



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: 5/12/2009
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

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

SUBJECT: Auditor's Report on the Statement of Assets of the Santa Barbara County
Treasurer – As of March 31, 2009

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 Report on the Statement of Assets (the Statement) of the Santa Barbara County Treasurer, as of March 31, 2009.

Summary Text:

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

Background:

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

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

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

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

We have reviewed the Statement relative to the amount and type of assets controlled by the County Treasurer, as of March 31, 2009, and have issued our report thereon dated May 1, 2009. All information included in the Statement is the representation of the management of the County Treasurer. A review consists principally of inquiries of Treasury personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Statement taken as a whole. Accordingly, we do not express such an opinion.

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

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

Background:

Performance Measure:

Fiscal and Facilities Impacts: None

Budgeted: N/A

Fiscal Analysis: N/A

Staffing Impacts:

Legal Positions:

N/A

FTEs:

N/A

Special Instructions:

None

Attachments:

Auditor's Report

Statement of Assets – As of March 31, 2009, with accompanying notes

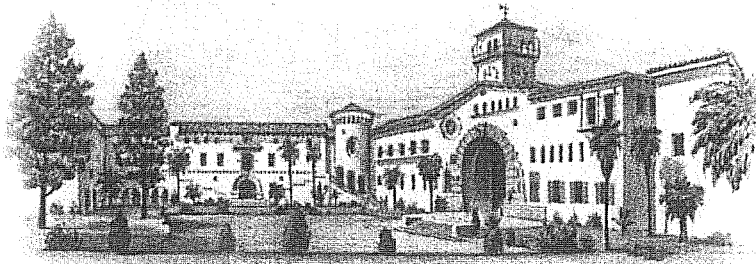
Authored by: Christie Eddinger, Audit Supervisor

cc: Bernice James, Treasurer-Tax Collector

COUNTY OF SANTA BARBARA

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

THEO FALLATI, C.P.A.
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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(a), we have reviewed the Statement of Assets (the Statement) of the Santa Barbara County Treasurer as of March 31, 2009, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in the Statement is the representation of the management of the County Treasurer.

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

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

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

Robert W. Geis, CPA
May 1, 2009

**Santa Barbara County Treasury Pool
Statement of Assets
As of March 31, 2009**

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 3/31/2009	Fair Value 12/31/2008	Net Change
Cash on Hand	\$ 4,000	-	-	\$ 4,000	\$ 4,000	-
Bank Deposits	32,135,780	-	-	32,135,780	14,065,921	18,069,859
Total Cash	32,139,780	-	-	32,139,780	14,069,921	18,069,859
Outstanding Purchase Interest:						
Treasurer's Pool Outstanding Purchase Interest	72,558	-	-	72,558	8,684	63,874
Total Outstanding Purchase Interest	72,558	-	-	72,558	8,684	63,874
Treasurer's Pooled Investments:						
Local Agency Investment Fund (LAIF)	40,000,000	-	-	40,000,000	40,000,000	-
Treasury Bills	5,986,877	7,363	-	5,994,240	-	5,994,240
Commercial Paper	116,314,567	137,333	(6,950)	116,444,950	243,460,843	(127,015,893)
Corporate Notes: TLGP ¹	9,995,600	202,250	-	10,197,850	-	10,197,850
Corporate Notes	110,381,673	73,531	(3,280,367)	107,174,837	121,727,083	(14,552,246)
Negotiable Certificates of Deposit	79,000,000	155,370	(58,810)	79,096,560	87,849,080	(8,752,520)
Government Agency Bonds and Notes	482,305,149	5,695,585	(17,011)	487,983,723	469,628,817	18,354,906
Total Treasurer's Pooled Investments	843,983,866	6,271,432	(3,363,138)	846,892,160	962,665,823	(115,773,663)
Directed Investments:						
Government Agency Bonds	399,580	31,690	-	431,270	1,950,888	(1,519,618)
Total Directed Investments	399,580	31,690	-	431,270	1,950,888	(1,519,618)
Total Pooled and Directed Investments (Including Purchase Interest)	844,456,004	6,303,122	(3,363,138)	847,395,988	964,625,395	(117,229,407)
Investments Held with Fiscal Agents:						
Cash Equivalents	16,938,592	-	-	16,938,592	11,729,059	5,209,533
Government Agency Bonds and Notes	7,273,301	236,832	-	7,510,133	15,168,795	(7,658,662)
Total Investments Held with Fiscal Agents	24,211,893	236,832	-	24,448,725	26,897,854	(2,449,129)
Total Investments and Purchase Interest	868,667,897	6,539,954	(3,363,138)	871,844,713	991,523,249	(119,678,536)
Total Cash, Investments, and Outstanding Purchase Interest	\$ 900,807,677	\$ 6,539,954	\$ (3,363,138)	\$ 903,984,493	\$ 1,005,593,170	\$ (101,608,677)

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 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 52% as of March 31, 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 quarter ended March 31, 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 of the total bank balance, \$250,000 is insured by Federal depository insurance. The remaining \$31,885,780 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 March 31, 2009 the value of pledged collateral was 174%.

