



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

A-7

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

2007 JAN 26 PM 2:17

JG
Department Name: Treasurer - Tax Collector
Department No.: 065
For Agenda Of: 2/13/2007
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:
Vote Required: Majority

FEB 13 2007

0215-05
2007 JAN 31 AM 9:43
COUNTY OF SANTA BARBARA
CLERK OF THE BOARD OF SUPERVISORS

TO: Board of Supervisors
FROM: Department Director(s) Bernice James, Treasurer - Tax Collector, 568-2490
Contact Info: Stacey Matson, Investment & Debt Officer, 568-2158
SUBJECT: Treasurer's Investment Pool, Fiscal Year 2006-2007 Second Quarter (October - December)

Bernice James

County Counsel Concurrence:

As to form: Yes No N/A

Auditor-Controller Concurrence:

As to form: Yes No N/A

Other Concurrence: N/A

As to form: Yes No N/A

Recommended Action(s):

- That the Board of Supervisors:
- A. Accept for filing the F/Y 2006-2007 Second Quarter (October - December, 2006) report on the Treasurer's Investment Pool, pursuant to Government Code section 53646(b);
 - B. Review and approve the Investment Policy Statement, as amended, and authorize the County Treasurer to manage the investment pool in accordance with the Policy, pursuant to sections 53646(a) and 53607 of the Government Code;
 - C. Receive and file the Auditor - Controller's Review Report on the assets held in the Santa Barbara County Treasury Pool for the quarter ended December 31, 2006.

Summary:

As presented on Page 9, the value of the Treasurer's Pool at cost on December 31, 2006, was \$907,504,555 and \$2,616,081 in Directed Investments. Market value of the investment pool was \$904,546,447. The weighted average days to maturity (WAM) for the pool was 371 days.

Per Government Code Section 53600.5, the Santa Barbara County Treasurer has a mandated responsibility to manage and invest public funds with the primary objective of safeguarding principal, the secondary objective of meeting the liquidity needs of pool participants, and thirdly the objective of achieving a return on pool participant's funds, in this order of importance. For the quarter ended 12/31/2006, the Treasurer's Pool

anticipated and met all liquidity requirements, precluding any need to sell holdings unexpectedly at a potential loss. All investments purchased met or exceeded state and local policy requirements for credit quality. In addition, \$8,937,686, a return of 4.26%, was earned from investments of the pool and distributed for the benefit of programs provided by the County, Schools, and special districts.

It is the adopted policy of the Santa Barbara County Treasurer to invest public funds in a manner, which provides the maximum security of principal while meeting the daily cash flow needs of investment pool participants. A lesser emphasis is to achieve the highest yield possible while conforming to all applicable State statutes and County resolutions that govern the investment of public funds.

Background:

As anticipated, the economy grew at a slightly slower rate of 2.0% last quarter. Although, a slower rate was expected, it was below analyst's expectations of 2.2%. Given recent market indicators, Gross Domestic Product (GDP), the value of all goods and services produced within the economy, is expected to increase slightly throughout the remainder of the calendar year, although it is expected to be somewhat uneven in the coming quarters. A growth rate of 2.3% - 2.9% is predicted over the remainder of the year. The Federal unemployment rate decreased to 4.4% for the month ended October 2006, increased to 4.5% for the month ended November 2006, and remained stable to end the quarter at 4.5%. This is the lowest unemployment rate since June of 2001 when it was also at 4.5%. Short-term interest rates and long-term interest rates remained relatively flat over the past quarter. The yield curve remained inverted, with short term interest rates higher than long term interest rates.

On June 29, 2006 the Federal Funds overnight lending rate increased to 5.25%, its last, and 17th consecutive increase. Since that date the Federal Funds rate has been maintained at 5.25%. Analysts have characterized economic growth as "expanding at a moderate pace". Although analysts believe that some inflation risk remains, forecasts regarding future rate changes indicate the Federal Funds rate will remain constant at 5.25% until the middle of the calendar year. The probability of a mid-year Federal Funds rate change is low. This reflects Federal Reserve analyst's characterization of the cooling housing market as substantial and their noting that recent indicators remain mixed. The Federal Reserve Board's Federal Open Market Committee (FOMC) will meet on January 30 and March 21, providing insights on the economy's growth prospects and inflation for the remainder of the year.

This quarterly report is being submitted to you as required by California Government Code section 53646 (b). In addition, California Government Code section 53646 (b) (3) requires the Treasurer-Tax Collector to include a statement in the Treasurer's Report affirming the ability of the Santa Barbara County Investment Pool to meet expenditure requirements for the next six months.

This report and the Treasurer's Investment Policy were reviewed and discussed by the Treasury Oversight Committee at its quarterly meeting. The Treasury Oversight Committee promotes the public interest and is governed by California Government Code sections 27130 through 27133.

The Auditor-Controller's Review Report is being submitted pursuant to California Government Code section 26920 and Santa Barbara County Code Section 2-23.2. The apportionment of unrealized gains/losses to participating funds causes volatility in the recording of revenues. However, it is reflective of the actual position of the fair market value of the pool and is required by the Government Accounting Standards Board, which is recognized as the correct practice to be applied to all governmental entities. The Treasurer recognizes that there will be changes in the fair value of the pool investments and sufficient liquidity is maintained in the pool to avoid the actual realization of any unrealized losses due to market interest fluctuations.

Performance Measures:

The following performance measures are related to the Treasurer's Investment Pool:

Update the quarterly investment report and make available on the Treasurer – Tax Collector's website within 10 days of filing the report with the Clerk of the Board: Accomplished

File the Treasury Investment Report with the Clerk of the Board within 30 days after quarter end: Accomplished

Cash invested, \$2.6 billion, annually: Fiscal year – to - date \$2.8 billion. Cash invested for the fiscal year will be greater than anticipated due to the inverted yield curve and thus shorter term maturities providing a higher yield and less risk than longer term maturities.

Earn a rate of return on investments that is at least equal to, or higher than, the State of California's investment pool earnings rate, in basis points: For the quarter ended 12/31/06 the pool's quarterly and annualized rate of return, respectively, is 4.26 % and 3.83 %, as compared to LAIF's rates of 5.11% and 4.65%. In a market environment of increasing interest rates, the State pool's shorter maturity period may result in a higher return than the Treasurer's pool. Over time this margin will diminish, until eventually the Treasurer's Pool will exceed LAIF. The difference in earnings of the Treasurer's Pool is 85 basis points from LAIF for the quarter ended 12/31/2006, as compared to a difference of 95 basis points for the quarter ended 9/30/2006, an 11% improvement, as expected. If, as analyst's expect, interest rates remain relatively stable, the Treasurer's Pool is likely to exceed the return on LAIF as early as the calendar year ended December 31, 2007.

Fiscal and Facilities Impacts:

Budgeted: Yes No

Fiscal Analysis:

For the quarter ending December 31, 2006, investment earnings achieved by the pool were \$8.938 million, with the County receiving 41%, Schools 48%, and Special Districts the balance of 11 %, as shown on Chart 4. The yields for the quarter and year – to - date were 4.26% and 3.83%, respectively.

Staffing Impact(s):

Legal Positions:

N/A

FTEs:

N/A

Special Instructions:

None – *minute order to Stacey*

Attachments:

Treasurer's Second Quarter Investment Pool Report
Treasurer's Investment Policy
Auditor – Controller's Second Quarter Review Report

Authored by: Stacey Matson, Investment & Debt Officer

cc:

SANTA BARBARA COUNTY

**TREASURER'S REPORT TO THE BOARD OF SUPERVISORS AND
THE TREASURY OVERSIGHT COMMITTEE**

FOR THE QUARTER ENDING DECEMBER 31, 2006

Table of Contents

I. Economic Trend

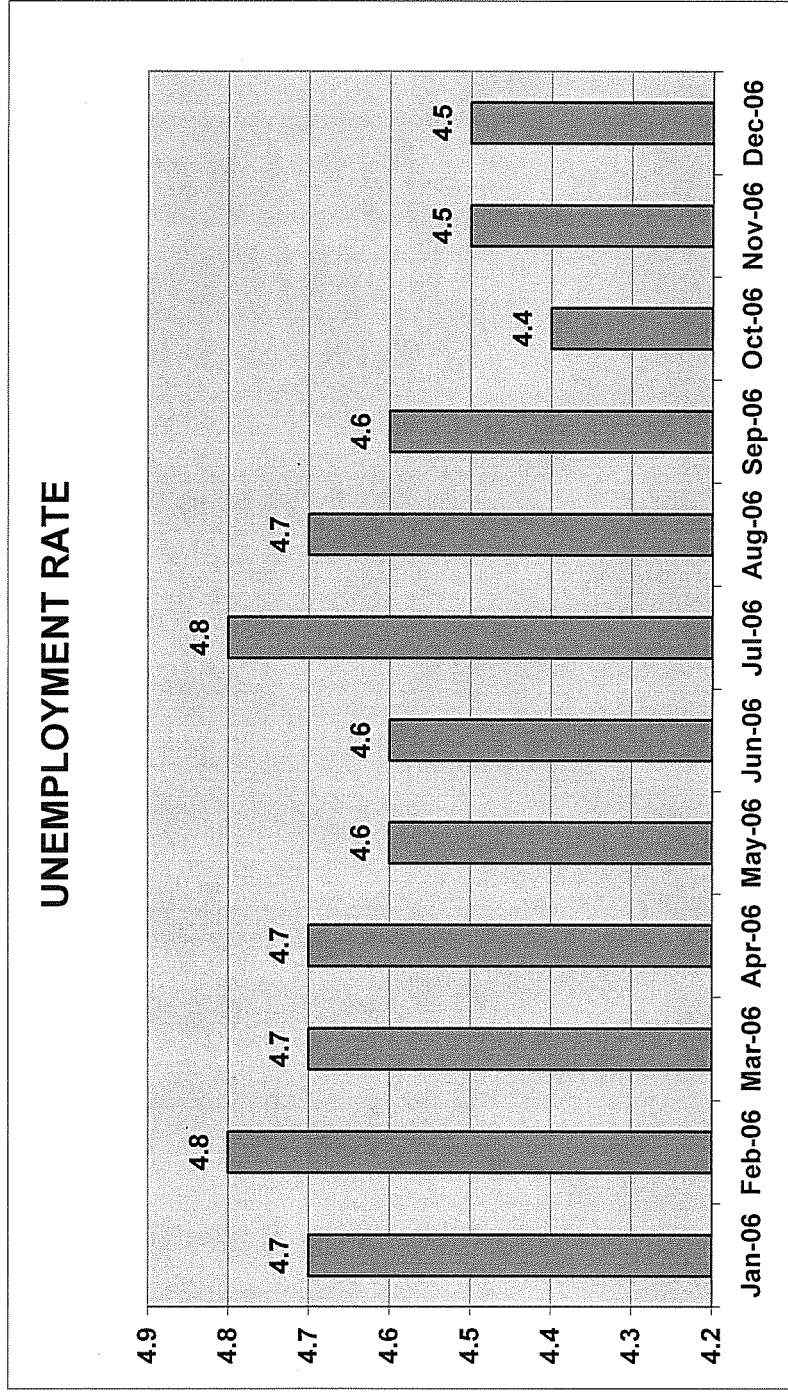
II. Overview of Investment Activities

ECONOMIC TREND: Impact on the Pool

- During the past quarter the Federal Reserve (FED) left short - term interest rates at 5.25%. The December 12, 2006 meeting of the FED was the 5th consecutive time this rate was not changed. Forecasts lean toward the FED leaving short – term interest rates unchanged in the upcoming quarter, ending March 31.
- The impact of the short - term rate remaining constant, on the Investment Pool, is favorable. As investments earning lower rates mature, they will be reinvested at a higher rate.
- The unemployment rate decreased last quarter, from a beginning rate of 4.6% to end the quarter at 4.5%. There were a total of 407,000 jobs created last quarter. Although this is a decrease from the 556,000 jobs created in the prior quarter, it was stronger than expected. An increase in jobs provides economic stimulus to various sectors of the economy.
- Consumer Confidence increased this quarter to 109.0. The economy continued to moderate, growing at an annual rate of 2.0%, as compared to 2.6% the previous quarter.

