



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: 9/9/2008  
Placement: Administrative  
Estimated Tme:  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

0909-17

**TO:** Board of Supervisors

*Theo Fallato, for*

**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 Treasurer's Statement of Assets -  
As of June 30, 2008

**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Other Concurrence:** N/A

As to form: No

**Recommended Actions:**

That the Board of Supervisors:

Receive and file the Auditor-Controller's Audit Report on the Statement of Assets in the Santa Barbara County Treasury Pool, as of June 30, 2008.

**Summary Text:**

The Audit 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' acceptances; commercial paper; corporate bonds and notes; negotiable certificates of deposit; repurchase

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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.

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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, 2008 and have issued our report thereon dated August 8, 2008. 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, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also issued a report dated August 8, 2008 on our consideration of the Treasurer's internal control over financial reporting and our tests of compliance with certain provisions of laws and regulations.

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 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 noncompliance or other matters that are required to be reported under Government Auditing Standards.

**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

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

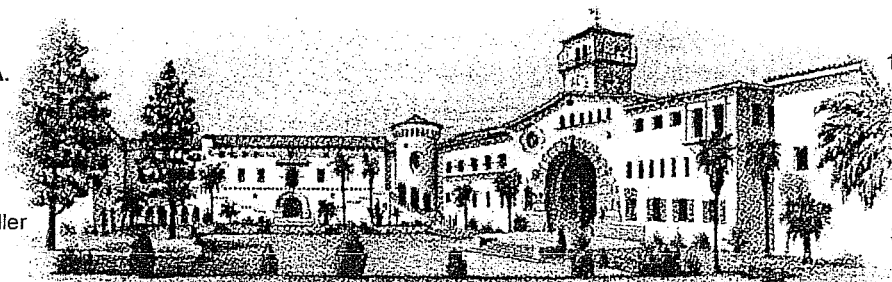
**Authored by:** Heather Harkless, Audit Manager

**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



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

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(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, 2008. 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.

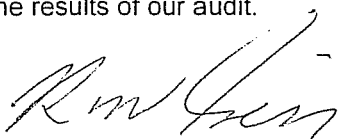
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform 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, 2008, 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 8, 2008 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 black ink, appearing to read "R. W. Geis". The signature is written in a cursive, flowing style.

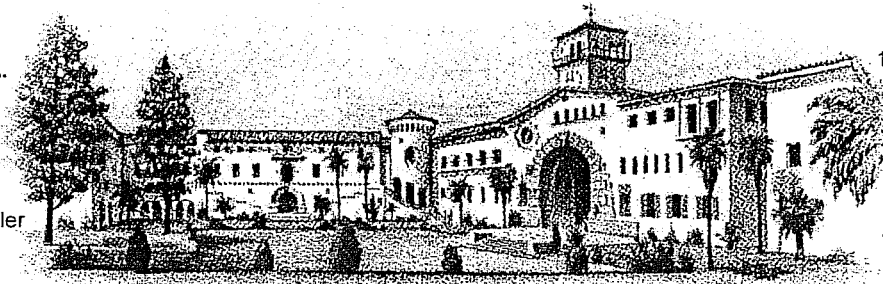
Robert W. Geis, CPA

August 8, 2008

# 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

### 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, 2008. 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.

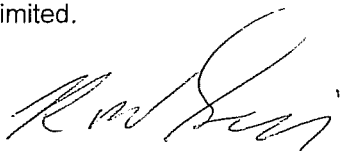
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 8, 2008.

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 black ink, appearing to read "Robert W. Geis". The signature is fluid and cursive, with a large initial "R" and "G".

