristin (Special District Member); Matt Rexroad; Pascoe, Monica ; Patrick Blacklock; Paul Navazio; Richard Horan (Public Member)  
**Cc:** Howard Newens; Mary Khoshmashrab; Carolyn Jhaji  
**Subject:** FW: Yolo County Strategic Plan Input

Good morning FOC Members,

Please review the email below regarding notice of survey that will be sent out next month to all County advisory bodies and committees. I am copying Carolyn with the CAO's office should you have any questions.

Kind Regards,  
Mary

Mary E. Khoshmashrab, MSBA, CPA  
Internal Audit Manager  
County of Yolo  
Department of Financial Services  
Division of Internal Audits  
P.O. Box 1995  
Woodland, CA 95776  
[Mary.Khoshmashrab@yolocounty.org](mailto:Mary.Khoshmashrab@yolocounty.org)  
530.666.8190. Ext. 9210

**Visit the Division's Website at**

<http://www.yolocounty.org/general-government/general-government-departments/financial-services/internal-audit>

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**From:** Carolyn Jhajj  
**Sent:** Friday, November 30, 2018 3:43 PM  
**To:** Howard Newens  
**Subject:** Yolo County Strategic Plan Input

Good Afternoon,

For the past three years the County has prioritized areas of focus in the organization through the 2016-2019 Strategic Plan. At the end of the 2019 calendar year, this plan will come to an end and a new strategic plan will need to be in place. As a result, in 2019 the County Board of Supervisors will begin the process of developing their new Strategic Plan for the organization.

As we begin this process the County would like to hear from you. In December, the County will email a survey handout to each of the advisory bodies, committees and special districts. This handout will guide members in providing suggestions as a group to the Board of Supervisors of areas of focus you believe should be prioritized in the new Strategic Plan. These handouts will then be collected and the results shared with the Board of Supervisors.

If your group would be interested in providing this feedback, please note that the handout would need to be completed by March 5, 2019. Therefore, depending on how frequently your group meets, you may consider agendaing the item for discussion at a meeting of your group in January or February 2019.

The handout and additional details will be emailed out in mid-December. In the meantime, please contact me at the information below with any questions or for further information.

Sincerely,

Carolyn Jhajj  
*Senior Management Analyst*  
Yolo County Administrator's Office  
625 Court Street, Suite 202  
Woodland, CA 95695  
Phone: (530)406-5775  
Email: [carolyn.jhajj@yolocounty.org](mailto:carolyn.jhajj@yolocounty.org)

Yolo County Strategic Plan Survey: Committees, Advisory Bodies, and Special Districts

In all of its work, Yolo County strives to be innovative, collaborative, fiscally responsible, inclusive of the County’s diverse population, strategically aligned and engaged with the community. Consistent with its ongoing commitment to these principles, Yolo County is developing a new Strategic Plan. The County Board of Supervisors will use this plan to help set County policies and prioritize resources for the next 3 to 5 years. As part of the County’s dedication to engagement, we are asking all of the County’s committees, advisory bodies, and special districts to submit responses to the questions below to provide the Board of Supervisors with suggestions for the new strategic plan of priorities and/or areas in need of resources.

**Please complete the questions below as a group and submit by March 5, 2019. The current strategic plan of the County is also provided for reference [here](#).**

OK

\* 1. What is the name of your committee, advisory body, or special district?

2. What is Yolo County's greatest strength and how should the County build on this strength?

3. What is an area that Yolo County could improve on and how should the County do so?

0 of 6 answered

4. Based on your field of interest, what are the greatest challenges Yolo County will face over the next 3 to 5 years? What do you suggest as the best approaches for the County in tackling these challenges?

5. Outside of your field of interest, what are the greatest challenges you believe Yolo County will face over the next 3 to 5 years? What do you suggest as the best approaches for the County in tackling these challenges?

6. Is there any additional information or suggestions regarding the Strategic Plan that you would like to share?

DONE

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 **SurveyMonkey**  
See how easy it is to [create a survey](#).

[Privacy & Cookie Policy](#)

0 of 6 answered