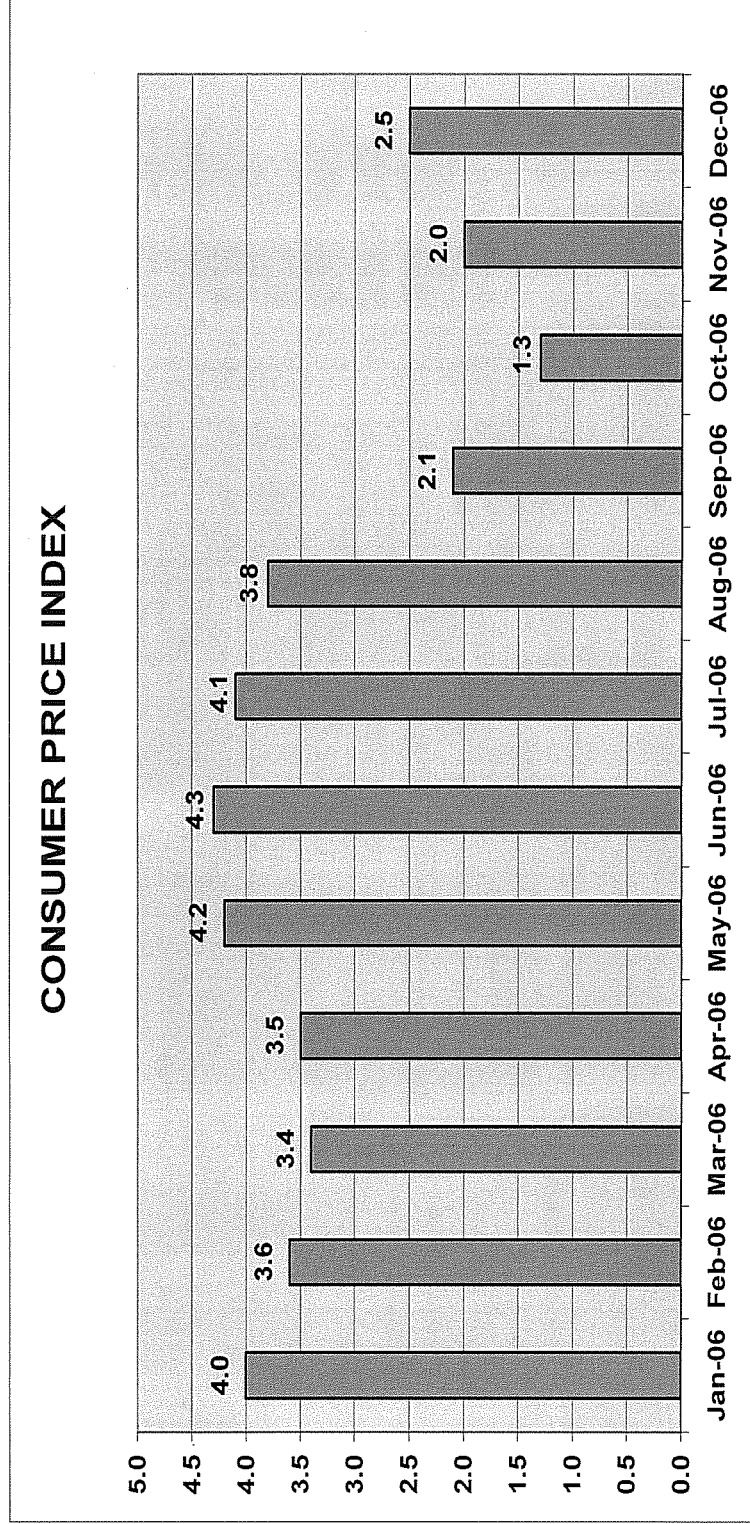
ECONOMIC TREND: Unemployment Rate

The unemployment rate decreased slightly over the past quarter and, after a dip to 4.4% in the first month of the quarter, ended it at 4.5%, below the average of 4.64% of the preceding 11 months. The unemployment rate represents the number of unemployed persons as a percent of the labor force. The sampling used each month to calculate the rate is approximately 60,000 households.



ECONOMIC TREND: Inflation

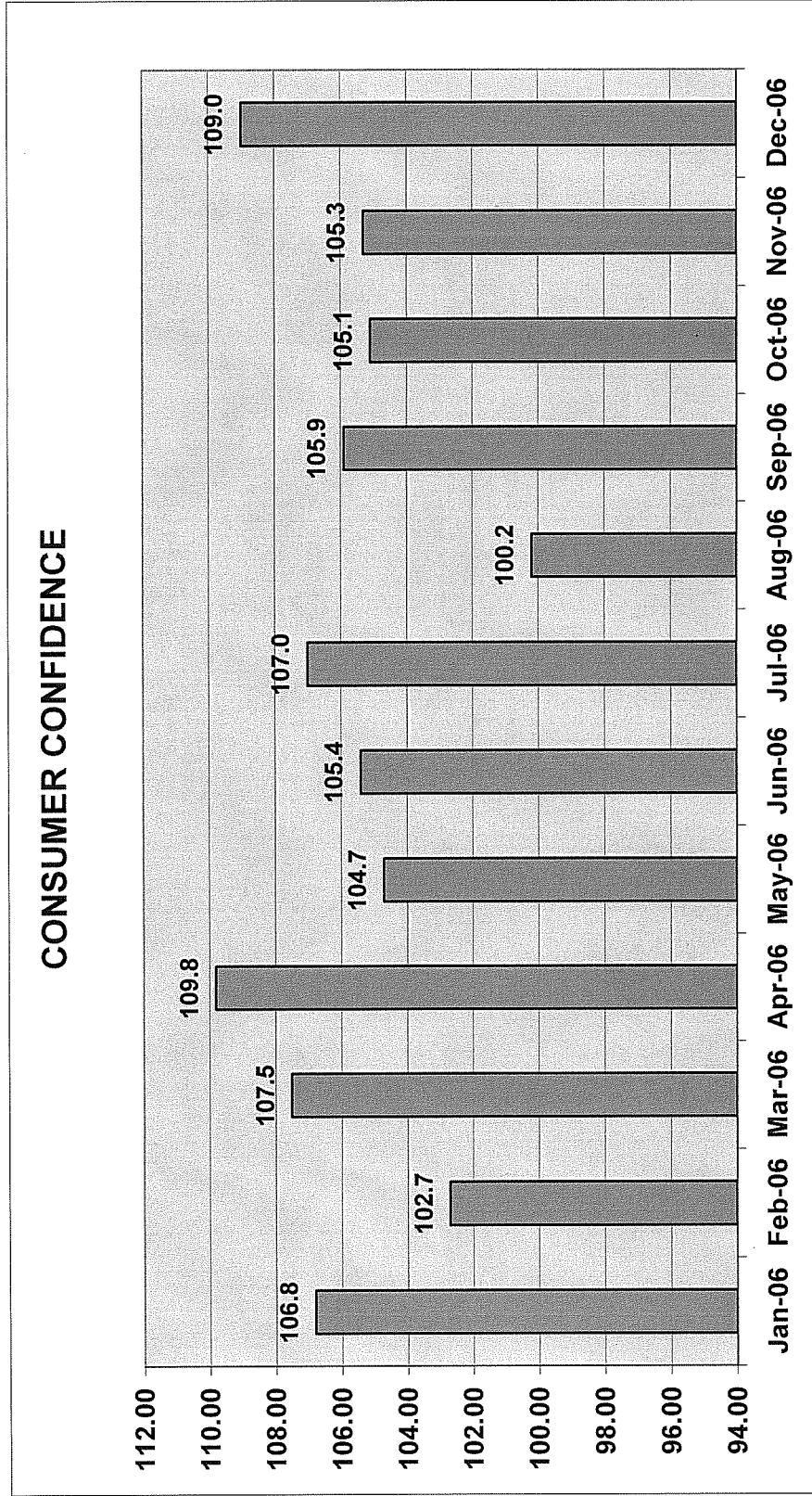
The Consumer Price Index (CPI) increased during the quarter ending December 31, 2006. It started the quarter at 2.1% and ended at 2.5%. The Core CPI, which excludes food and energy, decreased beginning the quarter at 2.9% and ending the quarter at 2.6%. The CPI represents changes in prices of all goods and services purchased for consumption by urban households.



Source: Bureau of Labor Statistics

ECONOMIC TREND: Consumer Confidence

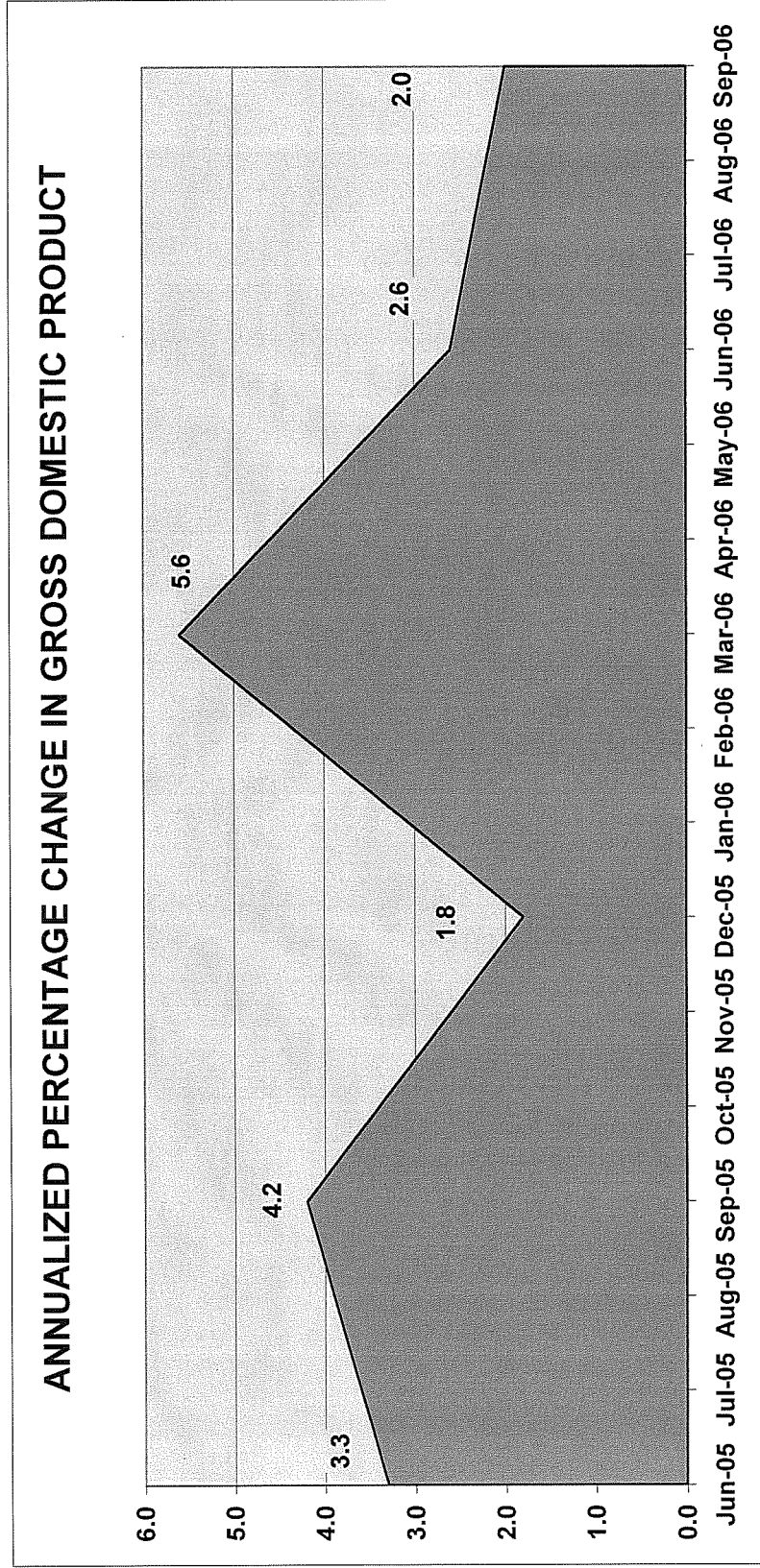
Consumer Confidence began the quarter at 105.9 and ended this quarter at 109.0. This Index is the average of responses to current business and employment conditions and responses to six-month future expectations for business conditions, employment conditions, and total family income.



