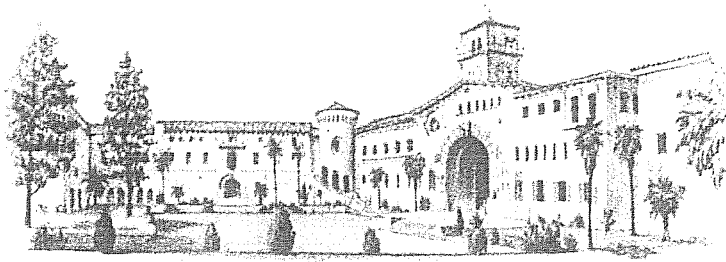


# COUNTY OF SANTA BARBARA

ROBERT W. GEIS, C.P.A.  
Auditor-Controller

THEO FALLATI, C.P.A.  
Assistant Auditor-Controller



County Administration Building  
105 E. Anapamu Street, Rm. 303  
Santa Barbara, CA 93101  
(805) 568-2100

Auditor@co.santa-barbara.ca.us

Mailing Address:  
P.O. Box 39  
Santa Barbara, CA 93102-0039  
Fax: (805) 568-2016

## OFFICE OF THE AUDITOR-CONTROLLER

### ACCOUNTANTS' REVIEW REPORT

To the Honorable Board of Supervisors and the County of Santa Barbara, California:

Pursuant to Government Code §26920(a), we have reviewed the accompanying Statement of Assets (the Statement) of the Santa Barbara County Treasurer as of March 31, 2011. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the management of the Santa Barbara County Treasurer. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

The management of the Santa Barbara County Treasurer is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

As required by various statutes within the California Government Code, county auditor-controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, impair independence standards. We believe that the following safeguards and division of responsibility exist to retain the audit organization's independence. The Santa Barbara County Auditor-Controller is directly elected by the voters of the jurisdiction. Also, the staff, having the responsibility to perform reviews, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being reviewed.

Based on our review, we are not aware of any material modifications that should be made to the accompanying Statement in order for it to be in conformity with accounting principles generally accepted in the United States of America.

Robert W. Geis, CPA  
April 25, 2011

**Santa Barbara County Treasury Pool  
Statement of Assets  
As of March 31, 2011**

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 3/31/2011	Fair Value 12/31/2010	Net Change
Cash on Hand	\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 4,000	\$ -
Bank Deposits	98,018,864	-	-	98,018,864	89,756,722	8,262,142
<b>Total Cash</b>	<b>98,022,864</b>	<b>-</b>	<b>-</b>	<b>98,022,864</b>	<b>89,760,722</b>	<b>8,262,142</b>
<b>Outstanding Purchase Interest:</b>						
Treasurer's Pool Outstanding Purchase Interest	13,726	-	-	13,726	33,632	(19,906)
<b>Total Outstanding Purchase Interest</b>	<b>13,726</b>	<b>-</b>	<b>-</b>	<b>13,726</b>	<b>33,632</b>	<b>(19,906)</b>
<b>Treasurer's Pooled Investments:</b>						
Local Agency Investment Fund (LAIF)	50,000,000	-	-	50,000,000	50,000,000	-
California Asset Management Program (CAMP)	40,000,000	-	-	40,000,000	45,000,000	(5,000,000)
U.S. Treasury Bills	119,877,516	105,284	-	119,982,800	189,913,200	(69,930,400)
Negotiable Certificates of Deposit	16,000,000	11,350	-	16,011,350	24,532,810	(8,521,460)
Corporate Notes: TLGP <sup>1</sup>	4,999,000	94,550	-	5,093,550	10,120,400	(5,026,850)
Corporate Notes	25,027,740	774,927	-	25,802,667	25,962,825	(160,158)
Municipal Anticipation Bond	10,073,500	-	(15,700)	10,057,800	10,074,600	(16,800)
Government Agency Bonds and Notes	629,361,803	1,938,567	(3,709,449)	627,590,921	638,852,935	(11,262,014)
<b>Total Treasurer's Pooled Investments</b>	<b>895,339,559</b>	<b>2,924,678</b>	<b>(3,725,149)</b>	<b>894,539,088</b>	<b>994,456,770</b>	<b>(99,917,682)</b>
<b>Investments Held with Fiscal Agents:</b>						
Local Agency Investments Fund (LAIF)	449,549	-	-	449,549	449,033	516
Money Market	22,277,227	-	-	22,277,227	24,086,558	(1,809,331)
Government Agency Bonds and Notes	8,049,668	66,666	(51,270)	8,065,064	10,300,344	(2,235,280)
<b>Total Investments Held with Fiscal Agents</b>	<b>30,776,444</b>	<b>66,666</b>	<b>(51,270)</b>	<b>30,791,840</b>	<b>34,835,935</b>	<b>(4,044,095)</b>
<b>Total Investments and Purchase Interest</b>	<b>926,129,729</b>	<b>2,991,344</b>	<b>(3,776,419)</b>	<b>925,344,654</b>	<b>1,029,326,337</b>	<b>(103,981,683)</b>
<b>Total Cash, Investments, and Outstanding Purchase Interest</b>	<b>\$ 1,024,152,593</b>	<b>\$ 2,991,344</b>	<b>\$ (3,776,419)</b>	<b>\$ 1,023,367,518</b>	<b>\$ 1,119,087,059</b>	<b>\$ (95,719,541)</b>

