

**Santa Barbara County Treasury
Statement of Assets
As of June 30, 2011**

| Asset Description | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value 6/30/2011 | Fair Value 6/30/2010 | Net Change |
|---|-----------------------|--------------------------------------|---------------------------------------|-------------------------|-------------------------|----------------------|
| Cash on Hand | \$ 4,000 | \$ - | \$ - | \$ 4,000 | \$ 4,000 | \$ - |
| Bank Deposits | 139,999,868 | - | - | 139,999,868 | 105,782,049 | 34,217,819 |
| Total Cash | 140,003,868 | - | - | 140,003,868 | 105,786,049 | 34,217,819 |
| Treasurer's Pooled Investments: | | | | | | |
| Local Agency Investment Fund (LAIF) | 50,000,000 | - | - | 50,000,000 | 50,000,000 | - |
| California Asset Management Program (CAMP) | 60,000,000 | - | - | 60,000,000 | - | 60,000,000 |
| U.S. Treasury Bills | - | - | - | - | 47,968,520 | (47,968,520) |
| Negotiable Certificates of Deposit | - | - | - | - | 53,453,125 | (53,453,125) |
| Commercial Paper | - | - | - | - | 93,932,730 | (93,932,730) |
| Medium Term Notes: TLGP ¹ | 4,999,000 | 63,300 | - | 5,062,300 | 10,198,400 | (5,136,100) |
| Medium Term Notes | 20,098,800 | 249,850 | - | 20,348,650 | 46,214,743 | (25,866,093) |
| Government Agency Bonds | 70,915,950 | 1,628,553 | - | 72,544,503 | 83,297,740 | (10,753,237) |
| Government Agency Bonds - Callable | 364,974,618 | 535,598 | (555,908) | 364,954,308 | 206,725,830 | 158,228,478 |
| Government Agency Discount Notes | 215,308,799 | 69,389 | - | 215,378,188 | 183,639,758 | 31,738,430 |
| Total Treasurer's Pooled Investments | 786,297,167 | 2,546,690 | (555,908) | 788,287,949 | 775,430,846 | 12,857,103 |
| Total Treasurer's Pool Cash and Investments | 926,301,035 | 2,546,690 | (555,908) | 928,291,817 | 881,216,895 | 47,074,922 |
| Treasurer's Pool Outstanding Purchase Interest | 1,635 | - | - | 1,635 | 46,747 | (45,112) |
| Investments Held with Fiscal Agents: | | | | | | |
| Local Agency Investments Fund (LAIF) | - | - | - | - | 1,007,707 | (1,007,707) |
| Money Market | 18,014,566 | - | - | 18,014,566 | 16,418,505 | 1,596,061 |
| Commercial Paper | - | - | - | - | 10,290,687 | (10,290,687) |
| Government Agency Bonds and Notes | 4,635,564 | 66,196 | - | 4,701,760 | 11,374,023 | (6,672,263) |
| Total Investments Held with Fiscal Agents | 22,650,130 | 66,196 | - | 22,716,326 | 39,090,922 | (16,374,596) |
| Total Cash, Investments, and Outstanding Purchase Interest | \$ 948,952,800 | \$ 2,612,886 | \$ (555,908) | \$ 951,009,778 | \$ 920,354,564 | \$ 30,655,214 |

¹Temporary Liquidity Guarantee Program

The accompanying notes are an integral part of this statement.

Santa Barbara County Treasury
Notes to the Statement of Assets
6/30/2011

Summary of Significant Accounting Policies

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

Investments are stated at fair value. Fair value is established quarterly based on quoted market prices received from the securities custodian. Fair value of investments held fluctuates with interest rates. The fair value of participants' position in the Pool is the same as the value of the Pool shares. The value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. The total percentage share of the Pool that relates to external involuntary participants is 56% as of June 30, 2011.

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

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

The Treasurer has not provided nor obtained any legally binding guarantees during the year ended June 30, 2011 to support the value of shares in the Pool.

