



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: 11/09/2010
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 September 30, 2010

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 of the Santa Barbara County Treasurer, as of September 30, 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

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 California 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.

In accordance with California Government Code Section 26920(a), at least once in each quarter, the Auditor-Controller shall review the Treasurer's Statement of Assets in the County Treasury (the Statement).

We reviewed the Statement as of September 30, 2010 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants and have issued our report thereon dated October 28, 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.

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 September 30, 2010, with accompanying notes

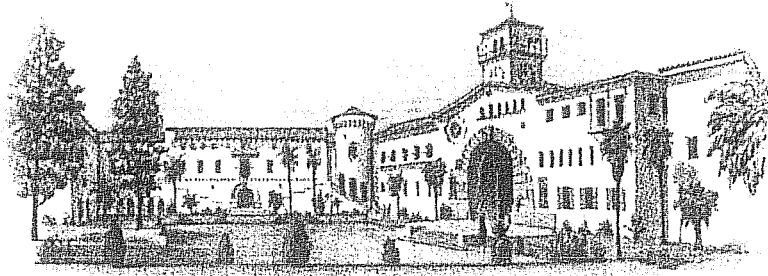
Authored by: Heather Harkless, Audit Manager

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 September 30, 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

October 28, 2010

Santa Barbara County Treasury Pool

Statement of Assets

As of September 30, 2010

Asset Description	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value 9/30/2010	Fair Value 6/30/2010	Net Change
Cash on Hand	\$ 4,000	\$ -	\$ -	\$ 4,000	\$ 4,000	\$ -
Bank Deposits	40,707,645	-	-	40,707,645	105,782,049	(65,074,404)
Total Cash	40,711,645	-	-	40,711,645	105,786,049	(65,074,404)
Outstanding Purchase Interest:						
Treasurer's Pool Outstanding Purchase Interest	23,876	-	-	23,876	46,747	(22,871)
Total Outstanding Purchase Interest	23,876	-	-	23,876	46,747	(22,871)
Treasurer's Pooled Investments:						
Local Agency Investment Fund (LAIF)	50,000,000	-	-	50,000,000	50,000,000	-
U.S. Treasury Bills	122,827,706	119,884	-	122,947,590	47,968,520	74,979,070
Commercial Paper	9,979,175	18,225	-	9,997,400	93,932,730	(83,935,330)
Negotiable Certificates of Deposit	37,500,000	47,425	-	37,547,425	53,453,125	(15,905,700)
Corporate Notes: TLGP ¹	9,995,600	174,400	-	10,170,000	10,198,400	(28,400)
Corporate Notes	30,216,990	1,144,629	(184,700)	31,176,919	46,214,743	(15,037,824)
Government Agency Bonds and Notes	533,182,261	3,734,595	(11,050)	536,905,806	473,663,328	63,242,478
Total Treasurer's Pooled Investments	793,701,732	5,239,158	(195,750)	798,745,140	775,430,846	23,314,294
Investments Held with Fiscal Agents:						
Local Agency Investments Fund (LAIF)	447,816	-	-	447,816	1,007,707	(559,891)
Money Market	16,477,023	-	-	16,477,023	16,418,505	58,518
Commercial Paper	9,898,477	-	-	9,898,477	10,290,687	(392,210)
Government Agency Bonds and Notes	9,728,733	157,767	-	9,886,500	11,374,023	(1,487,523)
Total Investments Held with Fiscal Agents	36,552,049	157,767	-	36,709,816	39,090,922	(2,381,106)
Total Investments and Purchase Interest	830,277,657	5,396,925	(195,750)	835,478,832	814,568,515	20,910,317
Total Cash, Investments, and Outstanding Purchase Interest	\$ 870,989,302	\$ 5,396,925	\$ (195,750)	\$ 876,190,477	\$ 920,354,564	\$ (44,164,087)

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, 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 53% as of September 30, 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 reported value of the LAIF pool is materially equivalent to the fair value of the pool shares.

The County's investment pool holds an AA+/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 State of California Government Code and the Treasurer's Investment Policy is primarily to safeguard investment principal by mitigating exposure to risk factors, secondarily maintaining sufficient liquidity to meet cash flow needs, and lastly to attain a return on the funds. On this last objective the Treasurer's Investment Policy specifies the 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, 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 \$40,457,645 on deposit is collateralized with securities held by the pledging financial institution's agent. Per Government Code section 53652, the depository is required to maintain a market value of at least 110% of the pledged collateral. At September 30, 2010 the value of pledged collateral was 129%.

At September 30, 2010, the carrying amount of the County's deposits was \$40,707,645 and the corresponding bank balance was \$39,719,670. The difference of \$987,975 was principally due to deposits in transit.

Investments

Pursuant to Section 53646 of the 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 Investment Policy Statement 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 Government Code and, in general, the Treasurer's Investment 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 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 Treasurer's Investment 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 notes, with a maturity greater than three years, shall be rated at a minimum of AA by at least two of the three major rating services. Corporate notes, with a maturity of three years or less, shall be rated at a minimum of AA- by at least two of the three major ratings services. Corporate Temporary Liquidity Guarantee Program (TLGP) notes shall be rated AAA by one of three major ratings services.