<sup>1</sup>Temporary Liquidity Guarantee Program

See accompanying notes and accountants' report

**Santa Barbara County Treasury Pool**  
**Notes to the Statement of Assets**  
**March 31, 2011**

**Summary of Significant Accounting Policies**

The Statement of Assets includes the cash balances of substantially all funds, which are pooled and invested by the County Treasurer. The Santa Barbara County Treasury Pool (The Pool) is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. Interest earned on pooled investments is apportioned quarterly to certain participating funds based upon each fund's average daily deposit balance with all remaining interest deposited in the General Fund.

Investments held by the Pool are stated at fair value. The fair value of investments is established quarterly based on quoted market prices received from the securities custodian. Fair value of investments held fluctuates with interest rates. The fair value of participants' position in the Pool is the same as the value of the Pool shares. The value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. The total percentage share of the Pool that relates to external involuntary participants is 48% as of March 31, 2011.

The Pool participates in the State of California Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP). Investments in LAIF and CAMP are governed by State statutes and overseen by a five member Local Investment Advisory Board and a 7 member Board of Trustees, respectively. The reported value of the LAIF and CAMP pools are materially equivalent to the fair value of the Pool shares.

The Pool holds an AAAf/S1 credit rating by Standard and Poor's. State statutes and the Treasurer's Investment Policy provide the framework for investment. The objectives of the State of California Government Code and the Treasurer's Investment Policy is primarily to safeguard investment principal by mitigating exposure to risk factors, secondarily maintaining sufficient liquidity to meet cash flow needs, and lastly to attain a return on the funds. On this last objective the Treasurer's Investment Policy specifies the attainment of a "market average rate of return" consistent with the primary objectives of safety and liquidity.

The Treasurer has not provided nor obtained any legally binding guarantees during the quarter ended March 31, 2011 to support the value of shares in the Pool.

**Deposits**

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Pool will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that the Pool's bank deposits are insured by the Federal Depository Insurance Corporation. Effective December 31, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) fully guaranteed all funds in noninterest-bearing transaction deposit accounts held at FDIC-insured depository institutions. As the Pool's deposits are fully insured under the DFA, collateralization under Government Code Section 53652 is waived.

At March 31, 2011, the carrying amount of the Pool's deposits was \$98,018,864 and the corresponding bank balance was \$94,230,493. The difference of \$3,788,371 was principally due to deposits in transit.

**Investments**

Pursuant to Section 53646 of the Government Code, the County Treasurer prepares an *Investment Policy Statement* annually and presents it to the Treasury Oversight Committee for review and the Board of Supervisors for approval. After approval, the policy is forwarded to the California Debt and Investment Advisory Commission.

The Investment Policy Statement provides the basis for the management of a prudent, conservative investment program. Public funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the Government Code and, in general, the Treasurer's

Investment Policy is more restrictive than state law. Types of securities in which the Treasurer may invest include U.S. Treasury and U.S. government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; the State of California Local Agency Investment Fund (LAIF); and investment pools managed by a Joint Powers Authority.

### 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 in a single issuer. The Treasurer mitigates these risks by holding a diversified portfolio of high quality investments.

