



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

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

Department Name: Auditor-Controller
Department No.: 061
For Agenda Of: 11/18/2008
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Robert W. Geis, CPA, Auditor-Controller, 568-2100
Director(s)
Contact Info: Heather Harkless, CPA, Audit Manager, 568-2456;
Christie Eddinger, CPA, Audit Supervisor, 568-2121

SUBJECT: Auditor's Report on the Statement of Assets of the Santa Barbara County
Treasurer – As of September 30, 2008

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

As to form: No

Recommended Actions:

That the Board of Supervisors:

Receive and file the Auditor-Controller's Report on the Statement of Assets (the Statement) of the Santa Barbara County Treasurer, as of September 30, 2008.

Summary Text:

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

Background:

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

The goals of the Treasurer's Investment Policy are safety, liquidity, and yield, in that order. Types of securities in which the Treasurer may invest include U.S. Treasury and U.S. Government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers'

Auditor-Controller Concurrence

As to form: Yes

acceptances; commercial paper; corporate bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; State of California Local Agency Investment Fund (LAIF); and the Investment Trust of California (CalTRUST).

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

We have reviewed the Statement relative to the amount and type of assets controlled by the County Treasurer, as of September 30, 2008, and have issued our report thereon dated November 6, 2008. All information included in the Statement is the representation of the management of the County Treasurer. A review consists principally of inquiries of Treasury personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Statement taken as a whole. Accordingly, we do not express such an opinion.

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

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

Background:

Performance Measure:

Fiscal and Facilities Impacts: None

Budgeted: N/A

Fiscal Analysis: N/A

Staffing Impacts:

Legal Positions:

N/A

FTEs:

N/A

Special Instructions:

None

Attachments:

Auditor's Report

Statement of Assets – As of September 30, 2008, with accompanying notes

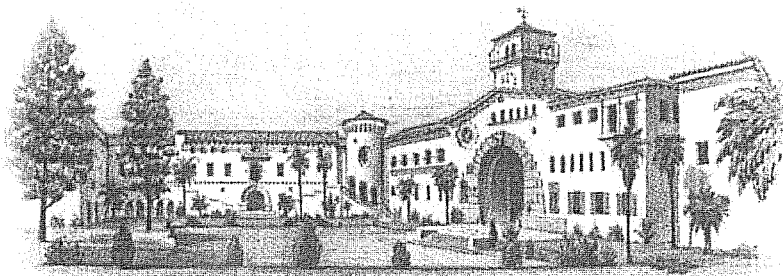
Authored by: Christie Eddinger, Audit Supervisor

cc: Bernice James, Treasurer-Tax Collector

COUNTY OF SANTA BARBARA

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

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



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

Auditor@co.santa-barbara.ca.us

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

OFFICE OF THE AUDITOR-CONTROLLER

AUDITOR'S REPORT

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

Pursuant to Government Code §26920(a), we have reviewed the Statement of Assets (the Statement) of the Santa Barbara County Treasurer as of September 30, 2008, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in the Statement is the representation of the management of the County Treasurer.

