



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Auditor-Controller
Department No.: 061
For Agenda Of: 11/20/2007
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Robert W. Geis, CPA, Auditor-Controller, 568-2100
Director(s)
Contact Info: Heather Harkless, CPA, Audit Manager, 568-2456

SUBJECT: Independent Auditor's Review Report on the Treasurer's Statement of Assets - As of September 30, 2007

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

As to form: No

Recommended Actions:

That the Board of Supervisors:

Receive and file the Auditor-Controller's Review Report on the Statement of Assets in the Santa Barbara County Treasury Pool, as of September 30, 2007.

Summary Text:

The Independent Auditor's Review Report is being submitted pursuant to California Government Code Section 26920 and Santa Barbara County Code Section 2-23.2.

We have reviewed the Statement of Assets (the Statement) relative to the amount and type of assets controlled by the County Treasurer in the Santa Barbara County Treasury Pool as of September 30, 2007, and have issued our report thereon dated October 25, 2007. All information included in the Statement is the representation of the management of the County Treasurer. A review consists principally of inquiries of Treasury personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Statement taken as a whole. Accordingly, we do not express such an opinion.

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

Auditor-Controller Concurrence

As to form: Yes

States of America.

In accordance with Government Code Section 26920(a), the quarterly review included: 1) Counting cash in the County Treasury; and 2) Verification that the records of the County Treasurer and the Auditor-Controller reconcile pursuant to Government Code Section 26905.

Funds that are controlled by the County Treasurer include currently available cash of the County as well as the cash invested into the pool by other governments (such as school districts, special districts and others). The Treasurer is responsible for investing all of these funds in accordance with California Government Code and the Treasurer's Investment Policy.

The goals of the Treasurer's Investment Policy are safety, liquidity, and yield, in that order. 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 bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; State of California Local Agency Investment Fund (LAIF); and the Investment Trust of California (CalTRUST).

Pursuant to Government Code Section 27131, the Treasurer has established a County Treasury Oversight Committee to review and monitor the Treasurer's Investment Policy and to promote public interest in the investment of public funds.

Background:

Performance Measure:

Fiscal and Facilities Impacts: None

Budgeted: N/A

Fiscal Analysis: N/A

Staffing Impacts:

Legal Positions:
N/A

FTEs:
N/A

Special Instructions:

None

Attachments:

Independent Auditor's Report
Statement of Assets – As of September 30, 2007, with accompanying notes

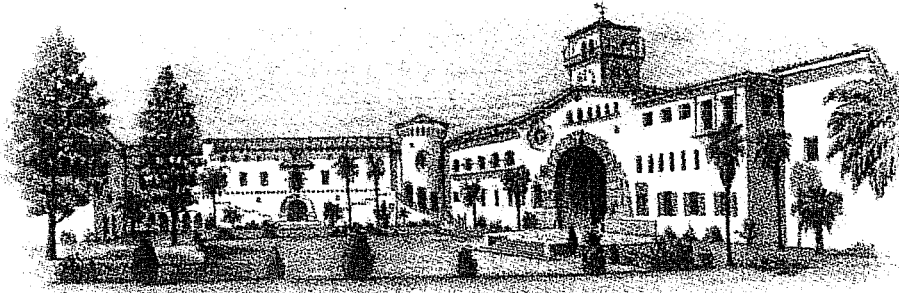
Authored by: Heather Harkless, Audit Manager

cc: Bernice James, Treasurer-Tax Collector

COUNTY OF SANTA BARBARA

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

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



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OFFICE OF THE AUDITOR-CONTROLLER

INDEPENDENT AUDITOR'S REPORT

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

Pursuant to Government Code §26920(a), we have reviewed the Statement of Assets (the Statement) of the Santa Barbara County Treasurer as of September 30, 2007, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in the Statement is the representation of the management of the County Treasurer.

A review consists principally of inquiries of Treasury personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Statement taken as a whole. Accordingly, we do not express such an opinion.