Robert W. Geis, CPA

August 8, 2008

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

| Asset Description  | Cost           | Gross                       |                              | Fair Value<br>6/30/2008 | Fair Value<br>6/30/2007 | Net Change     |
|--|----------------|-----------------------------|------------------------------|-------------------------|-------------------------|----------------|
|  |                | Unrealized<br>Holding Gains | Unrealized<br>Holding Losses |                         |                         |                |
| Cash on Hand   | \$ 4,000       | \$ -                        | \$ -                         | \$ 4,000                | \$ 4,000                | \$ -           |
| Bank Deposits  | 25,706,507     | -                           | -                            | 25,706,507              | 23,278,348              | 2,428,159      |
| Total Cash   | 25,710,507     | -                           | -                            | 25,710,507              | 23,282,348              | 2,428,159      |
| Outstanding Purchase Interest:   |                |                             |                              |                         |                         |                |
| Treasurer's Pool Outstanding Purchase Interest                         | 129,832        | -                           | -                            | 129,832                 | 575,183                 | (445,351)      |
| Total Outstanding Purchase Interest                                    | 129,832        | -                           | -                            | 129,832                 | 575,183                 | (445,351)      |
| Treasurer's Pooled Investments:  |                |                             |                              |                         |                         |                |
| Local Agency Investment Fund (LAIF)                                    | 40,000,000     | -                           | -                            | 40,000,000              | 40,000,000              | -              |
| Commercial Paper   | 171,151,337    | 438,602                     | -                            | 171,589,939             | 171,640,391             | (50,452)       |
| Corporate Notes  | 150,112,559    | 917,055                     | (960,673)                    | 150,068,941             | 75,441,088              | 74,627,853     |
| Negotiable Certificates of Deposit                                     | 18,500,000     | -                           | -                            | 18,500,000              | 30,000,000              | (11,500,000)   |
| Government Agency Bonds  | 410,139,103    | 1,249,377                   | (754,522)                    | 410,633,958             | 499,293,757             | (88,659,799)   |
| Total Treasurer's Pooled Investments                                   | 789,902,999    | 2,605,034                   | (1,715,195)                  | 790,792,838             | 816,375,236             | (25,582,398)   |
| Directed Investments:  |                |                             |                              |                         |                         |                |
| Government Agency Bonds  | 1,906,288      | 38,312                      | -                            | 1,944,600               | 2,572,448               | (627,848)      |
| Total Directed Investments   | 1,906,288      | 38,312                      | -                            | 1,944,600               | 2,572,448               | (627,848)      |
| Total Pooled and Directed Investments<br>(Including Purchase Interest) | 791,939,119    | 2,643,346                   | (1,715,195)                  | 792,867,270             | 819,522,867             | (26,655,597)   |
| Investments Held with Fiscal Agents:                                   |                |                             |                              |                         |                         |                |
| Cash Equivalents   | 27,361,137     | -                           | -                            | 27,361,137              | 5,352,469               | 22,008,668     |
| Government Agency Bonds  | 6,767,538      | 117,901                     | -                            | 6,885,439               | 8,340,967               | (1,455,528)    |
| Total Investments Held with Fiscal Agents                              | 34,128,675     | 117,901                     | -                            | 34,246,576              | 13,693,436              | 20,553,140     |
| Total Investments and Purchase Interest                                | 826,067,794    | 2,761,247                   | (1,715,195)                  | 827,113,846             | 833,216,303             | (6,102,457)    |
| Total Cash, Investments, and Outstanding<br>Purchase Interest          | \$ 851,778,301 | \$ 2,761,247                | \$ (1,715,195)               | \$ 852,824,353          | \$ 856,498,651          | \$ (3,674,298) |

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 53% as of June 30, 2008.

The Treasurer participates in the State Treasurer's 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 fiscal year ended June 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 \$25,606,507 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 June 30, 2008 the value of pledged collateral was 145%.

At June 30, 2008, the carrying amount of the County's deposits was \$25,706,507 and the corresponding bank balance was \$21,940,769. The difference of \$3,765,738 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, Moody's and S&P. Commercial paper obligations and negotiable certificates of deposit shall be rated by at least two of the three major rating services 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, 2008.

|   | <b><u>Credit Ratings</u></b> | <b><u>% of Portfolio</u></b> |
|---|------------------------------|------------------------------|
| <b>Treasurer's Pooled Investments:</b>      |                              |                              |
| LAIF  | Unrated                      | 5.06%                        |
| Commercial Paper                            | A-2, P-1, F1                 | 2.87%                        |
| Commercial Paper                            | A-1, P-1, F1                 | 13.11%                       |
| Commercial Paper                            | A-1, P-2, F1                 | 5.72%                        |
| Corporate Notes                             | Aa, AA                       | 1.90%                        |
| Corporate Notes                             | Aa, AA, AA                   | 9.07%                        |
| Corporate Notes                             | Aa, AA-,AA-                  | 0.62%                        |
| Corporate Notes                             | Aa1, AA+                     | 0.64%                        |
| Corporate Notes                             | Aaa, AAA                     | 6.75%                        |
| Negotiable Certificates of Deposit          | A-1, P-1, F1                 | 2.34%                        |
| Government Agency Bonds                     | AAA                          | 51.92%                       |
| <b>Total Treasurer's Pooled Investments</b> |                              | <b><u>100.00%</u></b>        |
| <b>Directed Investments:</b>                |                              |                              |
| Government Agency Bonds                     | AAA                          | <b><u>100.00%</u></b>        |
| <b>Investments Held with Fiscal Agents:</b> |                              |                              |
| Government Agency Bonds                     | AAA                          | <b><u>100.00%</u></b>        |

At the time of purchase, County investment policy dictates that no more than 5% of the total portfolio, be invested in the securities of any single issuer, other than the U.S. Government, its agencies, and sponsored enterprises.