Deposits

Custodial Credit Risk

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

At June 30, 2011, the carrying amount of the Pool's deposits was \$139,999,868 and the corresponding bank balance was \$135,373,145. The difference of \$4,626,723 was principally due to deposits in transit.

Investments

Pursuant to Section 53646 of the Government Code the County Treasurer prepares an *Investment Policy Statement* annually, 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 Investment Policy Statement provides the basis for the management of a prudent, conservative investment program. Public funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the Government Code and, in general, the Treasurer's Investment Policy is more restrictive than state law. Types of securities in which the Treasurer may invest include U.S. Treasury and U.S. Government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; the State of California Local Agency Investment Fund (LAIF); and the investment pools managed by a Joint Powers Authority.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Treasurer mitigates these risks by holding a diversified portfolio of high quality investments.

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

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at June 30, 2011 (NR means Not Rated):

| | <u>Moody's</u> | <u>S&P</u> | <u>Fitch</u> | <u>% of Portfolio</u> |
|---|----------------|----------------|--------------|-----------------------|
| Treasurer's Pooled Investments: | | | | |
| LAIF | NR | NR | NR | 6.34% |
| CAMP | NR | AAAm | NR | 7.61% |
| Corporate Notes: TLGP | Aaa | AAA | AAA | 0.64% |
| Corporate Notes | AA2 | AA+ | NR | 0.63% |
| Corporate Notes | A1 | AA- | AA- | 1.95% |
| Government Agency Bonds and Notes | Aaa | AAA | AAA | 60.95% |
| Government Agency Bonds and Notes | Aaa | AAA | NR | 21.88% |
| Total Treasurer's Pooled Investments | | | | 100.00% |
| Investments Held with Fiscal Agents: | | | | |
| Money Market | P-1 | A-1+ | F1+ | 79.30% |
| Government Agency Bonds and Notes | Aaa | AAA | NR | 20.70% |
| | | | | 100.00% |

Instruments in any one issuer that represent 5% or more of the County's investments as of June 30, 2011 are as follows: (excluding external investment pools and debt explicitly guaranteed by the U.S. government)

| <u>Issuer</u> | <u>Issuer Type</u> | <u>Fair Value Holdings</u> | <u>Percentage Holdings</u> |
|---|----------------------|----------------------------|----------------------------|
| Treasurer's Pooled Investments: | | | |
| Federal Home Loan Mortgage Corporation | Government Sponsored | \$ 74,981,950 | 9.51% |
| Federal Home Loan Bank | Government Sponsored | \$ 187,460,711 | 23.78% |
| Federal Farm Credit Bank | Government Sponsored | \$ 194,204,707 | 24.64% |
| Federal National Mortgage Association | Government Sponsored | \$ 196,229,631 | 24.89% |
| Investments Held with Fiscal Agents: | | | |
| Federal Home Loan Bank | Government Sponsored | \$ 4,701,760 | 20.70% |

Custodial Credit Risk

Custodial credit risk for investments is the risk that the Pool will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the Pool are deposited in trust for safekeeping with a custodial bank different from the 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 Pool mitigates this risk by making longer-term investments only with funds that are not needed for current cash flow purposes and holding these securities to maturity. The maturity of investments purchased is governed by a demand for funds analysis of prior periods' revenues and expenditures, and is also determined by current cash flow demands assessed on an ongoing basis. The Treasurer's Investment Policy also dictates that the final maturity date of any individual security shall not exceed five years and that long-short term investments (greater than one year), in the aggregate, shall not exceed 75% of the portfolio.

The following is a summary of the weighted average days to maturity by investment type at June 30, 2011.

| Treasurer's Pooled Investments: | <u>Weighted Average Days to Maturity</u> |
|---|--|
| LAIF | On Demand |
| CAMP | On Demand |
| Corporate Notes: TLGP | 161 |
| Corporate Notes | 176 |
| Government Agency Bonds and Notes | 746 |
| Investment Pool Average | 623 |
| Investments Held with Fiscal Agents: | |
| Government Agency Bonds and Notes | 592 |

The weighted average days to maturity of the underlying securities held in the LAIF and CAMP pools presented above are 237 and 52. For purposes of the weighted average maturity calculation, the County assumes that all of its investments will be held to maturity.