Source: Conference Board

ECONOMIC TREND: GDP (Gross Domestic Product)

The economy grew at an annual rate of 2.0% this quarter, weaker than the previous quarter. The gain in gross domestic product, the value of all goods and services produced, was the smallest increase over the last three years, with the exception of the quarter ended December 2005 which had a gain in GDP of 1.8%.



Source: Bureau of Economic Analysis

II. Overview of Investment Activities

SANTA BARBARA COUNTY INVESTMENT FUNDS

Quarter Ending December 31, 2006

SUMMARY OF INVESTMENTS IN THE TREASURER'S POOL	
PRINCIPAL COST	\$907,504,555
MARKET VALUE (provided by Union Bank)	\$904,546,447
CUMULATIVE UNREALIZED LOSS	\$2,958,108*
TOTAL NET EARNINGS ON THE TREASURER'S POOL	\$8,937,686
AVERAGE DAILY BALANCE ON THE TREASURER'S POOL	\$832,353,166
CASH	\$14,960,990
ACCRUED INTEREST AT PURCHASE	\$702,793
NET INTEREST RATE ON THE TREASURER'S POOL	4.26%
WEIGHTED AVERAGE DAYS TO MATURITY	371
WEIGHTED AVERAGE DAYS TO CALL DATE	174

SUMMARY OF INVESTMENTS IN TOBACCO SETTLEMENT FUND	
PRINCIPAL COST	\$2,616,081
MARKET VALUE	\$2,588,189
CUMULATIVE UNREALIZED LOSS	\$27,892
YIELD TO MATURITY	4.91%
WEIGHTED AVERAGE DAYS TO MATURITY	1,679

SUMMARY OF THE CERTIFICATES OF PARTICIPATION RESERVE FUNDS	
PRINCIPAL COST	\$13,656,010
MARKET VALUE	\$13,597,453
CUMULATIVE UNREALIZED LOSS	\$58,557
YIELD TO MATURITY	4.41%
WEIGHTED AVERAGE DAYS TO MATURITY	237

CHARTS: The following charts are provided for your review:

Chart 1: Asset Distribution by Sector

Chart 2: Maturity Distribution

Chart 3: Annualized Performance Versus Selected Benchmarks

Chart 4: Agency Quarterly Income Distribution

As you can see on Chart 1, for the quarter ending December 31, 2006, 17% of the pool's assets were invested in Government Agency Bonds, 44% in Callable Securities, 25% in Commercial Paper, 3% in LAIF (Local Agency Investment Fund), 1% in Cal Trust, 6% in Corporate Bonds, and 4% in Negotiable Certificates of Deposit.

Chart 2 shows that 36% of the pool's investments have a maturity between 1 and 90 days, 23% between 91 days and 1 year, 21% between 1 year and 2 years, 6% between 2 and 3 years, 4% between 3 and 4 years, 5% between 4 and five years, and the other 5% is invested in LAIF and CalTRUST.

Chart 3 compares the County's return to various indexes on an annualized basis.

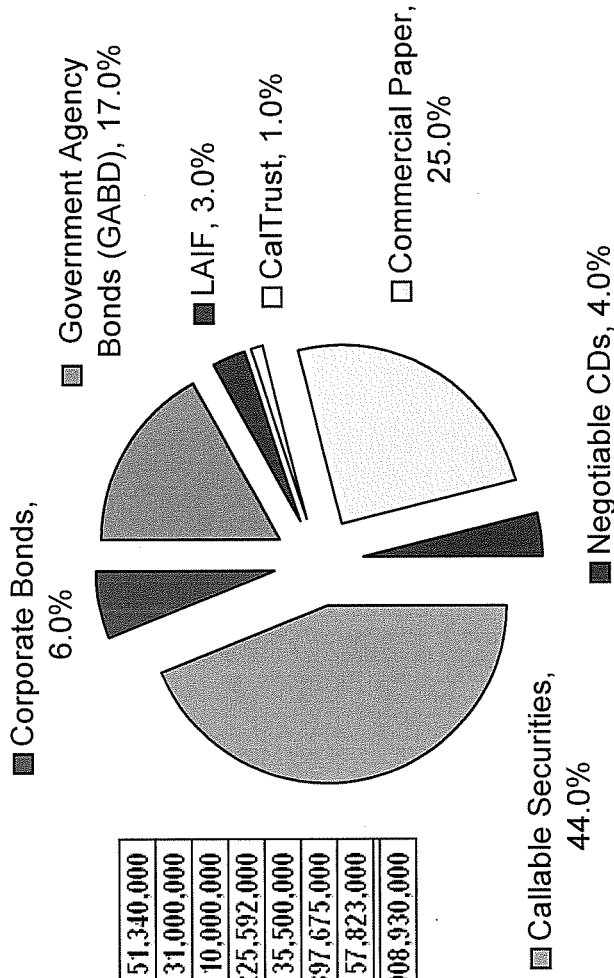
Finally, Chart 4 reflects how the pool's earnings of \$8,937,686 were distributed between the County, Schools and Special Districts.

The investment portfolio as of the quarter ending December 31, 2006 is in compliance with the Treasurer's statement of investment policy.

The Treasurer's Investment Pool has sufficient cash flow available to meet all budgeted expenditures for the next six months.

* Sufficient liquidity is maintained in the pool and for required reserve funds to avoid the actual realization of any unrealized losses due to market interest rate fluctuations. It is our basic policy to retain securities in the pool until maturity, when the pool realizes the full par value of the investment.

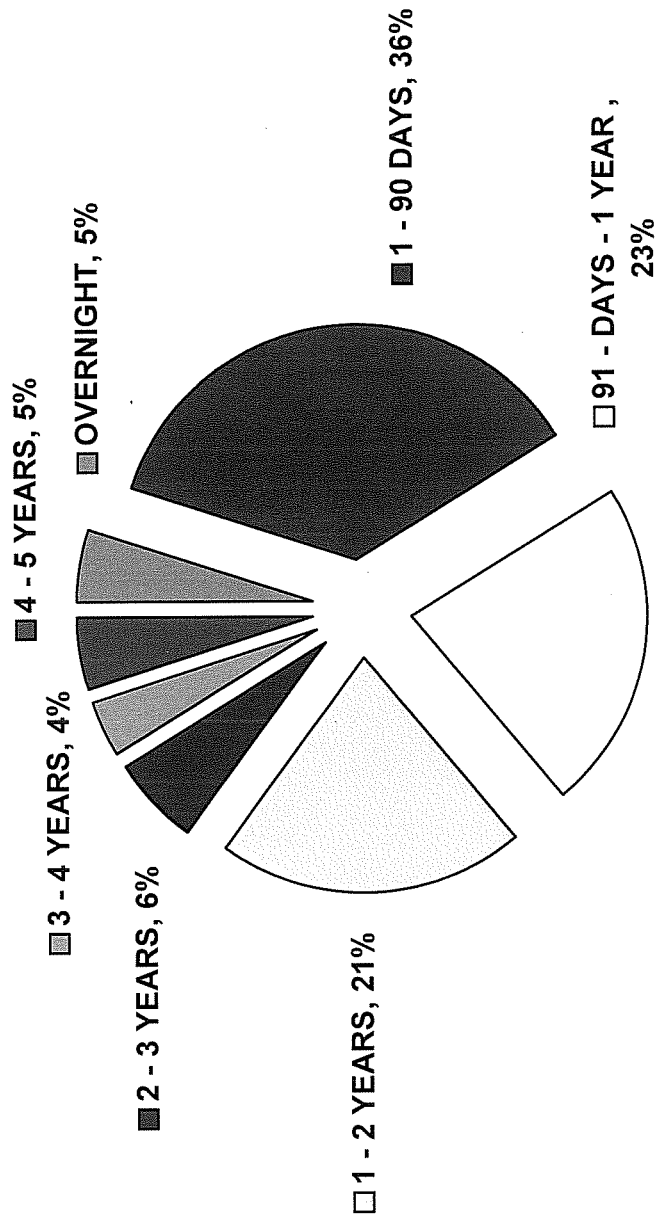
**TREASURER'S INVESTMENT PORTFOLIO
ASSET DISTRIBUTION BY SECTOR (PAR VALUE)
12/31/2006**



Government Agency Bonds (GABD)	151,340,000
LAlF	31,000,000
CalTrust	10,000,000
Commercial Paper	225,592,000
Negotiable CDs	35,500,000
Callable Securities	397,675,000
Corporate Bonds	57,823,000
TOTAL	908,930,000

■ Government Agency Bonds (GABD)	■ LAlF
□ CalTrust	□ Commercial Paper
■ Negotiable CDs	■ Callable Securities
■ Corporate Bonds	

