



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: 8/18/2009
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

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

SUBJECT: Auditor's Reports on the Treasurer's Statement of Assets and the Treasurer's compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 of the California Government Code.

County Counsel Concurrence

As to form: N/A

Other Concurrence: N/A

As to form: No

Recommended Actions:

That the Board of Supervisors:

1. Receive and file the Auditor-Controller's Audit Reports on the Statement of Assets in the Santa Barbara County Treasury Pool, as of June 30, 2009.
2. Receive and file the Auditor-Controller's Audit Report on the Treasurer's Compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 of the California Government Code for the fiscal years ended June 30, 2008 and June 30, 2009.

Summary Text:

The Audit Reports are being submitted pursuant to California Government Code Sections 26920, 27134, 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' 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.

As disclosed in the Board Letter accompanying the report on the Treasurer's Investment Pool, pursuant to Government Code Section 53646(b) there were two issues that occurred during the fiscal year ended June 30, 2009 which resulted in investment holdings outside of the authorized investments included in the Treasurer's Investment Policy:

1. After the purchase of the securities two issuers were downgraded to credit rating requirements below the requirements set forth in the Treasurer's Investment Policy. Both issuers retained investment grade ratings and met the State legal requirements for investment of public funds.
2. Under the Treasurer's Investment Policy for investment of public funds commercial paper may not exceed 5% for any one issuer at the time of purchase. On September 29, 2008, commercial paper was purchased that resulted in the pool holdings exceeding more than 5% in the issuer HSBC. The total book value of the holdings for HSBC on September 29, 2008 amounted to \$41,051,035 or 5.7% of the total pool.

We have audited the Statement of Assets (the statement) of the Santa Barbara County Treasurer as of and for the year then ended June 30, 2009 and have issued our reports thereon dated August 6, 2009. All information included in the statement is the representation of the management of the County Treasurer. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion the statement referred to above presents fairly, in all material respects, the assets controlled by the County Treasurer as of June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also issued reports dated August 6, 2009 on our consideration of the Treasurer's internal control over financial reporting and our tests of compliance with certain provisions of laws and regulations including a report on the Treasurer's compliance with California Government Code Sections 27130-27137. Our report on the Treasurer's compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 applies to fiscal years ended June 30, 2008 and June 30, 2009.

In planning and performing our audit on the statement, we considered the Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statement, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance required to be reported under Government Auditing Standards.

We also examined the Treasurer's compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 of the California Government Code for the fiscal years ending June 30, 2008 and June 30, 2009. In our opinion the Treasurer is in compliance, in all material respects, with the provisions contained in Sections 27130-27137 of the Government Code for the fiscal years audited.

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

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Statement of Assets Performed in Accordance with Government Auditing Standards

Auditor's Report on Compliance; Santa Barbara County Treasury Pool; Treasurer's Oversight Committee

Statement of Assets – As of June 30, 2009, with accompanying notes

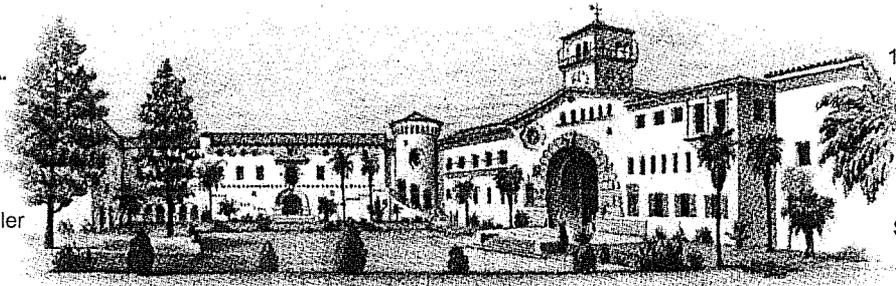
Authored by: Heather Harkless, Audit Manager

cc: Bernice James, Treasurer-Tax Collector

County of Santa Barbara

Robert W. Geis, C.P.A.
Auditor-Controller

Theo Fallati, C.P.A.
Assistant Auditor-Controller



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Office of the Auditor-Controller