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

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

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

Robert W. Geis, CPA

November 6, 2008

**Santa Barbara County Treasury Pool
Statement of Assets
As of September 30, 2008**

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 9/30/2008	Fair Value 6/30/2008	Net Change
Cash on Hand	\$ 4,000	-	-	\$ 4,000	\$ 4,000	-
Bank Deposits	31,824,779	-	-	31,824,779	25,706,507	6,118,272
Total Cash	31,828,779	-	-	31,828,779	25,710,507	6,118,272
Outstanding Purchase Interest:						
Treasurer's Pool Outstanding Purchase Interest	66,007	-	-	66,007	129,832	(63,825)
Total Outstanding Purchase Interest	66,007	-	-	66,007	129,832	(63,825)
Treasurer's Pooled Investments:						
Local Agency Investment Fund (LAIF)	40,000,000	-	-	40,000,000	40,000,000	-
Commercial Paper	122,936,132	273,506	(12,510)	123,197,128	171,589,939	(48,392,811)
Corporate Notes	132,445,679	55,450	(3,224,556)	129,276,573	150,068,941	(20,792,368)
Negotiable Certificates of Deposit	34,000,000	-	(132,875)	33,867,125	18,500,000	15,367,125
Government Agency Bonds and Notes	341,567,316	648,321	(634,783)	341,580,854	410,633,958	(69,053,104)
Total Treasurer's Pooled Investments	670,949,127	977,277	(4,004,724)	667,921,680	790,792,838	(122,871,158)
Directed Investments:						
Government Agency Bonds	1,906,288	37,875	-	1,944,163	1,944,600	(437)
Total Directed Investments	1,906,288	37,875	-	1,944,163	1,944,600	(437)
Total Pooled and Directed Investments (Including Purchase Interest)	672,921,422	1,015,152	(4,004,724)	669,931,850	792,867,270	(122,935,420)
Investments Held with Fiscal Agents:						
Cash Equivalents	14,298,149	-	-	14,298,149	27,361,137	(13,062,988)
Government Agency Bonds and Notes	17,795,172	211,412	(5,964)	18,000,620	6,885,439	11,115,181
Total Investments Held with Fiscal Agents	32,093,321	211,412	(5,964)	32,298,769	34,246,576	(1,947,807)
Total Investments and Purchase Interest	705,014,743	1,226,564	(4,010,688)	702,230,619	827,113,846	(124,883,227)
Total Cash, Investments, and Outstanding Purchase Interest	\$ 736,843,522	\$ 1,226,564	\$ (4,010,688)	\$ 734,059,398	\$ 852,824,353	\$ (118,764,955)

The accompanying notes are an integral part of this statement.

Santa Barbara County Treasury Pool
Notes to the Statement of Assets

Summary of Significant Accounting Policies

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

Investments held by the County Treasurer are stated at fair value. The fair value of investments is established quarterly based on quoted market prices received from the securities custodian. Fair value of investments held fluctuates with interest rates. The fair value of participants' position in the pool is the same as the value of the pool shares. The value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. The total percentage share of the County's investment pool that relates to external involuntary participants is 64% as of September 30, 2008.

The Treasurer participates in the State of California Local Agency Investment Fund (LAIF). Investments in the LAIF are governed by State statutes and overseen by a five member Local Investment Advisory Board. The fair value of the County's position in the LAIF may be greater or less than the value of the shares as the State uses the amortized cost method to value investments. The difference between the fair value and the amortized cost was not material, and as such, no adjustment was made to the Statement of Assets.

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

The County has not provided nor obtained any legally binding guarantees during the quarter ended September 30, 2008 to support the value of shares in the Treasurer's investment pool.

Deposits

Custodial Credit Risk

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that of the total bank balance, \$100,000 is insured by Federal depository insurance. The remaining \$31,724,779 on deposit is uninsured and collateralized with securities held by the pledging financial institution but not in the County's name. Per Government Code section 53652, the depository is required to maintain a market value of at least 110% of the pledged collateral. At September 30, 2008 the value of pledged collateral was 145%.

At September 30, 2008, the carrying amount of the County's deposits was \$31,824,779 and the corresponding bank balance was \$31,593,004. The difference of \$231,775 was principally due to deposits in transit.

Investments

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

The policy provides the basis for the management of a prudent, conservative investment program. Public funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the California Government Code and, in general, the Treasurer's policy is more restrictive than state law. Types of securities in which the Treasurer may invest include U.S. Treasury and U.S. Government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; the State of California Local Agency Investment Fund (LAIF); and the Investment Trust of California (CalTRUST).

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Treasurer mitigates these risks by holding a diversified portfolio of high quality investments. The policy sets specific parameters by type of investment for credit quality, maturity length, and maximum percentage investment. For securities issued and fully guaranteed as to payment by an agency, or government sponsored enterprise of the U.S. Government the issuer shall be rated AAA by at least two of the three major rating services of Fitch Ratings, Moody's and Standard & Poor's (S&P). Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services at a minimum of F1 by Fitch, P-1 by Moody's and A-1 by S&P. Corporate bonds and notes shall be rated AA by at least two of the three major rating services of Fitch, Moody's and S&P if maturity is greater than three years and AA- if maturity is three years or less.

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at September 30, 2008.