**TREASURER'S INVESTMENT PORTFOLIO
Maturity Distribution
12/31/2006**



OVERNIGHT
 1 - 90 DAYS
 91 - DAYS - 1 YEAR
 2 - 3 YEARS
 3 - 4 YEARS
 4 - 5 YEARS

CHART 2

TREASURER'S INVESTMENT PORTFOLIO ANNUALIZED PERFORMANCE VERSUS SELECTED BENCHMARKS 12/31/2006

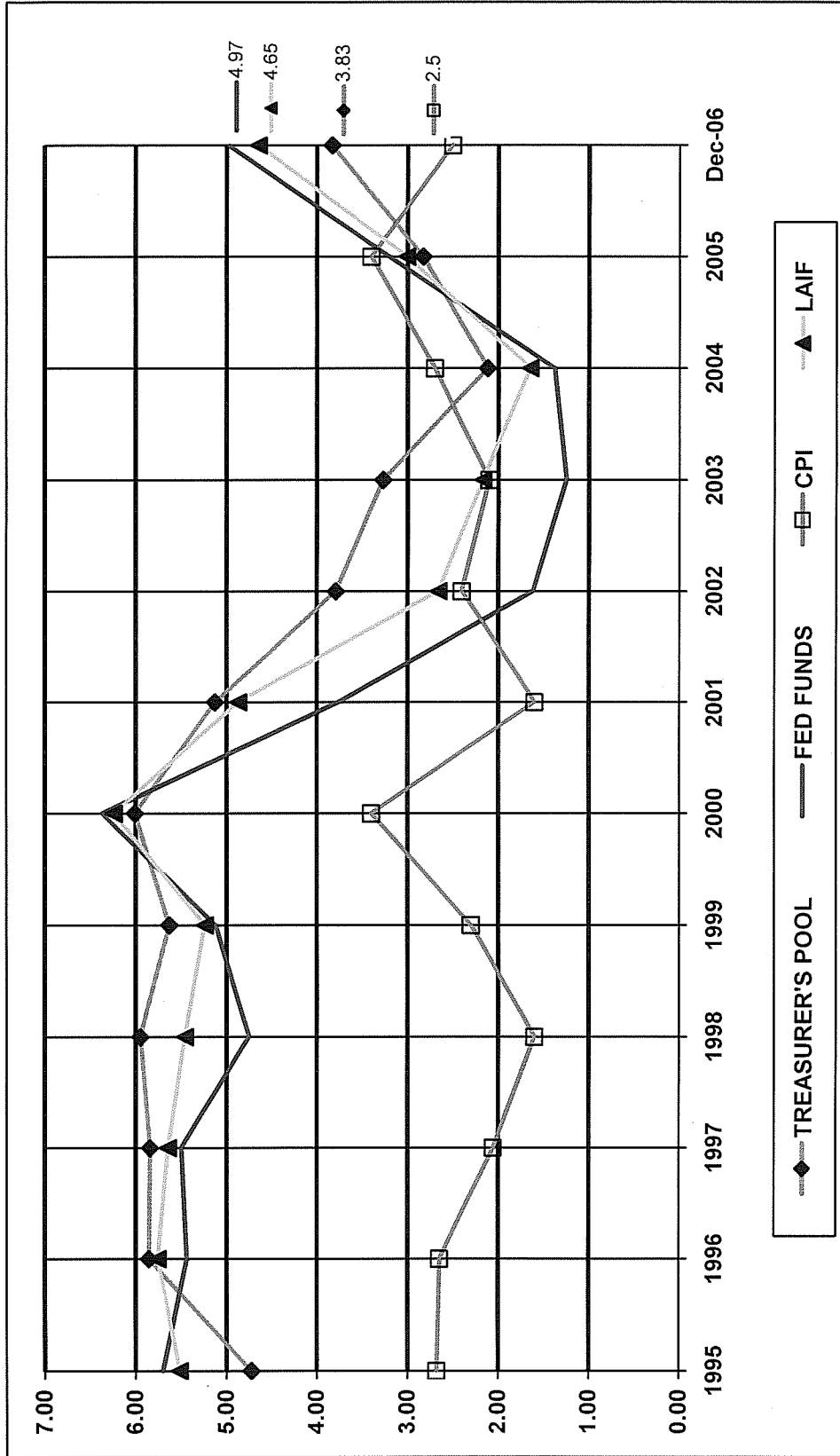


CHART 3

**TREASURER'S INVESTMENT PORTFOLIO
AGENCY QUARTERLY INCOME DISTRIBUTION**

12/31/06

\$8,937,686

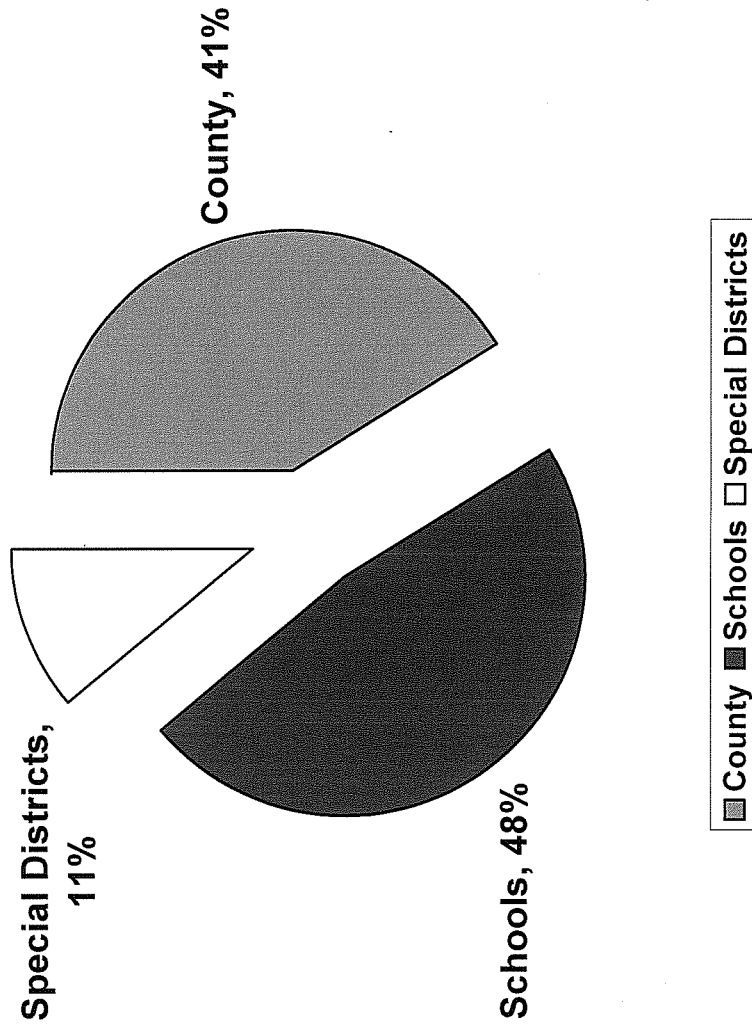


CHART 4



**County Pool 2006-2007
Portfolio Management
Portfolio Summary**

October 1, 2006 through December 31, 2006

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM
CalTrust	10,000,000.00	10,000,000.00	10,000,000.00	1.10	1	1	5.280
Local Agency Investment Funds	31,000,000.00	31,000,000.00	31,000,000.00	3.41	1	1	4.930
Negotiable CDs	35,500,000.00	35,464,800.00	35,466,212.05	3.90	152	120	5.313
Commercial Paper Disc. - Amortizing	225,592,000.00	225,303,055.96	225,268,812.55	24.79	28	10	5.351
Federal Agency Coupon Securities	151,340,000.00	150,408,786.90	151,298,057.33	16.65	948	135	3.448
Federal Agency Coupon - Callables	393,675,000.00	390,612,092.75	393,445,050.23	43.30	1,162	671	4.628
Corporate Bonds	57,823,000.00	57,894,390.65	58,257,006.13	6.41	997	756	4.935
Corporate Bonds - Callable	4,000,000.00	3,863,320.00	3,868,816.77	0.43	697	592	5.270
Investments	908,930,000.00	904,546,446.26	908,603,955.06	100.00%	741	371	4.677

Investments	December 31	Period Ending
Total Earnings	9,143,864.90	
Current Year	810,065,099.58	
Average Daily Balance		4.48%
Effective Rate of Return		

Stacey Matson, CPA, Investment & Debt Officer

Reporting period 10/01/2006-12/31/2006

Run Date: 01/23/2007 - 11:08

No fiscal year history available

**County Pool 2006-2007
Portfolio Management
Investment Status Report - Investments
December 31, 2006**

CUSIP	Investment #	Issuer	Par Value	Stated Rate	Maturity Date	Purchase Date	Term	Days to Maturity	Market Value	Accrued Interest At Purchase	Current Principal	Book Value
CalTrust												
SYS3289	3289	CALTRU	10,000,000.00	5.280	12/07/2006		1	1	10,000,000.00		10,000,000.00	10,000,000.00
		CalTrust Totals	10,000,000.00				1	1	10,000,000.00	0.00	10,000,000.00	10,000,000.00
Local Agency Investment Funds												
SYS1009	1009	LAIF	31,000,000.00	4.930			1	1	31,000,000.00		31,000,000.00	31,000,000.00
		Local Agency Investment Funds Totals	31,000,000.00				1	1	31,000,000.00	0.00	31,000,000.00	31,000,000.00
Negotiable CDs												
1730D0K7	3252	CITINA	5,000,000.00	5.320	02/20/2007	11/17/2006	95	50	5,000,000.00		5,000,000.00	5,000,000.00
1730D0LS3	3274	CITINA	5,000,000.00	5.310	03/02/2007	11/30/2006	92	60	5,000,000.00		5,000,000.00	5,000,000.00
1730D0NU6	3351	CITINA	5,000,000.00	5.325	03/28/2007	12/28/2006	90	86	5,000,000.00		5,000,000.00	5,000,000.00
40428ALS4	3263	HSBCBA	5,000,000.00	3.870	06/07/2007	11/28/2006	191	157	5,464,800.00	Received	5,459,355.00	5,466,451.75
93940ARZ0	3244	WASH	10,000,000.00	5.310	05/17/2007	11/15/2006	183	136	10,000,000.00		10,000,000.00	10,000,000.00
96121HNH3	3327	WEST	5,000,000.00	5.330	07/31/2007	12/18/2006	225	211	5,000,000.00	36,273.61	4,999,744.40	4,999,760.30
		Negotiable CDs Totals	35,500,000.00				152	120	35,464,800.00	36,273.61	35,459,099.40	35,466,212.05
Commercial Paper Disc. - Amortizing												
0717MDN44	3282	BAVARI	10,000,000.00	5.310	01/04/2007	12/04/2006	31	3	9,997,100.00		9,954,275.00	9,995,575.00
0717MDNP7	3348	BAVARI	4,112,000.00	5.340	01/23/2007	12/28/2006	26	22	4,099,252.80		4,096,141.39	4,098,581.18
2223P1N28	3304	COUNTR	3,000,000.00	5.310	01/02/2007	12/11/2006	22	1	3,000,000.00		2,999,265.00	2,999,567.50
2223P1N28	3353	COUNTR	10,000,000.00	5.410	01/02/2007	12/29/2006	4	1	10,000,000.00		9,993,988.89	9,998,497.22
2960E3NG2	3250	ERSTE	3,000,000.00	5.300	01/16/2007	11/17/2006	60	15	2,993,790.00		2,973,500.00	2,993,375.00
35103MNH2	3319	FOUR	15,000,000.00	5.330	01/17/2007	12/13/2006	35	16	14,966,700.00		14,922,270.83	14,964,466.67
35103MNR0	3321	FOUR	8,900,000.00	5.340	01/25/2007	12/15/2006	41	24	8,869,740.00		8,845,873.17	8,868,316.00
35103MN25	3342	FOUR	10,000,000.00	5.370	01/02/2007	12/27/2006	6	1	10,000,000.00		9,991,050.00	9,998,508.33
35103MN90	3352	FOUR	7,500,000.00	5.370	01/09/2007	12/29/2006	11	8	7,492,275.00		7,487,693.75	7,491,050.00
3763P3NG7	3324	GIRBAL	12,252,000.00	5.350	01/16/2007	12/18/2006	29	15	12,226,638.36		12,199,197.28	12,224,686.25
38346MNN26	3320	GOTHAM	18,100,000.00	5.300	01/02/2007	12/14/2006	19	1	18,100,000.00		18,049,370.28	18,097,335.28
50285MNN32	3347	LAFAYE	11,300,000.00	5.360	01/03/2007	12/28/2006	6	2	11,298,305.00		11,289,905.33	11,296,635.11
56274MNN57	3302	MANHAT	11,000,000.00	5.290	01/05/2007	12/11/2006	25	4	10,995,160.00		10,959,590.28	10,993,534.44
5777E3P26	3248	MAX	4,000,000.00	5.295	02/02/2007	11/16/2006	78	32	3,981,840.00		3,954,110.00	3,981,173.33
61777MNNC4	3264	MORIGN	8,500,000.00	5.320	01/12/2007	11/28/2006	45	11	8,487,420.00		8,443,475.00	8,486,182.78
61777MNNB6	3287	MORIGN	11,000,000.00	5.330	01/11/2007	12/06/2006	36	10	10,985,370.00		10,941,370.00	10,983,713.89
61777MPP24	3317	MORIGN	1,800,000.00	5.310	02/02/2007	12/13/2006	51	32	1,791,828.00		1,786,459.50	1,791,504.00

**County Pool 2006-2007
Portfolio Management
Investment Status Report - Investments
December 31, 2006**

CUSIP	Investment #	Issuer	Par Value	Stated Rate	Maturity Date	Purchase Date	Term	Days to Maturity	Market Value	Accrued Interest At Purchase	Current Principal	Book Value
Commercial Paper Disc. - Amortizing												
61777MP16	3330	MORIGN	3,600,000.00	5.330	02/01/2007	12/19/2006	44	31	3,584,052.00		3,576,548.00	3,583,477.00
61777MN34	3354	MORIGN	1,750,000.00	5.380	01/03/2007	12/29/2006	5	2	1,749,737.50		1,748,692.36	1,749,476.94
87019SN26	3329	SWED	6,000,000.00	5.330	01/02/2007	12/18/2006	15	1	6,000,000.00		5,986,675.00	5,999,111.67
87019SN34	3334	SWED	1,200,000.00	5.350	01/03/2007	12/21/2006	13	2	1,199,820.00		1,197,681.67	1,199,643.33
8855E3NC7	3292	TCFJN	8,000,000.00	5.300	01/12/2007	12/07/2006	36	11	7,988,160.00		7,957,600.00	7,987,044.44
8855E3N52	3268	THREE	8,000,000.00	5.300	01/05/2007	11/28/2006	38	4	7,996,480.00		7,955,244.44	7,995,288.89
8855E3N86	3278	THREE	19,900,000.00	5.300	01/08/2007	12/04/2006	35	7	19,882,488.00		19,797,459.72	19,879,491.94
92646LN97	3295	VICTOR	6,000,000.00	5.300	01/09/2007	12/08/2006	32	8	5,993,820.00		5,971,733.33	5,992,933.33
92646LN30	3300	VICTOR	4,178,000.00	5.300	01/03/2007	12/08/2006	26	2	4,177,373.30		4,162,007.54	4,176,769.81
96442MNQ4	3328	WHITE	8,600,000.00	5.350	01/24/2007	12/18/2006	37	23	8,572,050.00		8,552,711.94	8,570,604.72
96442MNN1	3335	WHITE	8,900,000.00	5.340	01/22/2007	12/21/2006	32	21	8,873,656.00		8,857,754.67	8,872,276.50
Commercial Paper Disc. - Amortizing Totals									225,303,055.96	0.00	224,642,644.37	225,268,812.55

