



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: 5/25/2010  
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;

**SUBJECT:** Accountants' Review Report on the Statement of Assets of the Santa Barbara  
County Treasurer – As of March 31, 2010

**County Counsel Concurrence**

As to form: N/A

**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, 2010.

**Summary Text:**

The Accountants' Review 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

**Auditor-Controller Concurrence**

As to form: Yes

agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; and the State of California Local Agency Investment Fund (LAIF).

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 reviewed the Statement relative to the amount and type of assets controlled by the County Treasurer, as of March 31 2010, and have issued our report thereon dated May 12, 2010. 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:**

Accountants' Review Report

Statement of Assets – As of March 31, 2010, with accompanying notes

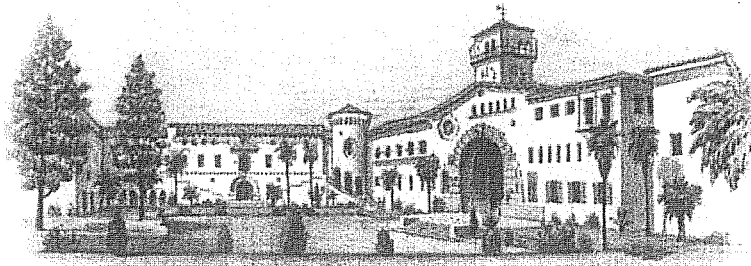
**Authored by:** Heather Harkless, Audit Manager

**cc:** Bernice James, Treasurer-Tax Collector

# COUNTY OF SANTA BARBARA

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Auditor-Controller

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## OFFICE OF THE AUDITOR-CONTROLLER

### ACCOUNTANTS' REVIEW 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, 2010, 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 independence standards. We believe that the following safeguards and division of responsibility exist to retain the audit organization's independence. The Santa Barbara County Auditor-Controller is directly elected by the voters of the jurisdiction. Also, the staff, having the responsibility to perform reviews, 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 12, 2010

# Santa Barbara County Treasury Pool

## Statement of Assets

### As of March 31, 2010

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 3/31/2010	Fair Value 12/31/2009	Net Change
Cash on Hand	\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 4,000	\$ -
Bank Deposits	73,280,809	-	-	73,280,809	69,703,432	3,577,377
<b>Total Cash</b>	<b>73,284,809</b>	<b>-</b>	<b>-</b>	<b>73,284,809</b>	<b>69,707,432</b>	<b>3,577,377</b>
<b>Outstanding Purchase Interest:</b>						
Treasurer's Pool Outstanding Purchase Interest	88,923	-	-	88,923	86,223	2,700
<b>Total Outstanding Purchase Interest</b>	<b>88,923</b>	<b>-</b>	<b>-</b>	<b>88,923</b>	<b>86,223</b>	<b>2,700</b>
<b>Treasurer's Pooled Investments:</b>						
Local Agency Investment Fund (LAIF)	50,000,000	-	-	50,000,000	40,000,000	10,000,000
Investment Trust of California (CalTRUST)	-	-	-	-	79,885,259	(79,885,259)
U.S. Treasury Bills	57,800,331	136,549	-	57,936,880	52,889,910	5,046,970
Commercial Paper	29,988,739	6,061	-	29,994,800	75,490,160	(45,495,360)
Negotiable Certificates of Deposit	42,500,000	39,020	(16,575)	42,522,445	73,046,600	(30,524,155)
Corporate Notes: TLGP <sup>1</sup>	9,995,600	215,000	-	10,210,600	10,214,350	(3,750)
Corporate Notes	54,988,540	1,811,908	(95,500)	56,704,948	82,838,435	(26,133,487)
Municipal Anticipation Notes	25,406,868	-	(167,966)	25,238,902	25,306,506	(67,604)
Government Agency Bonds and Notes	637,323,633	3,038,149	(160,759)	640,201,023	582,001,566	58,199,457
<b>Total Treasurer's Pooled Investments</b>	<b>908,003,711</b>	<b>5,246,687</b>	<b>(440,800)</b>	<b>912,809,598</b>	<b>1,021,672,786</b>	<b>(108,863,188)</b>
<b>Directed Investments:</b>						
Government Agency Bonds	399,580	8,201	-	407,781	414,563	(6,782)
<b>Total Directed Investments</b>	<b>399,580</b>	<b>8,201</b>	<b>-</b>	<b>407,781</b>	<b>414,563</b>	<b>(6,782)</b>
<b>Total Pooled and Directed Investments (Including Purchase Interest)</b>	<b>908,492,214</b>	<b>5,254,888</b>	<b>(440,800)</b>	<b>913,306,302</b>	<b>1,022,173,572</b>	<b>(108,867,270)</b>
<b>Investments Held with Fiscal Agents:</b>						
Money Market	6,261,322	-	-	6,261,322	8,160,499	(1,899,177)
Government Agency Bonds and Notes	13,601,863	178,130	(3,019)	13,776,974	13,819,970	(42,996)
<b>Total Investments Held with Fiscal Agents</b>	<b>19,863,185</b>	<b>178,130</b>	<b>(3,019)</b>	<b>20,038,296</b>	<b>21,980,469</b>	<b>(1,942,173)</b>
<b>Total Investments and Purchase Interest</b>	<b>928,355,399</b>	<b>5,433,018</b>	<b>(443,819)</b>	<b>933,344,598</b>	<b>1,044,154,041</b>	<b>(110,809,443)</b>
<b>Total Cash, Investments, and Outstanding Purchase Interest</b>	<b>\$ 1,001,640,208</b>	<b>\$ 5,433,018</b>	<b>\$ (443,819)</b>	<b>\$ 1,006,629,407</b>	<b>\$ 1,113,861,473</b>	<b>\$ (107,232,066)</b>