	<u>Credit Ratings</u>	<u>% of Portfolio</u>
Treasurer's Pooled Investments:		
LAIF	Unrated	5.99%
Commercial Paper	A-1, P-1, F1	12.95%
Commercial Paper	A-1, P-1, Unrated	3.13%
Commercial Paper	A-1, P-2, F1	0.60%
Commercial Paper	A-2, P-1, F1	1.77%
Corporate Notes	A1, BBB-	2.42%
Corporate Notes	Aa, AA	8.33%
Corporate Notes*	Aa, AA-	0.73%
Corporate Notes	Aa1, AA+	0.73%
Corporate Notes	Aaa, AAA	7.14%
Negotiable Certificates of Deposit	A-1, P-1, F1	5.07%
Government Agency Bonds and Notes	Aaa, AAA	51.14%
Total Treasurer's Pooled Investments		100.00%
Directed Investments:		
Government Agency Bonds	Aaa, AAA	100.00%
Investments Held with Fiscal Agents:		
Cash Equivalents	Aaa, AAA	44.27%
Government Agency Bonds and Notes	Aaa, AAA	55.73%
		100.00%

* Maturity date is less than three years

At the time of purchase, the Treasurer's Investment Policy dictates that no more than 5% of the Treasurer's pooled investments may be invested in the securities of any single issuer. Securities issued by the U.S. Government, its agencies, and sponsored enterprises, are not subject to this limitation.

As of the quarter ended September 30, 2008, percentage holdings were as follows:

<u>Issuer</u>	<u>Issuer Type</u>	<u>Fair Value Holdings</u>	<u>Percentage Holdings</u>
Treasurer's Pooled Investments:			
Union Bank of California *	Corporation	\$ 33,867,125	5.07%
General Electric Capital Corporation *	Corporation	\$ 37,662,177	5.64%
Federal Farm Credit Bank	Government Sponsored	\$ 40,300,870	6.03%
Federal Home Loan Bank	Government Sponsored	\$ 117,240,450	17.55%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 74,621,732	11.17%
Federal National Mortgage Association	Government Sponsored	\$ 109,417,802	16.38%
Directed Investments:			
Federal National Mortgage Association	Government Sponsored	\$ 1,944,600	100.00%
Investments Held with Fiscal Agents:			
Federated Automated Govt. Cash Reserves	Corporation	\$ 5,267,470	16.31%
First American Treasury Fund	Mutual Fund	\$ 9,030,679	27.96%
Federal Home Loan Bank	Government Sponsored	\$ 1,634,540	5.06%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 2,249,440	6.96%
Federal National Mortgage Association	Government Sponsored	\$ 14,116,641	43.71%

* Holdings in issuer were less than 5% at the time of purchase

Custodial Credit Risk

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

Interest Rate Risk

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

The following is a summary of the weighted average days to maturity by investment type at September 30, 2008.

Treasurer's Pooled Investments:	<u>Weighted Average Days to Maturity</u>
LAIF	On Demand
Commercial Paper	33
Corporate Notes	540
Negotiable Certificates of Deposit	140
Government Agency Bonds and Notes	1113
Investment Pool Average	686
 Directed Investments:	
Government Agency Bonds	940
 Investments Held with Fiscal Agents:	
Cash Equivalents	On Demand
Government Agency Bonds and Notes	299

The weighted average days to maturity for the underlying securities held in the LAIF and cash equivalents pools presented above are 262 and 27, respectively.

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

Treasurer's Pooled Investments:	<u>% of Portfolio</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>
LAIF	5.99%	2.77%	On Demand
Commercial Paper*	18.44%	2.55%-4.00%	10/08-1/09
Corporate Notes	19.36%	2.85%-7.38%	10/08-9/12
Negotiable Certificates of Deposit	5.07%	3.07%-3.70%	1/09-5/09
Government Agency Discount Notes*	8.17%	Discount	12/08-9/09
Government Agency Bonds	42.97%	2.45%-5.40%	6/09-5/13
 Directed Investments:			
Government Agency Bonds	100%	4.13%-7.13%	6/10-7/11
 Investments Held with Fiscal Agents:			
Cash Equivalents	44.27%	.41%-1.91%	On Demand
Government Agency Discount Notes*	22.72%	Discount	11/08
Government Agency Bonds	33.01%	3.00%-4.75%	1/11-5/13

*Commercial paper and discount notes are purchased at a discount. The difference between maturity value and principal paid is earnings apportioned to the investment pool.