Federal Agency Coupon Securities

31331SHS5	2139	FFCB	5,000,000.00	3.550	06/29/2007	12/29/2004	912	179	4,959,400.00		4,998,437.50	4,999,690.97
3133X6ZJ8	1881	FHLB	5,000,000.00	3.125	05/15/2007	05/03/2004	1,107	134	4,964,050.00		4,998,050.00	4,998,901.74
3133X6QG4	1883	FHLB	4,250,000.00	3.000	05/04/2007	05/04/2004	1,095	123	4,219,442.50		4,210,900.00	4,245,546.94
3133XAP27	2209	FHLB	5,000,000.00	4.470	02/22/2007	02/22/2005	730	52	4,997,500.00		4,998,750.00	4,999,911.46
3133XCN25	2490	FHLB	5,000,000.00	4.250	05/08/2007	08/11/2005	635	127	4,984,400.00	Received	4,987,800.00	4,987,528.87
3133XCYA5	2523	FHLB	5,000,000.00	4.300	08/28/2007	09/01/2005	726	239	4,968,750.00	Received	5,000,000.00	5,000,000.00
3133XCYA5	2529	FHLB	8,200,000.00	4.300	08/28/2007	09/06/2005	721	239	8,148,750.00	Received	8,200,000.00	8,200,000.00
3133XD2U4	2657	FHLB	5,000,000.00	4.300	03/19/2007	12/02/2005	472	77	4,990,650.00	Received	4,970,200.00	4,995,022.70
3133XEEL9	2739	FHLB	5,000,000.00	4.750	11/08/2007	02/08/2006	638	311	4,979,700.00	Received	4,987,850.00	4,984,079.29
3128X1JB4	1563	FHLMC	10,000,000.00	2.850	06/03/2008	06/04/2003	1,826	519	9,695,200.00	Received	9,998,500.00	9,999,573.10
3128X2V93	1841	FHLMC	10,000,000.00	2.375	03/29/2007	03/29/2004	1,095	87	9,933,700.00	Received	9,948,500.00	9,995,803.70
3128X2RP2	1852	FHLMC	20,000,000.00	2.750	02/09/2007	04/02/2004	1,043	39	19,950,400.00	Received	19,967,000.00	19,998,778.97
3128X1U70	2014	FHLMC	10,000,000.00	3.010	04/13/2007	09/28/2004	927	102	9,940,700.00	Received	9,992,600.00	9,999,175.08
3128X1SV0	2697	FHLMC	5,000,000.00	2.580	01/29/2007	01/06/2006	388	28	4,990,300.00	Received	4,889,750.00	4,991,939.95
3136F4NA8	1863	FNMA	9,000,000.00	3.050	04/20/2007	04/13/2004	1,102	109	8,943,750.00	Received	8,995,500.00	8,999,548.76
3136F5PS4	1865	FNMA	5,000,000.00	2.550	04/13/2007	04/15/2004	1,093	102	4,964,050.00	Received	4,938,000.00	4,994,133.58
3136F6BM0	1976	FNMA	10,000,000.00	3.150	02/26/2007	08/26/2004	914	56	9,968,800.00	Received	9,995,000.00	9,999,694.44
3136F6AG4	1985	FNMA	6,000,000.00	4.050	09/07/2007	09/07/2004	1,095	249	5,951,280.00	Received	5,999,000.00	5,999,316.67
3136F54B4	2064	FNMA	7,885,000.00	3.310	01/26/2007	11/08/2004	809	25	7,875,143.75	Received	7,882,535.94	7,884,922.81
3136F53X7	2074	FNMA	6,005,000.00	3.250	02/05/2007	11/17/2004	810	35	5,993,770.65	Received	5,992,990.00	6,004,488.30

**County Pool 2006-2007
Portfolio Management
Investment Status Report - Investments
December 31, 2006**

CUSIP	Investment #	Issuer	Par Value	Stated Rate	Maturity Date	Purchase Date	Term	Days to Maturity	Market Value	Accrued Interest At Purchase	Current Principal	Book Value
Federal Agency Coupon Securities												
3136F66Z7	2364	FNMA	5,000,000.00	4.000	03/07/2007	06/07/2005	638	65	4,989,050.00		5,000,000.00	5,000,000.00
Federal Agency Coupon Securities Totals			151,340,000.00				948	135	150,408,786.90	0.00	150,942,363.44	151,298,057.33
Federal Agency Coupon - Callables												
31331Q3A3	1591	FFCB	9,665,000.00	2.950	06/30/2008	06/30/2003	1,827	546	9,369,057.70		9,660,167.50	9,663,552.93
31331TK26	1970	FFCB	7,560,000.00	3.250	05/10/2007	08/23/2004	990	129	7,510,406.40	Received	7,541,100.00	7,557,504.50
31331XA/V4	3184	FFCB	5,000,000.00	5.320	10/17/2008	10/17/2006	731	655	4,989,050.00		4,992,968.75	4,993,691.41
31331XGE6	3312	FFCB	5,000,000.00	5.200	12/08/2008	12/13/2006	726	707	4,981,250.00	3,611.11	4,997,500.00	4,997,562.94
31339XMK7	1581	FHLB	10,000,000.00	3.150	06/17/2008	06/17/2003	1,827	533	9,728,100.00		9,995,312.50	9,998,630.21
3133X0FJ3	1629	FHLB	5,000,000.00	4.000	08/13/2008	08/13/2003	1,827	590	4,915,650.00		4,996,250.00	4,998,787.50
3133X8S/J2	2041	FHLB	5,000,000.00	3.260	04/19/2007	10/22/2004	909	108	4,971,900.00	Received	4,999,218.75	4,999,905.94
3133X8S/J2	2052	FHLB	5,000,000.00	3.260	04/19/2007	10/28/2004	903	108	4,971,900.00	Received	4,994,000.00	4,999,272.73
3133X9FZ8	2089	FHLB	4,920,000.00	5.000	11/28/2007	11/29/2004	1,094	331	4,909,225.20		4,913,850.00	4,918,136.19
3133XCRA3	2491	FHLB	5,000,000.00	4.470	02/15/2008	08/15/2005	914	410	4,959,400.00		4,979,687.50	4,990,881.94
3133XCQC0	2506	FHLB	5,000,000.00	4.500	08/23/2007	08/26/2005	727	234	4,973,450.00	Received	5,000,000.00	5,000,000.00
3133XC5C3	2522	FHLB	5,000,000.00	4.000	06/22/2007	09/01/2005	659	172	4,971,900.00	Received	4,984,375.00	4,995,895.74
3133XDE90	2594	FHLB	5,000,000.00	4.400	01/18/2007	10/18/2005	457	17	4,998,450.00		4,989,062.50	4,999,586.81
3133XEEH8	2721	FHLB	5,000,000.00	4.900	07/24/2008	01/27/2006	909	570	4,985,950.00	Received	4,987,250.00	4,991,997.49
3133XDN98	2731	FHLB	5,000,000.00	4.625	08/09/2007	02/02/2006	553	220	4,981,250.00	Received	4,977,550.00	4,991,052.83
3133XEKR9	2759	FHLB	5,000,000.00	5.000	02/15/2008	02/15/2006	730	410	4,984,400.00		4,996,875.00	5,000,000.00
3133XDGC9	3003	FHLB	5,000,000.00	4.500	10/12/2007	07/12/2006	457	284	4,971,900.00	Received	4,936,500.00	4,960,347.78
3133XGFL3	3055	FHLB	5,000,000.00	5.750	08/07/2009	08/07/2006	1,096	949	5,009,400.00		5,000,000.00	5,000,000.00
3133XFPC4	3082	FHLB	5,000,000.00	5.500	06/05/2009	08/21/2006	1,019	886	5,003,150.00	Received	5,000,000.00	5,000,000.00
3133XGL69	3105	FHLB	5,000,000.00	5.500	08/28/2009	09/05/2006	1,088	970	4,993,750.00	5,347.22	5,000,000.00	5,000,000.00
3133XHD90	3192	FHLB	5,000,000.00	5.550	10/19/2009	10/19/2006	1,096	1,022	4,993,750.00		4,998,000.00	4,998,133.33
3133XHQA3	3240	FHLB	4,300,000.00	5.700	11/15/2011	11/15/2006	1,826	1,779	4,289,250.00		4,300,000.00	4,300,000.00
3133XHUU0	3275	FHLB	5,000,000.00	5.500	11/30/2010	12/01/2006	1,460	1,429	4,982,800.00		5,000,000.00	5,000,000.00
3133XHUW0	3284	FHLB	5,000,000.00	5.500	11/30/2010	12/05/2006	1,456	1,429	4,982,800.00	763.89	5,000,000.00	5,000,000.00
3133XHWE8	3313	FHLB	3,525,000.00	5.375	12/04/2009	12/13/2006	1,087	1,068	3,514,002.00	3,819.44	3,523,347.66	3,523,375.43
3128X0Q28	1445	FHLMC	10,000,000.00	3.500	03/12/2008	03/12/2003	1,827	436	9,808,500.00	4,736.72	9,995,000.00	9,998,802.78
3128X1LC9	1582	FHLMC	10,000,000.00	2.700	12/17/2007	06/17/2003	1,644	350	9,765,600.00		9,997,500.00	9,999,466.05
3128X3UV3	2010	FHLMC	6,000,000.00	4.000	09/16/2008	09/24/2004	1,453	624	5,894,940.00	Received	6,000,000.00	6,000,000.00
3128X4WK3	2667	FHLMC	5,000,000.00	5.000	12/12/2007	12/12/2005	730	345	4,985,050.00		5,000,000.00	5,000,000.00
3128X4F48	2738	FHLMC	5,000,000.00	5.000	02/08/2008	02/08/2006	730	403	4,989,500.00		5,000,000.00	5,000,000.00

