

Santa Barbara County Treasury Pool Statement of Assets As of September 30, 2009

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 9/30/2009	Fair Value 6/30/2009	Net Change
Cash on Hand	\$ 4,000	-	-	\$ 4,000	\$ 4,000	-
Bank Deposits	33,873,246	-	-	33,873,246	41,336,412	(7,463,166)
Total Cash	33,877,246	-	-	33,877,246	41,340,412	(7,463,166)
Outstanding Purchase Interest:						
Treasurer's Pool Outstanding Purchase Interest	40,426	-	-	40,426	17,308	23,118
Total Outstanding Purchase Interest	40,426	-	-	40,426	17,308	23,118
Treasurer's Pooled Investments:						
Local Agency Investment Fund (LAIF)	40,000,000	-	-	40,000,000	34,000,000	6,000,000
Investment Trust of California (CalTRUST)	40,000,000	-	-	40,000,000	-	40,000,000
U.S. Treasury Bills	19,906,132	57,418	-	19,963,550	5,998,861	13,964,689
Commercial Paper	62,005,496	28,351	-	62,033,847	76,680,701	(14,646,854)
Negotiable Certificates of Deposit	59,000,000	83,770	-	59,083,770	79,190,230	(20,106,460)
Corporate Notes: TLGP ¹	9,995,600	236,200	-	10,231,800	10,214,850	16,950
Corporate Notes	88,522,320	2,136,986	(709,519)	89,949,787	109,307,124	(19,357,337)
Municipal Anticipation Notes	10,113,100	10,800	-	10,123,900	-	10,123,900
Government Agency Bonds and Notes	468,167,994	4,651,074	(42,200)	472,776,868	480,471,218	(7,694,350)
Total Treasurer's Pooled Investments	797,710,642	7,204,599	(751,719)	804,163,522	795,862,984	8,300,538
Directed Investments:						
Government Agency Bonds	399,580	21,515	-	421,095	427,503	(6,408)
Total Directed Investments	399,580	21,515	-	421,095	427,503	(6,408)
Total Pooled and Directed Investments (Including Purchase Interest)	798,150,648	7,226,114	(751,719)	804,625,043	796,307,795	8,317,248
Investments Held with Fiscal Agents:						
Money Market	7,688,884	-	-	7,688,884	6,159,121	1,529,763
Treasury Bills	2,369,041	3,366	-	2,372,407	2,369,061	3,346
Government Agency Bonds and Notes	12,007,317	241,741	(1,469)	12,247,589	13,884,348	(1,636,759)
Total Investments Held with Fiscal Agents	22,065,242	245,107	(1,469)	22,308,880	22,412,530	(103,650)
Total Investments and Purchase Interest	820,215,890	7,471,221	(753,188)	826,933,923	818,720,325	8,213,598
Total Cash, Investments, and Outstanding Purchase Interest	\$ 854,093,136	\$ 7,471,221	\$ (753,188)	\$ 860,811,169	\$ 860,060,737	\$ 750,432

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
September 30, 2009

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 62% as of September 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 County's investment pool holds an AAaf/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 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, 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 the Federal Depository Insurance Corporation (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 September 30, 2009, the carrying amount of the County's deposits was \$33,873,246 and the corresponding bank balance was \$33,183,712. The difference of \$689,534 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 Joint Powers Authority (JPA), 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 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 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, 2009 (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	4.97%
CalTRUST (JPA)	NR	Aaf	NR	2.49%
CalTRUST (JPA)	NR	NR	NR	2.48%
U.S. Treasury Bills	Aaa	AAA	AAA	2.48%
Commercial Paper	P-1	A-1	F1	6.22%
Commercial Paper	P-1	A-2	F1	0.88%
Commercial Paper	P-2	A-1	F1	0.62%
Negotiable Certificates of Deposit	P-1	A-1	F1	7.35%
Corporate Notes: TLGP	Aaa	AAA	NR	0.63%
Corporate Notes: TLGP	Aaa	AAA	AAA	0.64%
Corporate Notes	A1	AA-	AA-	3.88%
Corporate Notes	A2	A	A+	1.26%
Corporate Notes	A2	A+	AA-	0.66%
Corporate Notes	A3	A	A+	0.64%
Corporate Notes	A3	A	AA-	0.87%
Corporate Notes	Aa1	A+	AA-	0.64%
Corporate Notes	Aa1	AA	A+	0.63%
Corporate Notes	Aa2	AA+	NR	1.39%
Corporate Notes	Aa2	AAA	NR	0.60%
Corporate Notes	Aa3	A+	AA-	0.62%
Municipal Anticipation Notes	MIGI 1	SP-1	F2	1.26%
Government Agency Bonds and Notes	Aaa	AAA	NR	27.70%
Government Agency Bonds and Notes	Aaa	AAA	AAA	31.09%
Total Treasurer's Pooled Investments				100.00%
Directed Investments:				
Government Agency Bonds	Aaa	AAA	AAA	100.00%
Investments Held with Fiscal Agents:				
Money Market	P-1	A-1+	F1	34.47%
U.S. Treasury Bills	Aaa	AAA	AAA	10.63%
Government Agency Bonds and Notes	Aaa	AAA	NR	14.39%
Government Agency Bonds and Notes	Aaa	AAA	AAA	40.51%
				100.00%

