San Bernardino County Treasury

Statement of Assets with
Independent Auditor's Reports

June 30, 2010

SAN BERNARDINO COUNTY TREASURY
STATEMENT OF ASSETS
JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of San Bernardino, California

We have audited the accompanying special-purpose statement of assets of the San Bernardino County (County) Auditor – Controller/Recorder/Treasurer/Tax Collector (Treasury), as of June 30, 2010. The statement of assets is the responsibility of the County Treasury's management. Our responsibility is to express an opinion on the statement of assets 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 *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the accompanying special-purpose statement of assets was prepared for the purpose of complying with the California Government Code Section 26920 and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying special-purpose statement of assets presents fairly, in all material respects, the assets of the County Treasury as of June 30, 2010 in accordance with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 28, 2010 on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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.

Macias Gini & O'Connell LLP

Certified Public Accountants

San Bernardino, California
November 1, 2010

SAN BERNARDINO COUNTY TREASURY
STATEMENT OF ASSETS
JUNE 30, 2010

		2010
Assets		
Cash	$	194,860,595
Investments:		
Commercial Paper		274,956,500
Money Market Mutual Funds		150,000,000
Negotiable Certificates of Deposit		214,983,223
TLGP Corporate Notes		148,912,006
U.S. Government Agencies		2,783,537,353
U.S. Treasury Notes		499,764,105
Total Investments		4,072,153,187
Accrued Interest		18,204,318
Total Assets	$	4,285,218,100

The accompanying notes are an integral part of the statement of assets.

SAN BERNARDINO COUNTY TREASURY
NOTES TO THE STATEMENT OF ASSETS
JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The County of San Bernardino (County) Treasurer (Treasury) is responsible for the management and investment of the County Pool, which consists of the pooled monies held on behalf of the County, school districts, community college districts and certain special districts within the County. As of February 25, 2010, the offices of the County Auditor - Controller / Recorder and the Treasurer - Tax Collector were consolidated into a single entity within the County.

County Treasury is under the oversight of a County Treasury Oversight Committee (Committee), which was established pursuant to Sections 27130-27137 of the California Government Code to review and approve the County Treasury's Investment Policy. The Committee membership includes the Board of Supervisors' representative, Superintendent of Schools and two general public members. The County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company.

County Treasury's Investment Policy

The County Treasury's investment policy is to invest public funds in a manner which will preserve the safety and liquidity of all investments within the County investment pool (Pool) while obtaining a reasonable return within established investment guidelines. Accordingly, pursuant to the County Treasury's Investment Policy, the County Treasury is guided by the following principles, in order of importance:

- Safeguarding of investment principal
- Maintenance of sufficient liquidity to meet daily cash flow requirements
- Achievement of a reasonable rate of return consistent with the above objectives

The Pool is actively managed in accordance with the California Government Code, the County Treasury Investment Policy, and internal investment guidelines. The Investment Policy is reviewed annually by the County's Treasury Oversight Committee and approved by the County Board of Supervisors.

The Pool pursues its objectives by investing in a diversified portfolio of high-quality securities in accordance with State law, which include U.S. Treasury and agency securities, commercial paper, certificates of deposit, and repurchase agreements with highly rated counterparties. Commercial paper and certificates of deposit are only purchased from approved issuers. The Pool seeks to maintain an effective duration of less than 1.5 years, which is accomplished by laddering maturities to both meet cash flow needs and generate a reasonable rate of return.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying statement of assets was prepared using the economic resources measurement focus and the accrual basis of accounting and for the purpose of presenting the assets of the County Treasury pursuant to the California Government Code Section 26920 and is not intended to be a presentation in conformity with generally accepted accounting principles (GAAP). The County Treasury records investment purchases and sales on the trade date.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

In accordance with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of investments. Fair value is determined monthly. Special disclosures related to GASB 31 appear in Note 2. The County Treasury has prepared its deposit and investments disclosures in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*. The related disclosures appear in Note 2.

Use of Estimates

The preparation of the statement of assets in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the statement of assets. Actual results could differ from the estimates.

Note 2 – Investments

The County Treasury's investments are governed by the California Government Code and the County Treasury's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by the Government Code Sections 53601 and 53635 that limit the investments to certain maximum percentages by investment type in the Pool.

As permitted by the Government Code, the County Treasury developed, and the Board of Supervisors (Board) adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The following table summarizes where the Investment Policy is more restrictive than the Government Code.

Type of Investment	Diversification Limits per GC 53601	Diversification Limits per Investment Policy
Money Market Mutual Funds	20%	15%
Medium-Term Notes	30%	10%
Medium-Term Notes - FDIC/ Temporary Liquidity Guarantee Program (TLGP)	Limit not stated	30%
Repo Agreement	Limit not stated Not to exceed one year Must earn 102%	40%

Note 2 – Investments (Continued)

The investments are managed by the County Treasury who reports investment activity to the Board on a monthly basis.

