

**Santa Barbara County Treasury Pool
Statement of Assets
As of December 31, 2010**

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 12/31/2010	Fair Value 9/30/2010	Net Change
Cash on Hand	\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 4,000	\$ -
Bank Deposits	89,756,722	-	-	89,756,722	40,707,645	49,049,077
Total Cash	89,760,722	-	-	89,760,722	40,711,645	49,049,077
Outstanding Purchase Interest:						
Treasurer's Pool Outstanding Purchase Interest	33,632	-	-	33,632	23,876	9,756
Total Outstanding Purchase Interest	33,632	-	-	33,632	23,876	9,756
Treasurer's Pooled Investments:						
Local Agency Investment Fund (LAIF)	50,000,000	-	-	50,000,000	50,000,000	-
California Asset Management Program (CAMP)	45,000,000	-	-	45,000,000	-	45,000,000
U.S. Treasury Bills	189,814,914	98,286	-	189,913,200	122,947,590	66,965,610
Commercial Paper	-	-	-	-	9,997,400	(9,997,400)
Negotiable Certificates of Deposit	24,500,000	32,810	-	24,532,810	37,547,425	(13,014,615)
Corporate Notes: TLGP ¹	9,995,600	124,800	-	10,120,400	10,170,000	(49,600)
Corporate Notes	25,027,740	935,085	-	25,962,825	31,176,919	(5,214,094)
Municipal Anticipation Bond	10,073,500	1,100	-	10,074,600	-	10,074,600
Government Agency Bonds and Notes	638,827,434	2,578,222	(2,552,721)	638,852,935	536,905,806	101,947,129
Total Treasurer's Pooled Investments	993,239,188	3,770,303	(2,552,721)	994,456,770	798,745,140	195,711,630
Investments Held with Fiscal Agents:						
Local Agency Investments Fund (LAIF)	449,033	-	-	449,033	447,816	1,217
Money Market	24,086,558	-	-	24,086,558	16,477,023	7,609,535
Commercial Paper	-	-	-	-	9,898,477	(9,898,477)
Government Agency Bonds and Notes	10,258,468	88,429	(46,553)	10,300,344	9,886,500	413,844
Total Investments Held with Fiscal Agents	34,794,059	88,429	(46,553)	34,835,935	36,709,816	(1,873,881)
Total Investments and Purchase Interest	1,028,066,879	3,858,732	(2,599,274)	1,029,326,337	835,478,832	193,847,505
Total Cash, Investments, and Outstanding Purchase Interest	\$ 1,117,827,601	\$ 3,858,732	\$ (2,599,274)	\$ 1,119,087,059	\$ 876,190,477	\$ 242,896,582

¹Temporary Liquidity Guarantee Program

See accompanying notes and accountants' report

Santa Barbara County Treasury Pool
Notes to the Statement of Assets
December 31, 2010

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 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 County Treasurer 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 County's investment pool that relates to external involuntary participants is 59% as of December 31, 2010.

The Treasurer 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 County's investment pool holds an AAf/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 County has not provided nor obtained any legally binding guarantees during the quarter ended December 31, 2010 to support the value of shares in the Treasurer's investment 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 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 the County'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 County's deposits are fully insured under the DFA, collateralization under Government Code Section 53652 is waived.

At December 31, 2010, the carrying amount of the County's deposits was \$89,756,722 and the corresponding bank balance was \$88,830,652. The difference of \$926,070 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 December 31, 2010 (NR means Not Rated):

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>	<u>% of Portfolio</u>
Treasurer's Pooled Investments:				
LAIF	NR	NR	NR	5.03%
CAMP	NR	AAAm	NR	4.53%
U.S. Treasury Bills	Aaa	AAA	AAA	19.10%
Negotiable Certificates of Deposit	P-1	A-1+	F1+	0.50%
Negotiable Certificates of Deposit	P-1	A-1	F1	1.96%
Corporate Notes: TLGP	Aaa	AAA	AAA	0.50%
Corporate Notes: TLGP	Aaa	AAA	NR	0.51%
Corporate Notes	Aa2	AA+	NR	0.50%
Corporate Notes	A1	AA-	AA-	1.58%
Corporate Notes*	A2	A+	A+	0.53%
Municipal Anticipation Bond	MIG 1	SP-1	F2	1.01%
Government Agency Bonds and Notes	Aaa	AAA	AAA	44.19%
Government Agency Bonds and Notes	Aaa	AAA	NR	20.06%
Total Treasurer's Pooled Investments				100.00%
Investments Held with Fiscal Agents:				
LAIF	NR	NR	NR	1.29%
Money Market	P-1	A-1+	F1+	69.14%
Government Agency Bonds and Notes	Aaa	AAA	AAA	16.20%
Government Agency Bonds and Notes	Aaa	AAA	NR	13.37%
				100.00%