As of the fiscal year ended June 30, 2008, more than 5% of the County's investments were invested in the following issuers:

| <u>Issuer</u>                               | <u>Issuer Type</u>   | <u>Fair Value Holdings</u> | <u>Percentage Holdings</u> |
|---|----------------------|----------------------------|----------------------------|
| <b>Treasurer's Pooled Investments:</b>      |                      |                            |                            |
| Federal Home Loan Mortgage Corporation      | Government Sponsored | \$98,461,139               | 12.45%                     |
| Federal Home Loan Bank                      | Government Sponsored | \$158,564,040              | 20.05%                     |
| Federal National Mortgage Association       | Government Sponsored | \$113,293,429              | 14.33%                     |
| Federal Farm Credit Banks                   | Government Sponsored | \$40,315,348               | 5.10%                      |
| <b>Directed Investments:</b>                |                      |                            |                            |
| Federal National Mortgage Association       | Government Sponsored | \$1,944,600                | 100.00%                    |
| <b>Investments Held with Fiscal Agents:</b> |                      |                            |                            |
| Federal Home Loan Mortgage Corporation      | Government Sponsored | \$2,246,045                | 41.41%                     |
| Federal National Mortgage Association       | Government Sponsored | \$3,178,194                | 58.59%                     |

#### **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 (5) 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, 2008.

|   | <u>Weighted Average Days to Maturity</u> |
|---|--|
| <b>Treasurer's Pooled Investments:</b>      |  |
| LAIF  | On Demand                                |
| Commercial Paper                            | 27                                       |
| Corporate Notes                             | 516                                      |
| Negotiable Certificates of Deposit          | 164                                      |
| Government Agency Bonds                     | 1,041                                    |
| Investment Pool Average                     | 629                                      |
| <b>Directed Investments:</b>                |  |
| Government Agency Bonds                     | 1,032                                    |
| <b>Investments Held with Fiscal Agents:</b> |  |
| Government Agency Bonds                     | 147                                      |

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

| <b>Treasurer's Pooled Investments:</b>      | <b>Interest Rate<br/>Range</b> | <b>Maturity<br/>Range</b> |
|---|--------------------------------|---------------------------|
| LAIF  | 3.11%                          | On Demand                 |
| Commercial Paper                            | 2.32% - 3.08%                  | 7/08-8/08                 |
| Corporate Notes                             | 2.85% - 7.38%                  | 8/08-8/12                 |
| Negotiable Certificates of Deposit          | 2.58% - 3.55%                  | 7/08-5/09                 |
| Government Agency Bonds                     | 0% - 6.00%                     | 7/08-5/13                 |
| <b>Directed Investments:</b>                |                                |                           |
| Government Agency Bonds                     | 4.13% - 7.13%                  | 6/10-7/11                 |
| <b>Investments Held with Fiscal Agents:</b> |                                |                           |
| Government Agency Bonds                     | 4.02% - 4.60%                  | 11/08-2/13                |

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 fiscal year ended June 30, 2008:

|                                    | <b>Pool</b>          | <b>Directed</b>   | <b>Total</b>         |
|------------------------------------|----------------------|-------------------|----------------------|
| Interest Income                    | \$ 28,447,088        | \$ 121,726        | \$ 28,568,814        |
| Realized Gain                      | 8,922,820            | 2,165             | 8,924,985            |
| Administration & Audit Fees        | (1,270,535)          | (4,237)           | (1,274,772)          |
| Securities Lending                 | 9,162                | 29                | 9,191                |
| Miscellaneous Adjustments          | (98,587)             | -                 | (98,587)             |
| <b>Total Net Investment Income</b> | <b>\$ 36,009,948</b> | <b>\$ 119,683</b> | <b>\$ 36,129,631</b> |

The Treasurer purchases securities at a discount from face value to earn higher than nominal rates of return. Under GASB 31 such discount, when realized, is considered gain rather than interest. Interest earnings for the fiscal year amounted to \$28,447,088. The net realized gain on investments sold or matured during the fiscal year was \$8,922,820. 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 \$ 39,566,205 at June 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 June 30, 2008 amounted to \$7,643,200.

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. The Treasurer may not pledge or sell any collateral securities unless the borrower defaults. 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 June 30, 2008 are overnight investments with next day maturities.

The collateral received by the Treasurer exceeds the amount on loan. Accordingly, the Treasurer is not exposed to custodial credit risk.

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

| <u>Securities Lent</u>          | <u>Underlying Securities</u> | <u>Securities Collateral Value</u> |
|---------------------------------|------------------------------|------------------------------------|
| Lent for securities collateral: |                              |                                    |
| Corporate notes                 | \$ 7,440,000                 | \$ 7,643,200                       |

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 fiscal year. There are no income distributions owing on the securities lent.

### Condensed Financial Statement

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

|   | <u>6/30/2008</u>      | <u>6/30/2007</u>      | <u>Net Change</u>      |
|---|-----------------------|-----------------------|------------------------|
| <b>Net Assets Held for Pool</b>   | \$ 792,867,270        | \$ 819,522,867        | \$ (26,655,597)        |
| <b>Equity of Internal Pool Participants</b>                             | \$ 307,553,103        | \$ 310,768,851        | \$ (3,215,748)         |
| <b>Equity of External Pool Participants (Voluntary and Involuntary)</b> | 485,184,335           | 508,178,833           | (22,994,498)           |
| <b>Outstanding Purchase Interest</b>                                    | 129,832               | 575,183               | (445,351)              |
| <b>Total Equity</b>   | <u>\$ 792,867,270</u> | <u>\$ 819,522,867</u> | <u>\$ (26,655,597)</u> |