At March 31, 2009, the carrying amount of the County's deposits was \$32,135,780 and the corresponding bank balance was \$28,746,382. The difference of \$3,389,398 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 March 31, 2009.

	<u>Credit Ratings</u>	<u>% of Portfolio</u>
Treasurer's Pooled Investments:		
LAIF	Unrated	4.72%
Treasury Bills	Aaa, AAA	0.71%
Commercial Paper	P-1, A-1, F1	9.09%
Commercial Paper	P-1, A-1	2.77%
Commercial Paper	P-1, A-2, F1	1.89%
Corporate Notes: TLGP	Aaa, AAA	1.20%
Corporate Notes	A2, A, A+	1.13%
Corporate Notes	Aa, AA	0.59%
Corporate Notes	Aa, AA, AA	5.41%
Corporate Notes	Aa1, AA+	1.15%
Corporate Notes	Aaa, AAA	4.38%
Negotiable Certificates of Deposit	P-1, A-1, F1	9.34%
Government Agency Bonds and Notes	Aaa, AAA	42.20%
Government Agency Bonds and Notes	Aaa, AAA, AAA	15.42%
Total Treasurer's Pooled Investments		100.00%
Directed Investments:		
Government Agency Bonds	Aaa, AAA	100.00%
Investments Held with Fiscal Agents:		
Cash Equivalents	Aaa, AAAM	69.28%
Government Agency Bonds and Notes	Aaa, AAA	30.72%
		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 March 31, 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	\$ 52,567,330	6.21%
Federal Home Loan Bank	Government Sponsored	\$ 244,300,306	28.85%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 86,583,890	10.22%
Federal National Mortgage Association	Government Sponsored	\$ 104,532,197	12.34%
Directed Investments:			
Federal National Mortgage Association	Government Sponsored	\$ 431,270	100.00%
Investments Held with Fiscal Agents:			
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 2,307,235	9.44%
Federal National Mortgage Association	Government Sponsored	\$ 5,202,899	21.28%

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 March 31, 2009.

	<u>Weighted Average Days to Maturity</u>
Treasurer's Pooled Investments:	
LAIF	On Demand
Treasury Bills	135
Commercial Paper	31
Corporate Notes: TLGP	815
Corporate Notes	460
Negotiable Certificates of Deposit	155
Government Agency Bonds and Notes	400
Investment Pool Average	318
Directed Investments:	
Government Agency Bonds	441
Investments Held with Fiscal Agents:	
Cash Equivalents	On Demand
Government Agency Bonds and Notes	629

The weighted average days to maturity for the underlying securities held in the LAIF and cash equivalents pools presented above are 196 and 44, 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	4.72%	1.91%	On Demand
Treasury Bills	0.71%	0.44%	8/09
Commercial Paper*	13.75%	.40%-2.05%	4/09-8/09
Corporate Notes: TLGP	1.20%	1.63%-3.00%	1/11-12/11
Corporate Notes	12.66%	2.85%-7.38%	4/09-9/12
Negotiable Certificates of Deposit	9.34%	.58%-3.55%	5/09-1/10
Government Agency Discount Notes*	38.89%	Discount	4/09-2/10
Government Agency Bonds and Notes	18.73%	1.00%-4.82%	6/09-2/14
Directed Investments:			
Government Agency Bonds	100%	7.13%	6/10
Investments Held with Fiscal Agents:			
Cash Equivalents	69.28%	0%-.17%	On Demand
Government Agency Discount Notes*	13.12%	Discount	5/09
Government Agency Bonds and Notes	17.60%	4.35%-4.75%	1/11-5/13

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

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

Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily cash balance. Unrealized gains and losses are also apportioned quarterly to participating funds based upon the fund's ending cash balance. Interest and net investment income consisted of the following for the quarter ended March 31, 2009:

	<u>Pool</u>	<u>Directed</u>	<u>Total</u>
Interest Income	\$ 3,460,363	\$ 10,626	\$ 3,470,989
Realized Gain	1,694,551	1,751	1,696,302
Administration & Audit Fees	(451,885)	(1,085)	(452,970)
Miscellaneous Adjustments	(249)	-	(249)
Total Net Investment Income	\$ 4,702,780	\$ 11,292	\$ 4,714,072

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 \$3,470,989. The net realized gain on investments sold or matured during the quarter was \$1,696,302. 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 \$39,457,644 at March 31, 2009.

Condensed Financial Statement

The following represents a condensed statement of assets and changes in assets for the Treasurer's investment pool as of March 31, 2009:

	<u>3/31/2009</u>	<u>12/31/2008</u>	<u>Net Change</u>
Assets Held for Pool	<u>\$ 879,104,498</u>	<u>\$ 976,744,428</u>	<u>\$ (97,639,930)</u>
Equity of Internal Pool Participants	\$ 385,560,335	\$ 322,538,457	\$ 63,021,878
Equity of External Pool Participants	493,471,605	654,197,287	(160,725,682)
Outstanding Purchase Interest	72,558	8,684	63,874
Total Equity	<u>\$ 879,104,498</u>	<u>\$ 976,744,428</u>	<u>\$ (97,639,930)</u>