**County Pool 2006-2007
Portfolio Management
Investment Status Report - Investments
December 31, 2006**

CUSIP	Investment #	Issuer	Par Value	Stated Rate	Maturity Date	Purchase Date	Term	Days to Maturity	Market Value	Accrued Interest At Purchase	Current Principal	Book Value
3128X4E98	2740	FHLMC	5,000,000.00	4.900	03/05/2007	02/08/2006	390	63	4,998,050.00		5,000,000.00	5,000,000.00
3128X4F48	2756	FHLMC	5,000,000.00	5.000	02/08/2008	02/14/2006	724	403	4,989,500.00	Received	4,987,750.00	4,993,188.73
3128X47H8	3080	FHLMC	5,000,000.00	5.375	05/22/2008	08/21/2006	640	507	4,998,750.00	Received	4,993,750.00	4,995,037.64
3128X5JJ8	3115	FHLMC	5,000,000.00	5.450	09/02/2011	09/12/2006	1,816	1,705	4,983,900.00	9,083.33	4,991,100.00	4,991,641.96
3128X5QN1	3290	FHLMC	5,000,000.00	5.300	11/24/2008	12/07/2006	718	693	4,995,050.00	9,569.44	5,000,000.00	5,000,000.00
3128X5QW1	3298	FHLMC	5,000,000.00	5.250	12/05/2011	12/08/2006	1,823	1,799	4,968,550.00	2,187.50	4,989,100.00	4,989,239.51
3128X5TL2	3332	FHLMC	5,000,000.00	5.300	06/20/2008	12/20/2006	548	536	4,994,350.00		5,000,000.00	5,000,000.00
3128X5VM7	3350	FHLMC	5,000,000.00	5.550	12/28/2011	12/28/2006	1,826	1,822	4,898,200.00		4,990,000.00	4,990,016.67
3136F3WW2	1575	FNMA	10,000,000.00	3.000	06/11/2008	06/11/2003	1,827	527	9,709,400.00		9,993,000.00	9,997,977.78
3136F5BL4	1838	FNMA	15,000,000.00	4.100	02/13/2009	03/18/2004	1,793	774	14,709,450.00	Received	15,040,500.00	15,000,000.00
3136F53V1	1969	FNMA	14,240,000.00	3.625	07/27/2007	08/23/2004	1,068	207	14,110,985.60	Received	14,240,000.00	14,240,000.00
3136F56W6	1972	FNMA	17,465,000.00	3.625	08/23/2007	08/24/2004	1,094	234	17,284,935.85	Received	17,460,633.75	17,464,061.20
3136F3TM8	2023	FNMA	5,000,000.00	4.000	05/20/2008	10/01/2004	1,327	505	4,925,000.00	Received	4,998,100.00	4,999,275.71
3136F7JZ1	2531	FNMA	5,000,000.00	4.750	03/07/2008	09/07/2005	912	431	4,975,000.00		4,999,218.75	4,999,630.21
3136F7LJ4	2589	FNMA	5,000,000.00	5.000	10/17/2008	10/17/2005	1,096	655	4,975,000.00		5,000,000.00	5,000,000.00
3136F7LJ4	2590	FNMA	5,000,000.00	5.000	10/17/2008	10/17/2005	1,096	655	4,975,000.00		5,005,000.00	5,000,000.00
3136F7MT1	2644	FNMA	5,000,000.00	5.000	11/23/2007	11/23/2005	730	326	4,979,700.00		4,998,750.00	4,999,440.97
31359MZN6	2670	FNMA	5,000,000.00	5.000	12/13/2007	12/13/2005	730	346	4,985,950.00		5,000,000.00	5,000,000.00
3136F7PQ4	2688	FNMA	5,000,000.00	5.000	12/27/2007	12/27/2005	730	360	4,989,050.00		5,000,000.00	5,000,000.00
3136F7MJ3	2696	FNMA	6,000,000.00	5.000	05/23/2008	01/05/2006	869	508	5,975,640.00	Received	5,994,000.00	5,996,489.51
31359MZV8	2708	FNMA	5,000,000.00	5.125	01/18/2008	01/18/2006	730	382	4,982,800.00		5,000,000.00	5,000,000.00
31359MZK2	2723	FNMA	5,000,000.00	4.900	11/28/2007	01/30/2006	667	331	4,984,400.00	Received	4,994,700.00	4,997,366.11
3136F7RJ8	2732	FNMA	5,000,000.00	5.000	02/01/2008	02/03/2006	728	396	4,984,400.00	Received	4,992,187.50	4,995,756.44
31359MZK2	2909	FNMA	5,000,000.00	4.900	11/28/2007	05/12/2006	565	331	4,984,400.00	Received	4,970,312.50	4,982,539.91
3136F7N45	3001	FNMA	5,000,000.00	5.800	07/10/2009	07/10/2006	1,096	921	5,000,000.00		4,995,500.00	4,996,212.50
31359MU27	3009	FNMA	5,000,000.00	5.700	07/17/2008	07/17/2006	731	563	5,010,950.00		4,993,300.00	4,994,826.11
3136F7VJ3	3146	FNMA	5,000,000.00	5.340	02/22/2011	09/28/2006	1,608	1,513	4,979,700.00	26,700.00	4,993,750.00	4,994,116.95
31359MZJ5	3172	FNMA	5,000,000.00	5.200	11/08/2010	10/06/2006	1,494	1,407	4,978,150.00	Received	4,979,000.00	4,980,212.64
31359MY49	3175	FNMA	5,000,000.00	5.375	10/11/2011	10/11/2006	1,826	1,744	4,985,950.00		4,990,234.38	4,990,668.41
31359MF99	3186	FNMA	5,000,000.00	5.250	02/23/2011	10/18/2006	1,589	1,514	4,992,200.00	40,104.17	4,984,650.00	4,985,366.01
31359MY64	3281	FNMA	5,000,000.00	5.125	10/03/2008	12/04/2006	669	641	4,984,400.00	43,420.14	5,000,000.00	5,000,000.00
3136F73V7	3294	FNMA	5,000,000.00	5.500	10/17/2011	12/07/2006	1,775	1,750	4,989,050.00	38,194.44	5,000,000.00	5,000,000.00
31359MX81	3311	FNMA	5,000,000.00	5.500	09/29/2008	12/12/2006	657	637	4,998,450.00	55,763.89	5,000,000.00	5,000,000.00
3136F8BM6	3323	FNMA	5,000,000.00	5.500	12/15/2010	12/15/2006	1,461	1,444	4,984,400.00		4,998,500.00	4,998,516.67

Federal Agency Coupon - Callables

**County Pool 2006-2007
Portfolio Management
Investment Status Report - Investments
December 31, 2006**

CUSIP	Investment #	Issuer	Par Value	Stated Rate	Maturity Date	Purchase Date	Term	Days to Maturity	Market Value	Accrued Interest At Purchase	Current Principal	Book Value
Federal Agency Coupon - Callables												
31359M2G7	3326	FNMA	5,000,000.00	5.250	11/20/2008	12/18/2006	703	689	4,992,200.00	20,416.67	5,000,000.00	5,000,000.00
31359MY49	3340	FNMA	5,000,000.00	5.375	10/11/2011	12/26/2006	1,750	1,744	4,985,950.00	55,989.58	4,996,875.00	4,996,884.06
3136F8BV6	3355	FNMA	5,000,000.00	5.550	12/29/2010	12/29/2006	1,461	1,458	4,987,500.00		5,000,000.00	5,000,000.00
		Federal Agency Coupon - Callables Totals	393,675,000.00				1,162	671	390,612,092.75	319,707.54	393,325,427.04	393,445,050.23
Corporate Bonds												
172967DU2	3202	CIT	5,000,000.00	5.100	09/29/2011	10/24/2006	1,801	1,732	4,978,850.00	17,708.33	4,956,900.00	4,958,526.87
5526E0AK9	3201	FIA	5,000,000.00	5.375	01/15/2008	10/24/2006	448	379	4,993,150.00	73,906.25	5,002,150.00	5,001,823.36
339030AG3	3253	FLEETB	4,885,000.00	3.850	02/15/2008	11/17/2006	455	410	4,809,917.55	48,062.97	4,810,210.65	4,817,556.03
36962GH49	1849	GECC	7,000,000.00	3.125	04/01/2009	04/01/2004	1,826	821	6,704,740.00	Received	6,989,080.00	6,995,086.00
36962GXY5	2618	GECC	5,000,000.00	5.375	03/15/2007	11/02/2005	498	73	5,000,600.00	Received	5,040,200.00	5,006,034.08
36962GUL6	3158	GECC	10,938,000.00	7.375	01/19/2010	10/02/2006	1,205	1,114	11,593,733.10	163,576.27	11,700,050.46	11,642,912.73
441815A00	3127	HSBCFI	5,000,000.00	5.836	02/15/2008	09/18/2006	515	410	5,025,150.00	Received	5,033,500.00	5,026,694.28
92976FAA1	2928	WB	5,000,000.00	4.850	07/30/2007	05/16/2006	440	210	4,983,650.00	Received	4,972,150.00	4,986,588.36
949746JB8	3017	WELLS	5,000,000.00	4.000	08/15/2008	07/18/2006	759	592	4,897,900.00	Received	4,852,250.00	4,884,489.96
949746MZ1	3156	WELLS	5,000,000.00	4.625	08/09/2010	09/29/2006	1,410	1,316	4,906,700.00	32,118.06	4,932,850.00	4,937,294.46
		Corporate Bonds Totals	57,823,000.00				997	756	57,894,390.65	335,371.88	58,289,341.11	58,257,006.13
Corporate Bonds - Callable												
94974BAT7	3134	WELLS	4,000,000.00	3.120	08/15/2008	09/18/2006	697	592	3,863,320.00	11,440.00	3,845,680.00	3,868,816.77
		Corporate Bonds - Callable Totals	4,000,000.00				697	592	3,863,320.00	11,440.00	3,845,680.00	3,868,816.77
		Investment Totals	908,930,000.00				741	371	904,546,446.26	702,793.03	907,504,555.36	908,603,955.06

SANTA BARBARA COUNTY

TREASURER



INVESTMENT POLICY

STATEMENT

January 2007

TABLE OF CONTENTS

	Page No.
I. Policy Statement.....	2
II. Purposes.....	2
III. Objectives.....	3
IV. Scope.....	3
V. Standard of Care.....	4
VI. Delegation of Authority.....	4
VII. Ethics and Conflicts of Interest	4
VIII. Safekeeping of Securities.....	5
IX. Delivery vs. Payment.	5
X. Internal Controls.....	6
XI. Authorized Dealers and Institutions.....	6
XII. Permitted Investments.....	7
XIII. Portfolio Risk Management.....	10
XIV. Performance and Program Evaluation.....	12
XV. Reporting and Disclosure.....	12
XVI. Treasury Oversight Committee.....	14
XVII. Cost and Earnings Apportionment.....	14
XVIII. Voluntary Participants	15
XIX. Participant Withdrawal.....	15
XX. Legislative Changes.....	15
Appendix I: Authorized Investment Summary Table.....	16
Appendix II: Glossary of Terms.....	17

INTRODUCTION:

The County of Santa Barbara's Investment Policy has been prepared in accordance with State law. This policy is presented annually to the Treasury Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code. The County establishes investment policies that meet its current investment goals. The County may change this policy as its investment objectives change.

I. POLICY STATEMENT

The purpose of this Investment Policy is to provide a basis for the implementation and management of a prudent, conservative investment program. It is the policy of the Santa Barbara County Treasurer (the Treasurer) to invest public funds in a manner which provides the maximum security of principal invested with secondary emphasis on achieving the highest return, while meeting the daily cash flow needs of the Investment Pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

As an elected official of the County of Santa Barbara, the Treasurer must manage public monies in a way that is consistent with investment oversight and sound investment practices. To have a policy which only concerns itself with maximizing return is reckless. The basic concept of investment management is the risk/reward relationship. A higher promised return on any investment may indicate a higher level of risk. Risk management must be an integral part of any prudent investment policy. Risk management must include adequate internal controls so Investment Pool participants and the public have confidence that public monies are secure. Though all investments contain a degree of risk, the proper exercise of prudence, the maintenance of a high level of ethical standards, and the proper delegation of authority reduces the potential for loss.

II. PURPOSES

This Investment Policy is set forth by the Treasurer for the following purposes:

- A. To implement the investment program in accordance with its legislative parameters and the authority to invest which is hereby delegated to the Treasurer by the Board of Supervisors;
- B. To establish a clear understanding for the Board of Supervisors, County management, responsible employees, citizens, and third parties of the objectives, policies and guidelines for the investment of County idle and surplus funds;
- C. To offer guidance to investment staff and any external investment advisors on the investment of the Investment Pool; and

D. To establish a basis for evaluating results.

III. OBJECTIVES

The objectives of this Investment Policy are, in order of priority:

- A. Safety of principal. The primary objective of the Treasurer's investment program is to safeguard investment principal by mitigating exposure to risk factors, including, but not limited to, market (interest rate) risk, credit risk, and reinvestment risk. Specific risk parameters are set forth in Sections XII and XIII.
- B. Maintenance of sufficient liquidity to meet cashflow needs.
- C. Attainment of a "market average rate of return" consistent with the primary objectives of safety and liquidity.

Investments must always be in compliance with all federal, state and local laws governing the investment of moneys under the control of the Treasurer, this Investment Policy, and the Prudent Investor standard of care.

IV. SCOPE

This Statement of Investment Policy applies to county, school and special district fund assets deposited in the County Treasury and under control of the Treasurer. It does not apply to assets that are not deposited in the County Treasury, including, but not limited to:

- A. Bond Funds (the investment of which is governed by the bond documents);
- B. Assets of Investment Pool participants other than assets on deposit in the County Treasury (which are the responsibility of the participant's governing body); and
- C. Deferred Compensation Plan assets (which are invested for the benefit of participants in the Plan).
- D. The Treasurer may direct specific-purpose assets belonging to the county or other Investment Pool participants in instruments the earnings of which are not shared, but credited to the specific-purpose fund. The investments for these direct investment pools shall be made in accordance with this Policy, except that investments may be for periods greater than five years when a longer term is advantageous for the investment of money held for specific purposes. Investments for periods longer than five years require prior approval of the governing body in accordance with Government Code Section 53601.

V. STANDARD OF CARE

- A. **The Prudent Investor Standard** is the appropriate standard of care for the Investment Pool. This standard shall be used by investment officials and shall be applied in the context of managing an overall portfolio. Investment staff acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments.
- B. **The Prudent Investor Standard Defined:** When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments of an overall strategy, a trustee is authorized to acquire investments as authorized by law.