The Treasurer's Investment Policy sets specific parameters by type of investment for credit quality, maturity length, and maximum percentage investment to be met at the time of purchase. For securities issued and fully guaranteed as to payment by an agency, or government sponsored enterprise of the U.S. Government the issuer shall be rated AAA by at least two of the three major rating services of Fitch Ratings, Moody's and Standard & Poor's (S&P). Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services at a minimum of F1 by Fitch, P-1 by Moody's and A-1 by S&P. Corporate notes, with a maturity greater than three years, shall be rated at a minimum of AA by at least two of the three major rating services. Corporate notes, with a maturity of three years or less, shall be rated at a minimum of AA- by at least two of the three major ratings services. Corporate Temporary Liquidity Guarantee Program (TLGP) notes shall be rated AAA by one of three major ratings services.

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at March 31, 2011 (NR means Not Rated):

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<b>Treasurer's Pooled Investments:</b>				
LAIF	NR	NR	NR	5.59%
CAMP	NR	AAA <sub>m</sub>	NR	4.47%
U.S. Treasury Bills	Aaa	AAA	AAA	13.41%
Negotiable Certificates of Deposit	P-1	A-1+	F1+	0.56%
Negotiable Certificates of Deposit	P-1	A-1	F1	1.23%
Corporate Notes: TLGP	Aaa	AAA	AAA	0.57%
Corporate Notes	Aa2	AA+	NR	0.56%
Corporate Notes	A1	AA-	AA-	1.73%
Corporate Notes*	A2	A+	A+	0.59%
Municipal Anticipation Bond	MIG 1	SP-1	F2	1.12%
Government Agency Bonds and Notes	Aaa	AAA	AAA	48.47%
Government Agency Bonds and Notes	Aaa	AAA	NR	21.70%
<b>Total Treasurer's Pooled Investments</b>				<b>100.00%</b>
<b>Investments Held with Fiscal Agents:</b>				
LAIF	NR	NR	NR	1.46%
Money Market	P-1	A-1+	F1+	72.35%
Government Agency Bonds and Notes	Aaa	AAA	AAA	11.01%
Government Agency Bonds and Notes	Aaa	AAA	NR	15.18%
				<b>100.00%</b>

\*At the time of purchase, the underlying issuer met the credit rating requirements of the Treasurer's investment policy. Since their purchase, the issuer had been downgraded below the credit rating that is required for purchase by the Treasurer.

Instruments in any one issuer that represent 5% or more of the County's investments as of March 31, 2011 are as follows: (excluding external investment pools and debt explicitly guaranteed by the U.S. government)

<u>Issuer</u>	<u>Issuer Type</u>	<u>Fair Value Holdings</u>	<u>Percentage Holdings</u>
<b>Treasurer's Pooled Investments:</b>			
Federal Farm Credit Bank	Government Sponsored	\$ 207,314,386	23.18%
Federal Home Loan Bank	Government Sponsored	\$ 193,999,438	21.69%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 70,054,200	7.83%
Federal National Mortgage Association	Government Sponsored	\$ 156,222,898	17.46%
<b>Investments Held with Fiscal Agents:</b>			
Federal National Mortgage Association	Government Sponsored	\$ 3,390,647	11.01%
Federal Home Loan Bank	Government Sponsored	\$ 4,674,417	15.18%

### Custodial Credit Risk

Custodial credit risk for investments is the risk that the Pool will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the Pool are deposited in trust for safekeeping with a custodial bank different from the Pool's primary bank. Securities are not held in broker accounts.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Pool mitigates this risk by making longer-term investments only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The maturity of investments purchased is governed by a demand for funds analysis of prior periods' revenues and expenditures, and is also determined by current cash flow demands assessed on an ongoing basis. The Treasurer's Investment Policy also dictates that the final maturity date of any individual security shall not exceed five years and that long-term investments (greater than one year), in the aggregate, shall not exceed 75% of the portfolio.

The following is a summary of the weighted average days to maturity by investment type at March 31, 2011.