AUDITOR'S REPORT

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

Pursuant to Government Code §26920(b) and §26922, we have audited the accompanying *Statement of Assets* (the statement) of the Santa Barbara County Treasurer as of and for the year then ended June 30, 2009. This statement is the responsibility of the County Treasurer's management. Our responsibility is to express an opinion on the statement based on our audit. The prior year's comparative information has been derived from the Santa Barbara County Treasurer's 2008 statement and, in our report dated August 8, 2008 we expressed an unqualified opinion on that statement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 being audited. 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 audited.

In our opinion, the statement referred to above presents fairly, in all material respects, the assets controlled by the County Treasurer as of June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 6, 2009 on our consideration of the Treasurer's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

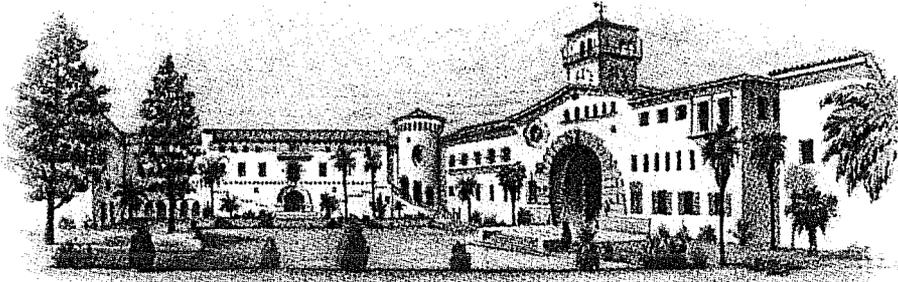
A handwritten signature in cursive script, appearing to read "Robert W. Geis".

Robert W. Geis, CPA

August 6, 2009

County of Santa Barbara

Robert W. Geis, C.P.A.
Auditor-Controller



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Office of the Auditor-Controller

AUDITOR'S REPORT ON COMPLIANCE SANTA BARBARA COUNTY TREASURY POOL TREASURER'S OVERSIGHT COMMITTEE

To the Santa Barbara County Treasurer Oversight Committee and the Honorable Santa Barbara County Board of Supervisors:

We have examined the Santa Barbara County Treasurer's compliance with the Treasury Oversight Committee provisions contained in §27130-27137 of the California Government Code for the fiscal years ended June 30, 2008 and June 30, 2009. Treasury's management is responsible for the compliance with those requirements. Our responsibility is to express an opinion on the Santa Barbara County Treasurer's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Treasury management's compliance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on compliance with specified requirements.

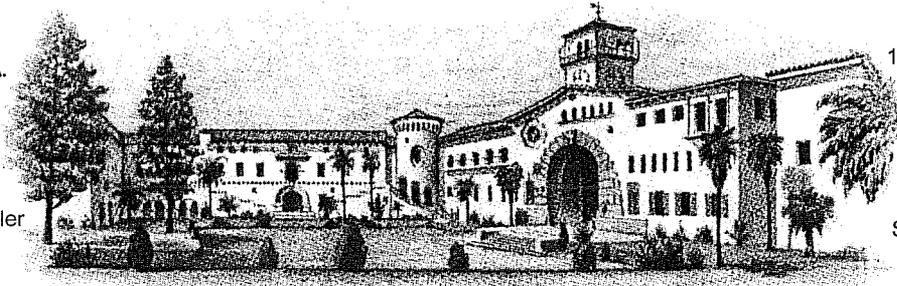
In our opinion the Santa Barbara County Treasurer is in compliance, in all material respects, with the provisions contained in §27130-27137 of the Government Code for the fiscal years ending June 30, 2008 and June 30, 2009.