VI. DELEGATION OF AUTHORITY

Authority to manage the County's investment program is derived from the California Government Code Sections 53600 *et seq.*, and Sections 53630 *et seq.*

Within the Treasurer's office, only the Treasurer, Assistant Treasurer, Treasury Finance Chief, and the Investment & Debt Officer are authorized to make investments and to direct the receipt and delivery of investment securities at the custody bank.

VII. ETHICS AND CONFLICTS OF INTEREST

Individuals performing the investment function and members of the Treasury Oversight Committee shall maintain the highest standards of conduct. They must maintain their independence and not have actual conflicts of interest. In addition, they shall avoid the appearance of having conflicts of interest or having lack of independence.

All investment personnel shall disclose to the Treasurer any financial interests in financial institutions that conduct business with the County of Santa Barbara and shall disclose any material financial positions that could be related in a conflicting manner to the investment strategies and performance of the County of Santa Barbara's investment portfolio. In accordance with State law, the Treasurer, Assistant Treasurer, Treasury Finance Chief, and the Investment & Debt Officer shall complete and submit State of California Form 700, Statement of Economic Interests Disclosure. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

The Treasurer, Assistant Treasurer, Treasury Finance Chief, Investment & Debt Officer, and members of the Treasury Oversight Committee will not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the Treasurer conducts business.

The Treasurer, Assistant Treasurer, Treasury Finance Chief, Investment & Debt Officer, and members of the Treasury Oversight Committee may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the Treasurer conducts business or may, in the future, conduct business.

A member of the Treasury Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of the Treasurer or a candidate for a legislative body of a local agency that has deposited funds in the County Treasury in the previous three years or while a member of the Committee. A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.

A member of the Treasury Oversight Committee may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

VIII. SAFEKEEPING OF SECURITIES

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County shall be deposited for safekeeping with the custodial bank that has contracted to provide the Treasurer with custody and security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf, and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

IX. DELIVERY VS. PAYMENT

All security transactions are to be conducted using industry-standard "delivery-versus-payment" procedures.

X. INTERNAL CONTROLS

The Treasurer shall establish and document a system of internal controls that is prudent and comprehensive. Internal controls shall be designed to provide reasonable assurances that the combined Investment Pool assets are protected. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.

Internal controls are designed to ensure separation of transaction authority from accounting and record keeping and to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's office.

No investment personnel may engage in an investment transaction except as provided under this investment policy and the procedures established by the Treasurer.

XI. AUTHORIZED DEALERS AND INSTITUTIONS

The Treasurer shall determine which financial institutions are authorized to provide investment services to the County. Institutions eligible to transact investment business with the County include:

- Primary government dealers (including their parent and subsidiaries) as designated by the Federal Reserve Bank;
- Nationally or state-chartered banks;
- The Federal Reserve Bank; and
- Direct issuers of securities eligible for purchase by the County.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the County shall be at the sole discretion of the County.

All financial institutions which desire to become authorized dealers for investment transactions must complete the Santa Barbara County's "Request For Qualification" form. Each qualified dealer must certify in writing that they have reviewed the relevant California Government Code Sections and the County's Investment Policy and that all securities offered to the County shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.

The authorized dealers and financial institutions must not have made any political contribution to the Treasurer, Board of Supervisors or candidates for these offices for 48 months before and any time during their engagement with the County.

The authorized dealers and financial institutions must agree not to provide any honoraria, gift, or gratuity to any Santa Barbara County investment personnel or to any member of the Treasury Oversight Committee.

Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.

The Treasurer, or designee, will create and review periodically an approved list of firms and financial institutions authorized to do business with the Treasurer. The Treasurer will maintain firms on the authorized list as long as it is in the best interest of the County to do so.

XII. PERMITTED INVESTMENTS

A. Authorized Investments

All investments shall be made in accordance with the California Government Code Sections 53630 *et seq.* and as described within this Investment Policy. Percentage allowances per this policy shall be determined by the overall portfolio size at the close of the date any security is purchased. Permitted investments under this policy shall include:

1. Securities issued by the US Treasury, provided that
 - a. There shall be no restriction on the percentage of portfolio investment in US Treasury securities, and
 - b. The final maturity shall not exceed five years.

2. Securities issued and fully guaranteed as to payment by an agency, or government sponsored enterprise of the US Government, provided that
 - a. There shall be no restriction on the percentage of portfolio investment in US Government agencies and sponsored enterprises,
 - b. The final maturity shall not exceed five years, unless specifically authorized by the governing body, and
 - c. The issuer shall be rated AAA by at least two of the three major rating services of Moody's, S&P, and Fitch.

3. Bonds, notes, warrants or certificates of indebtedness issued by the state of California, local agencies within California, or the County of Santa Barbara provided that
 - a. The maximum allowable portfolio investment in this category shall be 10%,
 - b. The final maturity shall not exceed five years,
 - c. Prior approval of the Treasurer is obtained, and

- d. The issuer shall be rated AAA by at least two of the three major rating services of Moody's, S&P, and Fitch.
4. Banker's acceptances provided that
 - a. The maximum allowable portfolio investment in banker's acceptances shall be 40%,
 - b. The final maturity shall not exceed 180 days,
 - c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
 - d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
5. Commercial Paper provided that
 - a. The maximum allowable portfolio investment in commercial paper shall be 40%,
 - b. The final maturity shall not exceed 270 days,
 - c. The obligation is issued by a US corporation with total assets exceeding \$500 million,
 - d. The investment in paper of any one issuer may not exceed 10% of the outstanding debt of that issuer,
 - e. Maximum exposure to any one issuer (including MTNs, CP, and other obligations) shall be limited to 5% of the total portfolio, and
 - f. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
6. State of California Local Agency Investment Fund (LAIF) provided that
 - a. The County may invest up to the maximum amount permitted by LAIF, and
 - b. the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.
7. Investment Trust of California (CalTRUST) provided that
 - a. The trust's policies adhere to Government Code 6509.7, and
 - b. the trust's reports allow the Treasurer to adequately judge the risk inherent in CalTRUST's portfolio.
8. Negotiable certificates of deposit (NCDs) provided that
 - a. The maximum allowable portfolio investment in NCDs shall be 30%,
 - b. The final maturity shall not exceed one year,
 - c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
 - d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.

- e. The issuer shall be a national or state chartered bank or a licensed branch of one of the top 100 foreign banks.
9. Bank deposits (Non-negotiable certificates of deposit) which are fully collateralized with securities in accordance with California law, provided that
 - a. The maximum allowable portfolio investment in time non-negotiable certificates of deposit shall be 10%, and
 - b. The final maturity shall not exceed one year.
 10. Repurchase agreements collateralized with securities authorized under XII.A.1. and XII.A.2 of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that
 - a. There shall be no restriction on the percentage of portfolio investment.
 - b. The maximum allowable portfolio investment in repurchase agreements shall be one year,
 - c. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement shall be substantially in the form developed by the Public Securities Association, and
 - d. The counterparty to the repurchase agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York and state chartered banks.
 11. Securities lending and reverse repurchase agreements
 - a. The total of reverse repurchase agreements and securities that are subject to a securities lending agreement may not exceed 20% of the County's total portfolio,
 - b. To the extent that the County's authorized securities lending agent does not utilize the full 20% allocation, the County may enter into reverse repurchase agreements in accordance with the government code. The term to maturity of such reverse repurchase agreements may not exceed 92 days, and the maturity of securities purchased with the proceeds of reverse repos must match the maturity of the reverse repurchase agreement, and
 - c. The counterparty to the agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York.
 12. Medium Term or Corporate Notes (MTNs) provided that
 - a. The maximum allowable portfolio investment in MTNs shall be 30%,
 - b. The final maturity shall not exceed 5 years,
 - c. The maximum allowable portfolio investment in MTNs with maturity in excess of 3 years shall be 10%,
 - d. The obligation shall be issued by a corporation organized and operating within the U.S. or by a depository institution licensed in the U.S. or any state and operating within the U.S.,
 - e. Maximum exposure to any one issuer (including MTNs, CP and other obligations) shall be limited to 5% of the total portfolio, and

- f. The issuer shall be rated AA by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is greater than 3 years. The issuer shall be rated AA- by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is 3 years or less.
13. Money Market Mutual Funds provided that
- a. The maximum allowable portfolio investment in Money Market Funds shall be 15%,
 - b. The Fund is registered with the Securities and Exchange Commission,
 - c. The Fund must have as one of its primary objectives that it will strive to maintain a \$1.00 net asset value and share price,
 - d. The Fund shall have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of \$500 million, and
 - e. The issuer shall be rated AAA by at least two of the three major rating services of Moody's, S&P, and Fitch.

B. Prohibited Investment and Practices

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than money market funds as described above), unregulated and/or un-rated investment pools or trusts, collateralized mortgage obligations and futures and options.
2. In accordance with Government Code Section 53601.6, investments in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
3. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
4. Purchasing or selling securities on margin is prohibited.

XIII. PORTFOLIO RISK MANAGEMENT

A. Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Treasurer shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section XII (A) are designed to mitigate credit risk in the portfolio.

2. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and sponsored enterprises.
3. The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the County's risk preferences.
4. If the securities owned by the County are downgraded by Moody's, S&P, or Fitch to a level below the quality required by this Investment Policy, it shall be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.
5. The Treasurer will continue to monitor and reevaluate the security on a weekly basis in order to reaffirm or change the decision to hold a downgraded security.
6. If a decision is made to retain a downgraded security in the portfolio, the status of the investment will be reported quarterly to the Board of Supervisors.

B. Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios generally achieve higher returns. On the other hand, longer-term portfolios have a higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. All investments are categorized according to the period of time from settlement date to maturity date. Market circumstances and risk-return calculations for increased yield may require an extended schedule. In no event shall more than 75 percent of the funds available be invested for longer than one year.
2. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy. The five-year

maturity of callable securities is measured to the final maturity date, not to a call date.

3. Maturity of investments should be governed by the Treasury's demand for funds through analysis of revenue and expenditure activity over prior periods. The portfolio shall be structured in such manner that securities mature concurrent with cash needs.

C. Mitigating Reinvestment Risk in the Portfolio

Reinvestment risk is the risk that cash flows from securities will be reinvested at interest rates that are lower than the rate of the original investment. Securities that are highly subject to reinvestment risk include mortgage-backed and callable securities.

The County, therefore, adopts the following strategies to control and mitigate its exposure to reinvestment risk:

1. The portfolio shall include securities with a range of durations and maturities.
2. Mortgage-backed securities are prohibited.
3. Investment in callable securities is limited to 50%.

XIV. PERFORMANCE AND PROGRAM EVALUATION

The Treasurer shall submit quarterly reports to the Treasury Oversight Committee, the Investment Pool participants, the Auditor Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code.

The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles that is commensurate with investment risk constraints and cash flow needs.

XV. REPORTING AND DISCLOSURE

A. Monthly Reports

The Investment Officer shall submit a report to the Treasurer on a monthly basis that includes at a minimum, the following:

1. A detailed listing of assets in the portfolio, including cost and current market value (including accrued interest);
2. A table displaying the distribution of the portfolio by maturity and by duration;
3. A table displaying the elements of the Investment Policy and the level of portfolio compliance with each;
4. A complete list of the corporate positions (MTNs, commercial paper and other non-governmental issues) in the portfolio displaying credit ratings by Moody's, S&P and Fitch, as well as "credit watch" status and outlook; and
5. A brief description of any significant events or news that affect any of the portfolio holdings.

B. Quarterly Reports

The Treasurer shall submit quarterly investment reports to the Board of Supervisors. These reports shall disclose, at a minimum, the following information about the risk characteristics of the County's portfolio:

1. An asset listing showing par value, cost and market value of each security, type of investment, issuer, and interest rate;
2. A one-page summary report showing:
 - a. average maturity of the portfolio;
 - b. maturity distribution of the portfolio;
 - c. a statement of compliance with investment policy, including a schedule of transactions or holdings which do not comply with this policy or with the California Government Code, with a justification for their presence in the portfolio and a timetable for resolution; and
 - d. a statement that the County has adequate funds to meet its cash flow requirements for the next six months.