<sup>1</sup>Temporary Liquidity Guarantee Program

The accompanying notes are an integral part of this statement.

**Santa Barbara County Treasury Pool**  
**Notes to the Statement of Assets**  
**March 31, 2010**

**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 51% as of March 31, 2010.

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 March 31, 2010 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, in the event of the failure of a depository financial institution, 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 County's total bank balance, \$250,000 is insured by the Federal Depository Insurance Corporation (FDIC). The remaining \$73,030,809 on deposit is 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, 2010 the value of pledged collateral was 141%.

At March 31, 2010, the carrying amount of the County's deposits was \$73,280,809 and the corresponding bank balance was \$70,205,746. The difference of \$3,075,063 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; and the State of California Local Agency Investment Fund (LAIF).

### 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 March 31, 2010 (NR means Not Rated):

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<b>Treasurer's Pooled Investments:</b>				
LAIF	NR	NR	NR	5.48%
U.S. Treasury Bills	Aaa	AAA	AAA	6.35%
Commercial Paper	P-1	A-1	F1+	1.10%
Commercial Paper	P-2	A-1+	F1	2.19%
Negotiable Certificates of Deposit	P-1	A-1	F1	4.66%
Corporate Notes: TLGP	Aaa	AAA	AAA	0.57%
Corporate Notes: TLGP	Aaa	AAA	NR	0.55%
Corporate Notes	Aa1	AA	AAA	0.55%
Corporate Notes	Aa2	AA+	NR	0.54%
Corporate Notes	Aa3	A+	AA	0.56%
Corporate Notes	A1	AA-	AA	2.85%
Corporate Notes	A2	A+	AA	0.58%
Corporate Notes	A2	A	A+	0.55%
Corporate Notes	A3	A	A+	0.57%
Municipal Anticipation Notes	MIG1	SP-1	F2	2.76%
Government Agency Bonds and Notes	Aaa	AAA	AAA	53.28%
Government Agency Bonds and Notes	Aaa	AAA	NR	16.86%
<b>Total Treasurer's Pooled Investments</b>				<b>100.00%</b>
<b>Directed Investments:</b>				
Government Agency Bonds	Aaa	AAA	AAA	100.00%
<b>Investments Held with Fiscal Agents:</b>				
Money Market	P-1	A-1+	F1+	31.25%
Government Agency Bonds and Notes	Aaa	AAA	NR	31.37%
Government Agency Bonds and Notes	Aaa	AAA	AAA	37.38%
				<b>100.00%</b>

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, 2010, percentage holdings were as follows:

<b>Issuer</b>	<b>Issuer Type</b>	<b>Fair Value Holdings</b>	<b>Percentage Holdings</b>
<b>Treasurer's Pooled Investments:</b>			
Federal Farm Credit Bank	Government Sponsored	\$ 81,434,160	8.92%
Federal Home Loan Bank	Government Sponsored	\$ 153,868,650	16.86%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 153,560,593	16.82%
Federal National Mortgage Association	Government Sponsored	\$ 251,337,620	27.53%
<b>Directed Investments:</b>			
Federal National Mortgage Association	Government Sponsored	\$ 407,781	100.00%
<b>Investments Held with Fiscal Agents:</b>			
Federal Home Loan Bank	Government Sponsored	\$ 6,285,940	31.37%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 4,282,356	21.37%
Federal National Mortgage Association	Government Sponsored	\$ 3,208,679	16.01%

### **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, 2010.

	<b>Weighted Average Days to Maturity</b>
<b>Treasurer's Pooled Investments:</b>	
LAIF	On Demand
U.S. Treasury Bills	163
Commercial Paper	29
Negotiable Certificates of Deposit	203
Corporate Notes: TLGP	450
Corporate Notes	410
Municipal Anticipation Notes	72
Government Agency Bonds and Notes	611
Investment Pool Average	481
<b>Directed Investments:</b>	
Government Agency Bonds	76
<b>Investments Held with Fiscal Agents:</b>	
Money Market	On Demand
Government Agency Bonds and Notes	481

The weighted average days to maturity of the underlying securities held in the LAIF pool presented above is 213. For purposes of the weighted average maturity calculation, the County assumes that all of its investments will be held to maturity.