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

Robert W. Geis, CPA
October 25, 2007

**Santa Barbara County Treasury Pool
Statement of Assets
As of September 30, 2007**

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 9/30/2007	Fair Value 6/30/2007	Net Change	Interest Rate Range	Maturity Range	WAM* (Days)	Credit Ratings
Cash in Banks:										
Imprest Cash	\$ 4,000	-	-	\$ 4,000	\$ 4,000	\$ -				
Non-Interest Bearing Deposits	14,305,340	-	-	14,305,340	23,278,348	(8,973,008)				
Total Cash	14,309,340	-	-	14,309,340	23,282,348	(8,973,008)				
Outstanding Purchase Interest:										
Treasurer's Pool Outstanding Purchase Interest	266,850	-	-	266,850	575,183	(308,333)				
Total Outstanding Purchase Interest	266,850	-	-	266,850	575,183	(308,333)				
Treasurer's Pooled Investments:										
Local Agency Investment Fund (LAIF)	40,000,000	-	-	40,000,000	40,000,000	-	5.24	-	-	(a)
Commercial Paper	126,922,213	522,894	-	127,445,107	171,640,391	(44,195,284)	4.74-5.99	10/07-11/07	10	(b)
Corporate Bonds	98,275,521	472,688	(466,793)	98,281,416	75,441,088	22,840,328	3.12-7.38	1/08-11/11	629	(c)
Negotiable Certificates of Deposit	33,000,000	-	-	33,000,000	30,000,000	3,000,000	5.12-5.54	11/07-1/08	90	(d)
Government Agency Bonds	451,060,526	994,942	(790,224)	451,265,244	499,293,757	(48,028,513)	2.63-6.00	10/07-8/12	642	(e)
Total Treasurer's Pooled Investments	749,258,260	1,990,524	(1,257,017)	749,991,767	816,375,236	(66,383,469)				
Directed Investments:										
Government Agency Bonds	2,616,081	32,335	(20,215)	2,628,201	2,572,448	55,753	4.13-7.13	6/10-5/12	1406	(e)
Total Directed Investments	2,616,081	32,335	(20,215)	2,628,201	2,572,448	55,753				
Total Investments	751,874,341	2,022,859	(1,277,232)	752,619,968	818,947,684	(66,327,716)				
Total Cash, Investments, and Outstanding Purchase Interest	\$ 766,450,531	\$ 2,022,859	\$ (1,277,232)	\$ 767,196,158	\$ 842,805,215	\$ (75,609,057)				
Investments of Internal Pool Participants										
Investments of External Pool Participants (Voluntary and Involuntary)				\$ 294,167,795	\$ 310,768,851	\$ (16,601,056)				
Total Investments				458,452,173	508,178,833	(49,726,660)				
Total Cash				752,619,968	818,947,684	(66,327,716)				
Total Outstanding Purchase Interest				14,309,340	23,282,348	(8,973,008)				
Total Cash, Investments, and Outstanding Purchase Interest				266,850	575,183	(308,333)				
				\$ 767,196,158	\$ 842,805,215	\$ (75,609,057)				

* Weighted average days to maturity

(a) The LAIF is not rated by a nationally recognized statistical rating organization.

(b) The credit quality distribution of commercial paper is as follows: 78% A-1:P-1; 15% A-1:P-2; and 7% A-2:P-1.

(c) The credit quality distribution of corporate bonds is as follows: 56% AA:Aa and 44% AAA:Aaa.

(d) The credit quality distribution of negotiable certificates of deposit is as follows: 100% A-1:P-1.

(e) The credit quality distribution of government agency bonds is as follows: 100% AAA.

The accompanying notes are an integral part of this statement.

Santa Barbara County Treasury Pool
Notes to the Statement of Assets

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 for the purpose of increasing interest earnings through investment activities. 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 County Treasurer are stated at fair value. The fair value of pooled investments is determined quarterly and is based on current 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.