Robert W. Geis, CPA
August 6, 2009

County of Santa Barbara

Robert W. Geis, C.P.A.
Auditor-Controller

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Office of the Auditor-Controller

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE STATEMENT OF ASSETS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

Pursuant to Government Code §26920(b) and §26922, we have audited the accompanying *Statement of Assets* (the statement) of the Santa Barbara County Treasurer as of and for the year then ended June 30, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Treasurer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the statement, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Treasurer's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the statement that is more than inconsequential will not be prevented or detected by the Treasurer's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the statement will not be prevented or detected by the Treasurer's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to Treasury management in a separate letter dated August 6, 2009.

This report is intended solely for the information and use of management, the Board of Directors, and the Treasury Oversight Committee. However, this letter is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "Robert W. Geis".

Robert W. Geis, CPA

August 6, 2009

Santa Barbara County Treasury Pool

Statement of Assets

As of June 30, 2009

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 6/30/2009	Fair Value 6/30/2008	Net Change
Cash on Hand	\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 4,000	\$ -
Bank Deposits	41,336,412	-	-	41,336,412	25,706,507	15,629,905
Total Cash	41,340,412	-	-	41,340,412	25,710,507	15,629,905
Outstanding Purchase Interest:						
Treasurer's Pool Outstanding Purchase Interest	17,308	-	-	17,308	129,832	(112,524)
Total Outstanding Purchase Interest	17,308	-	-	17,308	129,832	(112,524)
Treasurer's Pooled Investments:						
Local Agency Investment Fund (LAIF)	34,000,000	-	-	34,000,000	40,000,000	(6,000,000)
Treasury Bills	5,986,878	11,983	-	5,998,861	-	5,998,861
Commercial Paper	76,541,036	143,282	(3,617)	76,680,701	171,589,939	(94,909,238)
Corporate Notes: TLGP ¹	9,995,600	219,250	-	10,214,850	-	10,214,850
Corporate Notes	108,362,593	1,767,951	(823,420)	109,307,124	150,068,941	(40,761,817)
Negotiable Certificates of Deposit	79,000,000	190,230	-	79,190,230	18,500,000	60,690,230
Government Agency Bonds and Notes	475,035,559	5,520,359	(84,700)	480,471,218	410,633,958	69,837,260
Total Treasurer's Pooled Investments	788,921,666	7,853,055	(911,737)	795,862,984	790,792,838	5,070,146
Directed Investments:						
Government Agency Bonds	399,580	27,923	-	427,503	1,944,600	(1,517,097)
Total Directed Investments	399,580	27,923	-	427,503	1,944,600	(1,517,097)
Total Pooled and Directed Investments (Including Purchase Interest)	789,338,554	7,880,978	(911,737)	796,307,795	792,867,270	3,440,525
Investments Held with Fiscal Agents:						
Money Market	6,159,121	-	-	6,159,121	27,361,137	(21,202,016)
Treasury Bills	2,369,041	20	-	2,369,061	-	2,369,061
Government Agency Bonds and Notes	13,660,659	241,567	(17,878)	13,884,348	6,885,439	6,998,909
Total Investments Held with Fiscal Agents	22,188,821	241,587	(17,878)	22,412,530	34,246,576	(11,834,046)
Total Investments and Purchase Interest	811,527,375	8,122,565	(929,615)	818,720,325	827,113,846	(8,393,521)
Total Cash, Investments, and Outstanding Purchase Interest	\$ 852,867,787	\$ 8,122,565	\$ (929,615)	\$ 860,060,737	\$ 852,824,353	\$ 7,236,384

¹Temporary Liquidity Guarantee Program

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 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 56% as of June 30, 2009.

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 year ended June 30, 2009 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 the County's bank deposits are insured by Federal depository insurance (FDIC).