C. Semi-Annual Reports

The Treasurer shall submit a copy of the quarterly investment report, as submitted to the Board of Supervisors, to the California Debt and Investment Advisory Commission (CDIAC) twice a year. The quarterly report for the year ending June 30, shall be submitted no later than the end of August. The quarterly report for the period ending December 31, shall be submitted no later than the end of February.

D. Annual Reports

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

A copy of the investment policy shall be submitted to the California Debt and Investment Advisory Commission (CDIAC) each calendar year and within 60 days of any amendment to the investment policy.

Any internal or external audit reports shall be presented to the Treasury Oversight Committee, together with a plan of implementation of audit recommendations.

XVI. TREASURY OVERSIGHT COMMITTEE

The Board of Supervisors shall establish a Treasury Oversight Committee pursuant to Section 27131 of the California Government Code. The Committee shall consist of between three and eleven member nominated by the Treasurer and confirmed by the Board of Supervisors. Any changes to the Investment Policy Statement shall be reviewed by the Treasury Oversight Committee.

Pursuant to Section 53646 and 53607 of California Government Code, the Treasurer shall annually render to the Board of Supervisors for review and approval the Investment Policy Statement and renew the delegation of investment authority.

Pursuant to California Government Code Section 27137, the county treasury oversight committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

XVII. COST AND EARNINGS APPORTIONMENT

Prior to quarterly interest distribution, actual investment costs incurred by the Treasurer will be deducted from the interest earnings of the Investment Pool. The costs are described in Government Code Sections 27013, 27133 and 27135 and include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds.

The Investment Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor-Controller conducts the apportionment process based on the net earnings of the Investment Pool each quarter. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund.

XVIII. VOLUNTARY PARTICIPANTS

The Treasurer does not solicit any agency's voluntary entry into the Investment Pool. However, should any agency solicit entry, the agency shall comply with the requirements of section 53684 of the Government Code and provide to the Treasurer a resolution adopted by their governing board stating that they have excess funds available for the purpose of investment. The resolution shall specify the amount of monies to be invested, the person authorized to coordinate the transaction, the anticipated time frame for deposit, and the agency's willingness to be bound to the 30 day written notice requirement for withdrawals, as well as the Treasurer's ability to deduct pro-rata administrative charges permitted by Section XVII of this investment policy. Any solicitation for entry into the Investment Pool must have the Treasurer's prior written approval.

XIX. PARTICIPANT WITHDRAWAL

Before a local agency withdraws funds from the Investment Pool, it must submit a withdrawal request to the Treasurer. The Treasurer shall review the withdrawal request based on the size of the withdrawal, the remaining balances in the Investment Pool after the withdrawal, current market conditions, effect on cash flows, availability of funds, the circumstances involving the request, and whether the withdrawal would adversely affect other depositors in the Investment Pool. Exiting pool participants will not recognize posted GASB 31 fair market value gains or losses, except in extraordinary circumstances, as defined by the Treasurer at that time.

XX. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated immediately into the Investment Policy.

Appendix I

AUTHORIZED INVESTMENT SUMMARY TABLE

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury Obligations	100%	None	Max 5 years	NA
Notes, participation's or obligations issued by an agency of the federal government or U.S. government sponsored enterprises	100%	None	Max 5 years	AAA
Bonds, notes, warrants, or certificates of indebtedness issued by the state or local agencies or County of Santa Barbara	10%	With approval of Treasurer	Max 5 year	AAA by at least 2 of the 3 rating agencies
Bankers Acceptances among the 100 largest banks by size of deposits.	40%	Max 5% of portfolio per issuer	Max 180 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies
Commercial paper of U.S. corporations with total assets exceeding \$500,000,000	40%	Max 10% of outstanding paper of any one issuer & max 5% per any one issuer	Max 270 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies
State of California- Local Agency Investment Fund (LAIF)	As limited by LAIF	As limited by LAIF	NA	NA
Investment Trust of California (CalTRUST)	As Limited by CalTRUST	As Limited by CalTRUST	NA	NA
Negotiable CDs issued by national or state chartered banks or a licensed branch of the top 100 foreign banks	30%	Max 5% of any one issuer	Max 1 year	A1 / P1 / F1 by at least 2 of the 3 rating agencies
Collateralized Time Deposits	10%	As stipulated in Ca. Government Code 53630 et al	Max 1 year	NA
Repurchase Agreements with 102% collateral limited to U.S. treasuries & agencies with maturity not exceeding 5 yrs	100%	Contract must be on file	1 yr	Restricted to primary dealers and state chartered banks on eligible list
Reverse Repurchase Agreements	20%	Contract must be on file	92 days	Restricted to primary dealers on eligible list
Medium Term Notes or Corporate Notes on U.S. corporation	30%/ 10%in maturity greater than 3 years	Max 5% of any one issuer	Max 5 years	AA by at least 2 of the 3 rating agencies if more than 3 yrs; AA- up to 3 yrs
Money Market mutual funds that meet requirements of Ca. Government Code	15%	Registered with SEC; no NAV adjustments; no front end loads	Immediate liquidity	AAA by at least 2 of the 3 rating agencies
Callable Securities	50%	As above	As above	As above

Appendix II

GLOSSARY OF TERMS

ACCRUED INTEREST – The amount of interest that is earned, but unpaid since the last payment date.

BANKERS ACCEPTANCES – A draft or bill of exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill. With the credit strength of a bank behind it, the bankers acceptance usually qualifies as a money market instrument. In its simplest and most traditional form, a bankers acceptance is merely a check drawn on a bank by an importer or exporter of goods.

BASIS POINT - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

BID - The indicated price at which a buyer is willing to purchase a security or commodity.

BOOK ENTRY – The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment).

BOOK VALUE - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

BROKER/DEALER – Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)- The CDIAC provides information, education, and technical assistance on public debt and investments to local public agencies and other public finance professionals.

CALLABLE BOND - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CALL PRICE - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK - The risk to a bondholder that a bond may be redeemed prior to maturity.

CASH SALE/PURCHASE - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

COLLERATERALIZATION - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMBINED INVESTMENT POOL – The county maintains a combined Investment Pool with cash and investments which provide cash flow for the funding needs of the participants. The combined Investment Pool is managed by the Santa Barbara County Treasurer. The combined Investment Pool is carried at amortized cost and includes accrued interest.

COMMERCIAL PAPER - An unsecured short-term promissory note issued by banks, corporations and other borrowers with temporarily idle cash, with maturities ranging from 2 to 270 days. Such instruments are usually discounted, although some are interest bearing. It is issued only by top-rated concerns and is nearly always backed by bank lines of credit.

CONFIRMATION – Formal memorandum from a broker/dealer to the Treasurer giving the details of a securities transaction, i.e., purchase or sale.

COUPON RATE - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CURRENT YIELD (CURRENT RETURN) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSTODIAN/CUSTODY – The financial institution where the investments purchased by the County Treasury are held.

DELIVERY VERSUS PAYMENT (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

DERIVATIVE - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT - The amount by which the par value of a security exceeds the price paid for the security.

DIVERSIFICATION – The spreading of risk by investing in assets among a range of security types by sector, maturity, and quality rating.

DURATION - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

EARNINGS APPORTIONMENT – The quarterly interest distribution to the Investment Pool participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Investment Pool.

FAIR VALUE - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL FUNDS - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE - Interest rate charged by one institution lending Federal funds to the other.

FITCH IBCA, INC. (FITCH) – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Standard and Poor's Corporation (S & P). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

GUARANTEED INVESTMENT CONTRACTS (GICS) – An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

GOVERNMENT SECURITIES - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest

quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

IDLE FUNDS – funds in the combined Investment Pool not required for immediate cash needs.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INFORMAL COMPETITIVE BID – A verbal or written bid submitted to the County Treasury by a broker/dealer for a specific issue at a specific price or yield.

INTEREST RATE - See "Coupon Rate."

INTEREST RATE RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INTERNAL CONTROLS - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal

control structure that is contingent on the various staff positions and their respective responsibilities.

6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

INVERTED YIELD CURVE - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

INVESTMENT POLICY - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT-GRADE OBLIGATIONS - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

LIQUID - An asset that can be converted easily and quickly into cash because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LOCAL AGENCY INVESTMENT FUND (LAIF) - The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

LOCAL AGENCY OBLIGATION - An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM - A security with the maturity greater than one year.

MARK-TO-MARKET - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK - The risk that the value of a security will rise or decline as a result of changes in market conditions.

MARKET VALUE - The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

MATURITY - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

MEDIUM TERM NOTES – Corporate Notes and Deposit Notes that are obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

MOODY'S INVESTORS SERVICE, INC. (Moody's) - One of the three best known rating agencies in the United States, the others being Standard and Poor's Corporation (S & P) and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

MUTUAL FUND - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sells SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NEGOTIABLE CERTIFICATE OF DEPOSIT – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in the secondary markets.

NET ASSET VALUE - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NO LOAD FUND - A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

NONCALLABLE – A bond that is exempt from any kind of redemption for a stated time period.

NOTE – A written promise to pay a specific amount to a certain entity on demand or on a specified date.

OFFER - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

PAR - Face value or principal value of a bond, typically \$1,000 per bond.

PORTFOLIO – Combined holding of more than one stock, bond, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

POSITIVE YIELD CURVE - A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM - The amount by which the price paid for a security exceeds the security's par value.

PRIMARY DEALER – A group of securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers and banks.

PRIME RATE - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

PRINCIPAL - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

PROSPECTUS - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the

issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR RULE - An investment standard where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is met is if a prudent person acting in such a situation would engage in similar conduct to ensure investments safeguard principal and maintain liquidity.

PUT OPTION – The sale of an option to another party giving them the right to sell to the Investment Pool a security at a specified price within a specified time period.

RATING – Evaluation of financial institutions' investment and credit risks by professional rating services. The County Treasury utilizes the ratings designations of Moody's, S&P and Fitch.

REGISTERED STATE WARRANT – A short-term obligation of a state governmental body issued in anticipation of revenue.

REGULAR WAY DELIVERY - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

REINVESTMENT RISK - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (REPO) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

SAFEKEEPING – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECURITIES AND EXCHANGE COMMISSION (SEC) – Agency created by Congress to protect investors in securities transactions by administering securities laws. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against malpractice in the securities market.

SECURITIES LENDING – A transaction wherein the Investment Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SERIAL BOND - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SHORT-TERM – A security with a maturity one year or less.

STANDARD AND POOR'S CORPORATION (S&P) – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

SWAP - Trading one asset for another.

TOTAL RETURN - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

TREASURY BILLS - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

TREASURY NOTES - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

TREASURY BONDS - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

VOLATILITY - A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

YIELD-TO-CALL (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. **Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

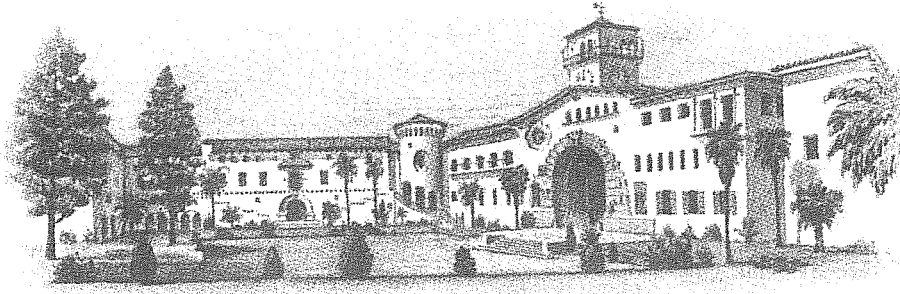
YIELD-TO-MATURITY - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

ZERO-COUPON SECURITIES - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

COUNTY OF SANTA BARBARA

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

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



County Administration Bldg.
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

INDEPENDENT AUDITOR'S REPORT Santa Barbara County Investment Funds Report

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

We have reviewed the Santa Barbara County Investment Funds Report relative to the amount and type of assets controlled by the County Treasurer as of December 31, 2006, 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 report is the representation of the County Treasurer's management.

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 financial statements 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 accompanying Investment Funds Report in order for it to be in conformity with generally accepted accounting principles.

Robert W. Geis, CPA
January 25, 2007