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, 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:			
Federal Farm Credit Bank	Government Sponsored	\$ 57,489,010	7.15%
Federal Home Loan Bank	Government Sponsored	\$ 212,375,317	26.41%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 74,346,312	9.25%
Federal National Mortgage Association	Government Sponsored	\$ 128,566,230	15.99%
Directed Investments:			
Federal National Mortgage Association	Government Sponsored	\$ 421,095	100.00%
Investments Held with Fiscal Agents:			
Federal Home Loan Bank	Government Sponsored	\$ 3,211,114	14.39%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 5,827,795	26.12%
Federal National Mortgage Association	Government Sponsored	\$ 3,208,679	14.38%

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, 2009.

Treasurer's Pooled Investments:	<u>Weighted Average Days to Maturity</u>
LAIF	On Demand
CalTRUST (JPA)	On Demand
U.S. Treasury Bills	262
Commercial Paper	20
Negotiable Certificates of Deposit	123
Corporate Notes: TLGP	632
Corporate Notes	407
Municipal Anticipation Notes	237
Government Agency Bonds and Notes	576
Investment Pool Average	412
Directed Investments:	
Government Agency Bonds	258

	<u>Weighted Average Days to Maturity</u>
Investments Held with Fiscal Agents:	
Money Market	On Demand
U.S. Treasury Bills	85
Government Agency Bonds and Notes	619

The weighted average days to maturity for the underlying securities held in the LAIF and CalTRUST pools presented above are 234 and 371, 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	4.97%	2.77%	On Demand
CalTRUST (JPA)	4.97%	0.56%-1.37%	On Demand
U.S. Treasury Bills	2.48%	0.44%-0.52%	6/10-7/10
Commercial Paper*	7.72%	0.21%-0.91%	10/09-12/09
Negotiable Certificates of Deposit	7.35%	0.08%-2.51%	10/09-8/10
Corporate Notes: TLGP	1.27%	1.63%-3.00%	1/11-12/11
Corporate Notes	11.19%	2.85%-7.38%	11/09-9/12
Municipal Anticipation Notes	1.26%	3.00%	5/10
Government Agency Discount Notes*	29.96%	Discount	10/09-8/10
Government Agency Bonds and Notes	28.83%	0.56%-4.82%	6/10-9/14
Directed Investments:			
Government Agency Bonds	100%	7.13%	6/10
Investments Held with Fiscal Agents:			
Money Market	34.47%	0.30%	On Demand
U.S. Treasury Bills	10.63%	0.15%	12/09
-Government Agency Discount Notes*	14.38%	Discount	11/09
Government Agency Bonds and Notes	40.52%	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 September 30, 2009 the Treasurer held floating rate notes that comprised of 3.09% 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 quarter ended September 30, 2009:

	<u>Pool</u>	<u>Directed</u>	<u>Total</u>
Interest Income	\$ 2,779,565	\$ 7,160	\$ 2,786,725
Realized Gain	814,920	-	814,920
Administration & Audit Fees	(347,534)	60	(347,474)
Miscellaneous Adjustments	14,799	(695)	14,104
Total Net Investment Income	\$ 3,261,750	\$ 6,525	\$ 3,268,275

The Treasurer may purchase securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, such discount, when realized, is considered gain rather than interest. Interest earnings for the quarter amounted to \$2,786,725. The net realized gain on investments sold or matured during the quarter was \$814,920. As allowable under California Government Code Section 27013 and 27133, the Treasurer deducts administrative costs of investing, banking, or otherwise handling or managing funds. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one quarter and sold in the current quarter were included as a change in the fair value of investments reported in the prior quarter(s) and the current quarter.

Restricted Cash

Cash and investments that are restricted by legal or contractual requirements amounted to \$40,602,996 at September 30, 2009.

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, 2009:

	<u>9/30/2009</u>	<u>6/30/2009</u>	<u>Net Change</u>
Assets Held for Pool	\$ 838,081,194	\$ 837,220,704	\$ 860,490
Equity of Internal Pool Participants	\$ 370,363,431	\$ 330,949,813	\$ 39,413,618
Equity of External Pool Participants	467,677,337	506,253,583	(38,576,246)
Outstanding Purchase Interest	40,426	17,308	23,118
Total Equity	\$ 838,081,194	\$ 837,220,704	\$ 860,490