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

	<b>Principal</b>	<b>Interest Rate Range</b>	<b>Maturity Range</b>	<b>Market Value % of Portfolio</b>
<b>Treasurer's Pooled Investments:</b>				
LAIF	\$ 50,000,000	0.56%	On Demand	5.48%
U.S. Treasury Bills*	58,000,000	Discount	6/10-2/11	6.35%
Commercial Paper*	30,000,000	Discount	4/10-5/10	3.29%
Negotiable Certificates of Deposit	42,500,000	0.08%-0.70%	4/10-3/11	4.66%
Corporate Notes: TLGP	10,000,000	1.63%-3.00%	1/11-12/11	1.12%
Corporate Notes	55,004,000	2.85%-5.68%	4/10-9/12	6.20%
Municipal Anticipation Notes	25,125,000	3.00%	5/10-6/10	2.76%
Government Agency Discount Notes*	266,370,000	Discount	4/10-3/11	29.15%
Government Agency Bonds and Notes	371,900,000	0.45%-4.82%	6/10-1/15	40.99%
	<u>\$ 908,899,000</u>			
<b>Directed Investments:</b>				
Government Agency Bonds	<u>\$ 402,000</u>	7.13%	6/10	100%
<b>Investments Held with Fiscal Agents:</b>				
Money Market	\$ 6,259,646	0.29%-0.35%	On Demand	31.25%
Government Agency Discount Notes*	3,209,000	Discount	5/10	16.01%
Government Agency Bonds and Notes	10,436,000	0.50%-4.75%	6/10-3/15	52.74%
	<u>\$ 19,904,646</u>			

\*Commercial paper, discount notes and U.S. Treasury Bills 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 March 31, 2010, \$9,960,000 or 1.09% of the Treasurer's Pooled Investments was held in floating rate notes. The notes are tied to the London Interbank Offered Rate (LIBOR) with quarterly coupon resets. Debt investments with a variable-rate coupon reset on certain periodic dates based on that day's market rate.

At March 31, 2010, \$9,980,300 or 1.09% of the Treasurer's Pooled Investments was held in U.S. agency step-up note securities. These securities grant the issuer the option to call the note on a certain specified date(s). On a certain date, or dates, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note.

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



Interest and net investment income consisted of the following for the quarter ended March 31, 2010:

	<b>Pool</b>	<b>Directed</b>	<b>Total</b>
Interest Income	\$ 2,952,822	\$ 7,161	\$ 2,959,983
Realized Gain	344,128	60	344,188
Administration Fees	(497,602)	(1,091)	(498,693)
Miscellaneous Adjustments	(1,987)	-	(1,987)
<b>Total Net Investment Income</b>	<b>\$ 2,797,361</b>	<b>\$ 6,130</b>	<b>\$ 2,803,491</b>

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 \$2,959,983. The net realized gain on investments sold or matured during the quarter was \$344,188. 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.

### Investments Pending Settlement

The Treasurer entered into three agreements to purchase government agency bonds during the quarter. The investment transactions were pending settlement as of March 31, 2010. 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 March 31, 2010, the investment and resulting liability amounted to \$19,998,750.

### Restricted Cash

Cash and investments that are restricted by legal or contractual requirements amounted to \$71,004,891 at March 31, 2010.

### 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, 2010:

	<b>3/31/2010</b>	<b>12/31/2009</b>	<b>Net Change</b>
Assets Held for Pool	<u>\$ 986,183,330</u>	<u>\$ 1,091,466,441</u>	<u>\$ (105,283,111)</u>
Equity of Internal Pool Participants	\$ 447,627,495	\$ 396,079,245	\$ 51,548,250
Equity of External Pool Participants	538,466,912	695,300,973	(156,834,061)
Outstanding Purchase Interest	88,923	86,223	2,700
Total Equity	<u><b>\$ 986,183,330</b></u>	<u><b>\$ 1,091,466,441</b></u>	<u><b>\$ (105,283,111)</b></u>