	<u>Weighted Average Days to Maturity</u>
<b>Treasurer's Pooled Investments:</b>	
LAIF	On Demand
CAMP	On Demand
U.S. Treasury Bills	66
Negotiable Certificates of Deposit	42
Corporate Notes: TLGP	252
Corporate Notes	317
Municipal Anticipation Bond	88
Government Agency Bonds and Notes	863
Investment Pool Average	628
<b>Investments Held with Fiscal Agents:</b>	
LAIF	On Demand
Money Market	On Demand
Government Agency Bonds and Notes	863
Investments Held with Fiscal Agents Average	227

The weighted average days to maturity of the underlying securities held in the LAIF and CAMP pools presented above are 193 and 57, respectively. For purposes of the weighted average maturity calculation, the Pool assumes that all of its investments will be held to maturity.

A summary of interest rate and maturity ranges for the Treasurer's investments is as follows:

<b>Treasurer's Pooled Investments:</b>	<b>Principal</b>	<b>Fair Value</b>	<b>Interest Rate Range</b>	<b>Maturity Range</b>
LAIF	\$ 50,000,000	\$ 50,000,000	0.51%	On Demand
CAMP	40,000,000	40,000,000	0.19%	On Demand
U.S. Treasury Bills*	120,000,000	119,982,800	Discount	4/11-6/11
Negotiable Certificates of Deposit	16,000,000	16,011,350	0.67%-0.85%	4/11-5/11
Corporate Notes: TLGP	5,000,000	5,093,550	3.00%	12/11
Corporate Notes	25,004,000	25,802,667	5.13%-5.68%	8/11-9/12
Municipal Anticipation Bond	10,000,000	10,057,800	3.00%	6/11
Government Agency Discount Notes*	130,406,000	130,379,577	Discount	4/11-8/11
Government Agency Bonds and Notes	499,255,000	497,211,344	0.50%-4.63%	4/11-2/16
	<u>\$ 895,665,000</u>	<u>\$ 894,539,088</u>		
<b>Investments Held with Fiscal Agents:</b>				
LAIF	\$ 449,549	\$ 449,549	0.51%	On Demand
Money Market	22,277,227	22,277,227	0.00%-0.16%	On Demand
Government Agency Discount Notes*	3,208,978	3,208,807	Discount	5/11
Government Agency Bonds and Notes	4,900,000	4,856,257	1.28%-2.01%	9/14-10/15
	<u>\$ 30,835,754</u>	<u>\$ 30,791,840</u>		

\*Discount notes and U.S. Treasury Bills are purchased at a discount. The difference between maturity value and principal paid is earnings apportioned to the investment pool.

The fair value of investments generally changes with the fluctuations of interest rates. In a rising interest rate market, the fair value of investments could decline below original cost. Conversely, when interest rates decline, the fair value of investments increases. The Treasurer believes liquidity in the portfolio is sufficient to meet cash flow needs and to preclude the Treasurer from having to sell investments below original cost.

At March 31, 2011, \$53,679,930 or 6.00% of the Pool's investments was held in U.S agency step-up note securities. These securities grant the issuer the option to call the note on a certain specified date(s). On a certain date, or dates, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note.

Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily cash balance. Unrealized gains and losses are also apportioned quarterly to participating funds based upon the fund's ending cash balance.

Interest and net investment income consisted of the following for the quarter ended March 31, 2011:

Interest Income	\$ 2,467,482
Net Realized Gain	165,167
Administration	(362,574)
Miscellaneous Adjustments	(1,788)
<b>Total Net Investment Income</b>	<u>\$ 2,268,287</u>

The Treasurer may purchase securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered a gain rather than interest. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one quarter and sold in the current quarter were included as a change in the fair value of investments reported in the prior quarter(s) and the current quarter.

### Restricted Cash and Investments

Cash and investments that are restricted by legal or contractual requirements amounted to \$100,076,467 at March 31, 2011.

### Condensed Financial Statement

The following represents a condensed statement of assets and changes in assets for the Pool as of March 31, 2011:

	<u>3/31/2011</u>	<u>12/31/2010</u>	<u>Net Change</u>
Assets Held for Pool	<u>\$ 992,575,678</u>	<u>\$ 1,084,251,124</u>	<u>\$ (91,675,446)</u>
Equity of Internal Pool Participants	\$ 482,533,636	\$ 414,227,069	\$ 68,306,567
Equity of External Pool Participants	510,028,316	669,990,423	(159,962,107)
Outstanding Purchase Interest	13,726	33,632	(19,906)
Total Equity	<u>\$ 992,575,678</u>	<u>\$ 1,084,251,124</u>	<u>\$ (91,675,446)</u>