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

Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily cash balance. Unrealized gains and losses are also apportioned quarterly to participating funds based upon the fund's ending cash balance. Interest and net investment income consisted of the following for the quarter ended September 30, 2008:

	<u>Pool</u>	<u>Directed</u>	<u>Total</u>
Interest Income	\$ 5,202,593	\$ 22,753	\$ 5,225,346
Realized Gain	1,578,704	226	1,578,930
Administration & Audit Fees	(350,273)	(1,187)	(351,460)
Securities Lending	2,533	9	2,542
Miscellaneous Adjustments	(2,340)	-	(2,340)
Total Net Investment Income	<u>\$ 6,431,217</u>	<u>\$ 21,801</u>	<u>\$ 6,453,018</u>

The Treasurer purchases securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered gain rather than interest. Interest earnings for the quarter amounted to \$5,225,346. The net realized gain on investments sold or matured during the quarter was \$1,578,930. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s).

Restricted Cash

Cash and investments that are restricted by legal or contractual requirements amounted to \$39,929,156 at September 30, 2008.

Securities Lending

The Santa Barbara County Treasurer's Pool is authorized by state statute and the Treasurer's Investment Policy to lend its investment security holdings. The securities lending program is managed by Union Bank (the Bank) which also serves as the Treasurer's custodial bank. The County Treasurer or the Bank may terminate the agreement to lend securities, without penalty, upon seven days notice.

Under GASB 28, *Accounting and Financial Reporting for Securities Lending Transactions*, cash received as collateral on securities lending transactions and investments made with that cash should be reported as assets. Liabilities resulting from these securities lending transactions also should be reported in the balance sheet. The total amount of cash collateral received by the Treasurer at September 30, 2008 amounted to \$8,665,560.

The Bank may lend securities only to eligible borrowers, as defined by the Treasurer. The term for each lending transaction is limited to a maximum of seven days. The Bank and its affiliates are not eligible borrowers. Cash collateral equaling 102% of the total value of the loaned securities is required. The Bank invests cash collateral on behalf of the County in permitted investments. Collateral is marked to market as is reasonable, and the Bank has the right to demand additional collateral as necessary. Such collateral received by the Bank is held separate and apart from the Bank's own funds and securities. Securities lending transactions are restricted to 20% of the base value of the portfolio.

The securities lent remain in the Treasurer's Statement of Assets as the County retains the risks and rewards of changes in the value of the underlying securities during the term of the loan, has a contractual right to the income distributions, and retains the right to sell the securities. The term to maturity of securities loans is generally matched with the maturity date of the term loan. All securities lending investments as of September 30, 2008 are overnight investments with next day maturities.

The collateral received by the Treasurer exceeds the amount on loan. Collateral is held in trust with a custodial bank different from the County's primary bank. Collateral is not held in broker accounts. Accordingly, the Treasurer is not exposed to custodial credit risk.

Securities lending balances at September 30, 2008 are as follows:

<u>Securities Lent</u>	<u>Underlying Securities</u>	<u>Securities Collateral Value</u>
Lent for securities collateral:		
Corporate notes	\$ 8,452,000	\$ 8,665,560

There are no provisions for agent indemnification of the securities lending transactions. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior-period losses during the quarter. There are no income distributions owing on the securities lent.

Condensed Financial Statement

The following represents a condensed statement of assets and changes in assets for the Treasurer's investment pool as of September 30, 2008:

	<u>9/30/2008</u>	<u>6/30/2008</u>	<u>Net Change</u>
Assets Held for Pool	\$ 699,816,466	\$ 816,633,177	\$ (116,816,711)
Equity of Internal Pool Participants	\$ 298,474,453	\$ 331,319,010	\$ (32,844,557)
Equity of External Pool Participants	401,276,006	485,184,335	(83,908,329)
Outstanding Purchase Interest	66,007	129,832	(63,825)
Total Equity	<u>\$ 699,816,466</u>	<u>\$ 816,633,177</u>	<u>\$ (116,816,711)</u>