The following is a summary of the credit quality distribution by investment type as a percentage of fair value at September 30, 2010 (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	6.26%
U.S. Treasury Bills	Aaa	AAA	AAA	15.39%
Commercial Paper	P-1	A-1+	F1+	1.25%
Negotiable Certificates of Deposit	P-1	A-1+	F1+	0.63%
Negotiable Certificates of Deposit	P-1	A-1	F1	4.07%
Corporate Notes: TLGP	Aaa	AAA	AAA	0.64%
Corporate Notes: TLGP	Aaa	AAA	NR	0.63%
Corporate Notes	Aa2	AA+	NR	0.63%
Corporate Notes*	Aa3	A+	AA-	0.63%
Corporate Notes*	A1	AA-	AA-	1.98%
Corporate Notes**	A2	A+	A+	0.67%
Government Agency Bonds and Notes	Aaa	AAA	AAA	53.14%
Government Agency Bonds and Notes	Aaa	AAA	NR	14.08%
Total Treasurer's Pooled Investments				100.00%
Investments Held with Fiscal Agents:				
LAIF	NR	NR	NR	1.22%
Money Market	P-1	A-1+	F1+	44.88%
Commercial Paper	P-1	A-1+	F1+	26.96%
Government Agency Bonds and Notes	Aaa	AAA	AAA	24.20%
Government Agency Bonds and Notes	Aaa	AAA	NR	2.74%
				100.00%

*Underlying securities have maturities of 3 years or less.

**At the time of purchase, the underlying issuer met the credit rating requirements of the Treasurer's investment policy. Since their purchase, the issuer had been downgraded below the credit rating that is required for purchase by the Treasurer.

Instruments in any one issuer that represent 5% or more of the County's investments as of September 30, 2010 are as follows: (excluding external investment pools and debt explicitly guaranteed by the U.S. government)

<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	\$ 142,651,856	17.86%
Federal Home Loan Bank	Government Sponsored	\$ 112,463,250	14.08%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 60,391,550	7.56%
Federal National Mortgage Association	Government Sponsored	\$ 221,399,150	27.72%
Investments Held with Fiscal Agents:			
Commercial Paper	Corporation	\$ 9,898,477	26.96%
Federal Home Loan Mortgage Corporation	Government Sponsored	\$ 2,226,204	6.07%
Federal National Mortgage Association	Government Sponsored	\$ 6,656,260	18.13%

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 (greater than one year), 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, 2010.

Treasurer's Pooled Investments:	<u>Weighted Average Days to Maturity</u>
LAIF	On Demand
U.S. Treasury Bills	94
Commercial Paper	36
Negotiable Certificates of Deposit	149
Corporate Notes: TLGP	267
Corporate Notes	419
Government Agency Bonds and Notes	716
Investment Pool Average	522
Investments Held with Fiscal Agents:	
LAIF	On Demand
Money Market	On Demand
Commercial Paper	83
Government Agency Bonds and Notes	558
Investments Held with Fiscal Agents Average	171

The weighted average days to maturity of the underlying securities held in the LAIF pool presented above is 185. 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:

Treasurer's Pooled Investments:	Principal	Fair Value	Interest Rate Range	Maturity Range
LAIF	\$ 50,000,000	\$ 50,000,000	0.51%	On Demand
U.S. Treasury Bills*	\$ 123,000,000	\$ 122,947,590	Discount	10/10-6/11
Commercial Paper*	\$ 10,000,000	\$ 9,997,400	Discount	11/10
Negotiable Certificates of Deposit	\$ 37,500,000	\$ 37,547,425	0.54%-0.85%	11/10-5/11
Corporate Notes: TLGP	\$ 10,000,000	\$ 10,170,000	1.63%-3.00%	1/11-12/11
Corporate Notes	\$ 30,004,000	\$ 31,176,919	5.00%-5.68%	10/10-9/12
Government Agency Discount Notes*	\$ 177,000,000	\$ 176,933,500	Discount	10/10-6/11
Government Agency Bonds and Notes	\$ 356,750,000	\$ 359,972,306	0.45%-4.82%	1/11-8/15

Investments Held with Fiscal Agents:

LAIF	\$ 447,816	\$ 447,816	0.51%	On Demand
Money Market	\$ 16,477,023	\$ 16,477,023	0.00%-0.35%	On Demand
Commercial Paper	\$ 9,898,477	\$ 9,898,477	0.51%-0.56	11/10-12/10
Government Agency Discount Notes*	\$ 3,208,000	\$ 3,207,678	Discount	11/10
Government Agency Bonds and Notes	\$ 6,586,000	\$ 6,678,822	0.85%-4.75%	12/10-9/14

*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 September 30, 2010, \$25,048,450 or 3.14% 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 September 30, 2010:

	Pool
Interest Income	\$ 2,046,597
Realized Gain	526,777
Administration	(355,965)
Miscellaneous Adjustments	778
Total Net Investment Income	\$ 2,218,187

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 \$2,046,597. The net realized gain on investments sold or matured during the quarter was \$526,777. 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 \$40,061,157 at September 30, 2010.

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, 2010:

	9/30/2010	6/30/2010	Net Change
Assets Held for Pool	<u>\$ 839,480,661</u>	<u>\$ 881,263,642</u>	<u>\$ (41,782,981)</u>
Equity of Internal Pool Participants	\$ 366,793,175	\$ 345,174,599	\$ 21,618,576
Equity of External Pool Participants	472,663,610	536,042,296	(63,378,686)
Outstanding Purchase Interest	23,876	46,747	(22,871)
Total Equity	<u>\$ 839,480,661</u>	<u>\$ 881,263,642</u>	<u>\$ (41,782,981)</u>