Effective November 2008, and as a result of the FDIC sponsored Temporary Liquidity Guarantee Program (TLGP), all funds in non-interest bearing transaction deposit accounts held in domestic offices of FDIC insured financial institutions will be fully guaranteed provided the financial institution holding the deposits did not opt out of the TLGP. The County's depository did not opt out of the TLGP. Because the County's deposits are fully collateralized under the TLGP, collateralization under Government Code Section 53652 is waived. When the TLGP program ends December 31, 2009, the County's depository will revert to collateralizing the balance under Government Code Section 53652.

At June 30, 2009, the carrying amount of the County's deposits was \$41,336,412 and the corresponding bank balance was \$38,064,952. The difference of \$3,271,460 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 June 30, 2009.

	<u>Credit Ratings</u>	<u>% of Portfolio</u>
Treasurer's Pooled Investments:		
LAIF	Unrated	4.27%
Treasury Bills	Aaa, AAA	0.75%
Commercial Paper	P-1, A-1, F1	7.07%
Commercial Paper	P-1, A-1	2.57%
Corporate Notes: TLGP	Aaa, AAA	1.28%
Corporate Notes	A2, A, A+	0.62%
Corporate Notes	A3, A, A+	1.25%
Corporate Notes	Aa, AA	0.64%
Corporate Notes	Aa, AA, AA	5.36%
Corporate Notes	Aa1, AA+	1.95%
Corporate Notes	Aaa, AAA	3.92%
Negotiable Certificates of Deposit	P-1, A-1, F1	9.95%
Government Agency Bonds and Notes	Aaa, AAA	42.26%
Government Agency Bonds and Notes	Aaa, AAA, AAA	18.11%
Total Treasurer's Pooled Investments		<u><u>100.00%</u></u>
Directed Investments:		
Government Agency Bonds	Aaa, AAA	<u><u>100.00%</u></u>
Investments Held with Fiscal Agents:		
Money Market	Aaa, AAAM	27.48%
Treasury Bills	Aaa, AAA	10.57%
Government Agency Bonds and Notes	Aaa, AAA	61.95%
		<u><u>100.00%</u></u>

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 June 30, 2009, 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:			
US Bank	Corporation	\$ 49,166,680	6.18%
Federal Home Loan Bank	Government Sponsored	\$ 255,537,597	32.11%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 84,106,050	10.57%
Federal National Mortgage Association	Government Sponsored	\$ 103,290,822	12.98%
Directed Investments:			
Federal National Mortgage Association	Government Sponsored	\$ 427,503	100.00%
Investments Held with Fiscal Agents:			
Federal Home Loan Bank	Government Sponsored	\$ 3,202,355	14.29%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 7,475,882	33.36%
Federal National Mortgage Association	Government Sponsored	\$ 3,206,112	14.30%

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 June 30, 2009.

	<u>Weighted Average Days to Maturity</u>
Treasurer's Pooled Investments:	
LAIF	On Demand
Treasury Bills	44
Commercial Paper	21
Corporate Notes: TLGP	724
Corporate Notes	420
Negotiable Certificates of Deposit	101
Government Agency Bonds and Notes	362
Investment Pool Average	297
Directed Investments:	
Government Agency Bonds	350
Investments Held with Fiscal Agents:	
Money Market	On Demand
Treasury Bills	177
Government Agency Bonds and Notes	692

The weighted average days to maturity for the underlying securities held in the LAIF and money market pools presented above are 235 and 44, respectively.