*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 December 31, 2010 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>
Treasurer's Pooled Investments:			
Federal Farm Credit Bank	Government Sponsored	\$ 173,268,817	17.42%
Federal Home Loan Bank	Government Sponsored	\$ 199,379,075	20.05%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 100,185,400	10.07%
Federal National Mortgage Association	Government Sponsored	\$ 166,019,643	16.69%
Investments Held with Fiscal Agents:			
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 2,226,672	6.39%
Federal National Mortgage Association	Government Sponsored	\$ 3,416,568	9.81%
Federal Home Loan Bank	Government Sponsored	\$ 4,657,104	13.37%

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. 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 December 31, 2010.

	<u>Weighted Average Days to Maturity</u>
Treasurer's Pooled Investments:	
LAIF	On Demand
CAMP	On Demand
U.S. Treasury Bills	108
Negotiable Certificates of Deposit	108
Corporate Notes: TLGP	175
Corporate Notes	408
Municipal Anticipation Bond	179
Government Agency Bonds and Notes	865
Investment Pool Average	593
Investments Held with Fiscal Agents:	
LAIF	On Demand
Money Market	On Demand
Government Agency Bonds and Notes	757
Investments Held with Fiscal Agents Average	223

The weighted average days to maturity of the underlying securities held in the LAIF and CAMP pools presented above are 215 and 54, respectively. For purposes of the weighted average maturity calculation, the County 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:

Treasurer's Pooled Investments:	Principal	Fair Value	Interest Rate Range	Maturity Range
LAIF	\$ 50,000,000	\$ 50,000,000	0.46%	On Demand
CAMP	45,000,000	45,000,000	0.18%	On Demand
U.S. Treasury Bills*	190,000,000	189,913,200	Discount	01/11-06/11
Negotiable Certificates of Deposit	24,500,000	24,532,810	0.60%-0.85%	03/11-05/11
Corporate Notes: TLGP	10,000,000	10,120,400	1.63%-3.00%	01/11-12/11
Corporate Notes	25,004,000	25,962,825	5.13%-5.68%	08/11-09/12
Municipal Anticipation Bond	10,000,000	10,074,600	3.00%	06/11
Government Agency Discount Notes*	155,000,000	154,945,300	Discount	01/11-06/11
Government Agency Bonds and Notes	484,255,000	483,907,635	0.45%-4.63%	01/11-12/15
	<u>\$ 993,759,000</u>	<u>\$ 994,456,770</u>		
Investments Held with Fiscal Agents:				
LAIF	\$ 449,033	\$ 449,033	0.46%	On Demand
Money Market	24,086,558	24,086,558	0.00%-0.20%	On Demand
Government Agency Discount Notes*	3,208,999	3,207,460	Discount	05/11
Government Agency Bonds and Notes	7,076,000	7,092,884	1.25%-4.75%	01/11-10/15
	<u>\$ 34,820,590</u>	<u>\$ 34,835,935</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 December 31, 2010, \$53,521,180 or 5.38% of the Treasurer's Pooled 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 December 31, 2010:

	Pool
Interest Income	\$ 2,147,004
Realized Gain	201,035
Administration	(388,808)
Miscellaneous Adjustments	(944)
Total Net Investment Income	<u>\$ 1,958,287</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 gain rather than interest. Interest earnings for the quarter amounted to \$2,147,004. The net realized gain on investments sold or matured during the quarter was \$201,035. 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 \$40,115,142 at December 31, 2010.

Condensed Financial Statement

The following represents a condensed statement of assets and changes in assets for the Treasurer's investment pool as of December 31, 2010:

	12/31/2010	9/30/2010	Net Change
Assets Held for Pool	<u>\$ 1,084,251,124</u>	<u>\$ 839,480,661</u>	<u>\$ 244,770,463</u>
Equity of Internal Pool Participants	\$ 414,227,069	\$ 366,793,175	\$ 47,433,894
Equity of External Pool Participants	669,990,423	472,663,610	197,326,813
Outstanding Purchase Interest	33,632	23,876	9,756
Total Equity	<u>\$ 1,084,251,124</u>	<u>\$ 839,480,661</u>	<u>\$ 244,770,463</u>