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

| Treasurer's Pooled Investments: | Principal | Fair Value | Interest Rate Range | Maturity Range |
|---|------------------|-------------------|----------------------------|-----------------------|
| LAIF | \$ 50,000,000 | \$ 50,000,000 | 0.48% | On Demand |
| CAMP | \$ 60,000,000 | \$ 60,000,000 | 0.10% | On Demand |
| Corporate Notes: TLGP | \$ 5,000,000 | \$ 5,062,300 | 3.00% | 12/11 |
| Corporate Notes | \$ 20,000,000 | \$ 20,348,650 | 0.44%-5.50% | 8/11-8/12 |
| Government Agency Discount Notes* | \$ 215,406,000 | \$ 215,378,188 | Discount | 7/11-2/12 |
| Government Agency Bonds and Notes | \$ 435,985,000 | \$ 437,498,811 | .50%-4.82% | 12/11-6/16 |
| Investments Held with Fiscal Agents: | | | | |
| Money Market | \$ 18,014,566 | \$ 18,014,566 | 0.00%-0.11% | On Demand |
| Government Agency Discount Notes* | \$ 3,207,808 | \$ 3,207,133 | Discount | 11/11 |
| Government Agency Bonds and Notes | \$ 1,490,000 | \$ 1,494,627 | 1.25% | 10/15 |

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

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

At June 30, 2011, \$44,945,600 or 4.84% of the Treasurer's Pooled Investments was held in U.S. agency step-up notes. These securities grant the issuer the option to call the note on a certain specified date(s). On a certain date, or dates, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note.

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

Interest and net investment income consisted of the following for the fiscal year ended June 30, 2011:

| | |
|------------------------------------|---------------------|
| Interest Income | \$ 8,995,262 |
| Realized Gain | 1,338,206 |
| Administration & Audit Fees | (1,766,791) |
| Miscellaneous Adjustments | (3,495) |
| Total Net Investment Income | \$ 8,563,182 |

At June 30, 2011, interest accrued on investments amounted to \$1,763,914.

The Treasurer may purchase securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered gain rather than interest. 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).

County Restricted Cash

County cash and investments that are restricted by legal or contractual requirements amounted to \$52,450,455 as of June 30, 2011.

Condensed Financial Statement

The following represents a condensed statement of assets and changes in assets for the Pool as of June 30, 2011:

| | <u>6/30/2011</u> | <u>6/30/2010</u> | <u>Net Change</u> |
|--------------------------------------|------------------------------|------------------------------|-----------------------------|
| Assets Held for Pool | <u>\$ 928,293,452</u> | <u>\$ 881,263,642</u> | <u>\$ 47,029,810</u> |
| Equity of Internal Pool Participants | \$ 365,056,410 | \$ 345,174,599 | \$ 19,881,811 |
| Equity of External Pool Participants | 563,235,407 | 536,042,296 | 27,193,111 |
| Outstanding Purchase Interest | 1,635 | 46,747 | (45,112) |
| Total Equity | <u>\$ 928,293,452</u> | <u>\$ 881,263,642</u> | <u>\$ 47,029,810</u> |

Subsequent Events

On approximately August 2, 2011, the U.S. may exceed its borrowing capacity unless the debt limit is raised. Failure to raise the debt limit may result in a ratings downgrade and increased credit risk for U.S. Treasuries and related government agency bond and notes. An increase in credit risk of U.S. government investments may reduce the variety of investment options for the Pool. Current government investments are expected to be held until maturity.

On July 15, 2011, Standard and Poor's placed the Pool's AAAs/S1 credit rating on "CreditWatch" negative. A "CreditWatch" outlook signifies that events or circumstances occurred that may affect a credit rating in the near term, usually within 90 days.