State statutes and the Treasurer's Investment Policy provide the framework for investment. The objectives of the Treasurer's Investment Policy include safety of principal, maintenance of sufficient liquidity to meet cash flow needs, and attainment of a "market average rate of return" consistent with the primary objectives of safety and liquidity.

The County has not provided nor obtained any legally binding guarantees during the quarter ended September 30, 2007 to support the value of shares in the Treasurer's investment pool.

Custodial Credit Risk Related to Deposits

The custodial credit risk for deposits is the risk that the County 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 of the total bank balance, \$100,000 is insured by Federal depository insurance and \$14,205,340 is collateralized with securities held by the pledging financial institution, which have a market value of at least 110%.

At September 30, 2007, the carrying amount of the County's deposits was \$14,305,340 and the corresponding bank balance was \$13,886,875. The difference of \$418,465 was principally due to deposits in transit.

Investments

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

The policy provides the basis for the management of a prudent, conservative investment program. Public funds are invested for 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 California Government Code and, in general, the Treasurer's 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 bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; State of California Local Agency Investment Fund (LAIF); and the Investment Trust of California (CalTRUST).

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 policy sets specific parameters by type of investment for credit quality, maturity length, and maximum percentage investment. 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, Moody's and S&P. Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services a minimum of F1 by Fitch, P1 by Moody's and A1 by S&P. Corporate bonds shall be rated AA by at least two of the three major rating services of Fitch, Moody's and S&P.

County investment policy dictates that no more than 5% of the total portfolio, at purchase, be invested in the securities of any single issuer, other than the U.S. Government, its agencies, and sponsored enterprises. As of September 30, 2007 more than 5% of the County's pooled investments were invested in the following issuers:

Issuer	Issuer Type	Fair Value Holdings	Percentage Holdings
Federal Home Loan Mortgage Corp.	Government Sponsored	\$114,796,774	15.31%
Federal Home Loan Bank	Government Sponsored	\$117,790,609	15.71%
Federal National Mortgage Association	Government Sponsored	\$199,139,666	26.55%

Directed investments are entirely comprised of securities issued by the Federal National Mortgage Association, a government sponsored enterprise, at September 30, 2007. Fair value holdings at quarter end amounted to \$2,628,201.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the County 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 County are deposited in trust for safekeeping with a custodial bank different from the County'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 County 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. Maturity of investments purchased is governed by demand for funds analysis of prior periods' revenues and expenditures. The Treasurer's Investment Policy also dictates that the final

maturity date of any individual security shall not exceed five (5) years and that non-short term investments, in the aggregate, shall not exceed 75% of the portfolio.

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. The net increase in fair value of investments takes into account all changes (including purchases and sales) that occurred during the quarter. The following presents the changes in net fair value of investments for the quarter ended September 30, 2007:

	Directed	Pool	Total
Unrealized Loss at June 30, 2007	\$ (43,633)	\$ (1,908,099)	\$ (1,951,732)
Net Increase in Fair Value of Investments	55,753	2,641,606	2,697,359
Unrealized Gain at September 30, 2007	<u>\$ 12,120</u>	<u>\$ 733,507</u>	<u>\$ 745,627</u>

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 September 30, 2007:

	Directed	Pool	Total
Interest Income	\$ 31,876	\$ 7,596,143	\$ 7,628,019
Realized Gain	291	2,255,347	2,255,638
Administration/Audit Fees	(681)	(208,807)	(209,488)
Security Lending	8	2,553	2,561
LAIF Adjustment	-	6,641	6,641
Total Net Investment Income/(Loss)	<u>\$ 31,494</u>	<u>\$ 9,651,877</u>	<u>\$ 9,683,371</u>

The Treasurer purchases securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31 such discount, when realized, is considered gain rather than interest. Interest earnings for the current quarter amount to \$7,628,019. The net realized gain on investments sold or matured during the quarter was \$2,255,638. 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 fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s).