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

Treasurer's Pooled Investments:	% of Portfolio	Interest Rate Range	Maturity Range
LAIF	4.27%	1.51%	On Demand
Treasury Bills	0.75%	0.44%	8/09
Commercial Paper*	9.64%	0.24%-1.93%	7/09-8/09
Corporate Notes: TLGP	1.28%	1.61%-2.90%	1/11-12/11
Corporate Notes	13.74%	2.82%-7.16%	9/09-9/12
Negotiable Certificates of Deposit	9.95%	0.58%-3.18%	7/09-2/10
Government Agency Discount Notes*	18.39%	Discount	7/09-6/10
Government Agency Bonds and Notes	41.98%	0.56%-4.52%	8/09-6/14
Directed Investments:			
Government Agency Bonds	100%	6.70%	6/10
Investments Held with Fiscal Agents:			
Money Market	27.48%	0.02%	On Demand
Treasury Bills	10.57%	0.34%	12/09
Government Agency Discount Notes*	14.30%	Discount	11/09
Government Agency Bonds and Notes	47.65%	0.56%-4.75%	6/10-5/14

*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.

At June 30, 2009 the Treasurer held floating rate notes that comprised of 2.48% of the Treasurer's Pooled Investments. The notes are tied to the London Interbank Offered Rate (LIBOR) with quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis. There were no floating rate notes in the Directed Investments or Investments Held with Fiscal Agents.

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, 2009:

	Pool	Directed	Total
Interest Income	\$ 16,067,133	\$ 63,293	\$ 16,130,426
Realized Gain	6,290,957	2,263	6,293,220
Administration & Audit Fees	(1,843,899)	(4,955)	(1,848,854)
Securities Lending	4,183	15	4,198
Miscellaneous Adjustments	(4,474)	-	(4,474)
Total Net Investment Income	\$ 20,513,900	\$ 60,616	\$ 20,574,516

The Treasurer may purchase securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered gain rather than interest. Interest earnings for the year amounted to \$16,130,426. The net realized gain on investments sold or matured during the year was \$6,293,220. 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).

Investment Pending Settlement

The Treasurer entered into an agreement to purchase a government agency bond during the year. This investment transaction was pending settlement at June 30, 2009. Per GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are to be accounted for based on trade date rather than settlement date. The trade date is the date on which the transaction occurred and is the date the County is exposed to (or released from) the rights and obligations of the ownership of the instrument. At June 30, 2009, the investment and resulting liability amounted to \$5,000,000.

Restricted Cash

Cash and investments that are restricted by legal or contractual requirements amounted to approximately \$40,172,000 at June 30, 2009.

Securities Lending

As authorized under state statute and the Treasurer's Investment Policy, the County of Santa Barbara participated in securities lending transactions during the fiscal year. The Treasurer suspended the County's securities lending program on October 30, 2008.

For all securities lending transactions that occurred during the fiscal year ended June 30, 2009, the Bank was contracted to lend securities only to eligible borrowers, as defined by the Treasurer. The term for each lending transaction was limited to a maximum of seven days. The Bank and its affiliates were not eligible borrowers. Cash collateral equaling 102% of the total value of the loaned securities was required. The Bank invested cash collateral on behalf of the County in permitted investments. Collateral was marked to market as is reasonable, and the Bank had the right to demand additional collateral as necessary. Such collateral received by the Bank was held separate and apart from the Bank's own funds and securities. Securities lending transactions were restricted to 20% of the base value of the portfolio.

The securities lent remained in the Treasurer's Statement of Assets as the County retained the risks and rewards of changes in the value of the underlying securities during the term of the loan, had a contractual right to the income distributions, and retained the right to sell the securities. The term to maturity of securities loans was matched with the maturity date of the term loan.

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

There were 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.

Condensed Financial Statement

The following represents a condensed statement of assets and changes in assets for the Treasurer's investment pool as of June 30, 2009:

	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>Net Change</u>
Assets Held for Pool	\$ 837,220,704	\$ 816,633,177	\$ 20,587,527
Equity of Internal Pool Participants	\$ 330,949,813	\$ 331,319,010	\$ (369,197)
Equity of External Pool Participants	506,253,583	485,184,335	21,069,248
Outstanding Purchase Interest	17,308	129,832	(112,524)
Total Equity	<u>\$ 837,220,704</u>	<u>\$ 816,633,177</u>	<u>\$ 20,587,527</u>