The County Treasury's investments and securities are reported at fair value based upon quoted market prices. Securities having no sales are valued based upon last reported bid prices. The County Treasury intends to either hold investments until maturity or until market values equal or exceed cost. The value of the various investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions.

State law requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasury. The net asset value associated with legally mandated participants in the asset pool was $3.86 billion at June 30, 2010.

As of June 30, 2010, the fair value of the Pool was $4.07 billion. Approximately 7% of the Pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2010, $211.17 million of the amounts deposited in the Pool were attributable to external participants who are not required to, but choose to, invest in the County Pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Pool.

The fair value of the Pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the Pool.

The County Treasury has not produced or provided any letters of credit or legal binding guarantees as supplemental support of Pool values during the year ended at June 30, 2010. The Pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County Treasury pools its external participants' investments with the Pool. The average rate of return on investments during fiscal year 2010 was 1.44%.

Note 2 – Investments (Continued)

Risk Disclosures

A summary of the investments held by the County Treasury is as follows (in thousands):

Investment Type	Cost	Fair Value	Interest Rate Range	Maturity Range	Average Maturity (in days)
U.S. Treasury Notes	$ 500,030	$ 499,764	0.22 % - 1.95%	07/31/10 - 05/15/12	251
U.S. Government Agencies	2,767,526	2,783,537	0.18% - 4.01%	07/01/10 - 05/10/13	417
Negotiable Certificates of Deposit	215,000	214,983	0.15% - 0.59%	07/01/10 - 12/06/10	48
Commercial Paper	274,949	274,957	0.03% - 0.60%	07/01/10 - 10/01/10	14
TLGP Corporate Notes	148,213	148,912	0.22% - 1.74%	07/30/10 - 03/30/12	388
Money Market Mutual Funds	150,000	150,000	0.05%	07/01/10	1
Total Treasurer's Pooled Investments	$ 4,055,718	$ 4,072,153			

Investment Credit Risk

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and the County Treasury Investment Policy (where more restrictive) place limitations on the purchase of investments in the Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA" (AAAe letter rating is acceptable for U.S. Treasury Securities and Federal Agency Securities, including securities issued under TLGP). Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule). As of June 30, 2010, all investments held by the Pool were within policy limits.

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Maximum Allowed % of Portfolio	Individual Issuer Limitations	% of Pool 6/30/2010
U.S. Treasury Notes	AAA	Aaa	AAA	100	None	12.27
U.S. Government Agencies	AAA	Aaa	AAA	100	None	68.36
Negotiable Certificates of Deposit	A1+	P1	F1+	30	$100MM/5%	5.28
Commercial Paper	A1+	P1	F1+	40	5%	6.75
TLGP Corporate Notes	AAA	Aaa	AAA	30	None	3.66
Money Market Mutual Funds	AAA	Aaa	AAA	15	10%	3.68

Note 2 – Investments (Continued)

Concentration of Credit Risk

An increased risk of loss occurs as more investments are acquired from one issuer (i.e., lack of diversification). This results in a *concentration of credit risk.*

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2010, the following issuers represented more than five-percent of the Pool balance:

Issuer	Fair Value	% of Portfolio
Federal Home Loan Bank	$ 844,923	20.75
Federal National Mortgage Association	671,169	16.48
Federal Home Loan Mortgage Corp	676,668	16.62
Federal Farm Credit Bank	590,776	14.51

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that *interest rate risk* be disclosed using a minimum of one of five approved methods which are: *segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.*

The County Treasury manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the Pool to maturities of one year or less, and by maintaining an overall *effective duration* of 1.5 years or less. *Duration* is a measure of a fixed income security's cash flow using present values, weighted for cash flows as a percentage of the investments full price. *Effective duration* makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the County Treasury's Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2010, all investments held by the Pool were within policy limits. A summary of investments for Maturity Range, Limits, and effective duration is as follows (in thousands):

Note 2 – Investments (Continued)

Interest Rate Risk (Continued)

Investment Type	Fair Value	Maturity Range (in days)	Maturity Limits	Effective Duration (in years)
U.S. Treasury Notes	$ 499,764	31 - 685	5 Years	0.68
U.S. Government Agencies	2,783,537	1 - 1045	5 Years	0.64
Negotiable Certificates of Deposit	214,983	1 - 159	540 days	0.13
Commercial Paper	274,957	1 - 93	270 days	0.04
TLGP Corporate Notes**	148,912	30 - 639	5 Years	1.05
Money Market Mutual Funds	150,000	1	Daily Liq.	0.003
Total Securities	$ 4,072,153			

**Fully insured and issued through the FDIC's Temporary Liquidity Guarantee Program.

Custodial Credit Risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, the carrying amount of the County Treasury's deposits was $194.86 million. Of the bank balance, $100.25 million was insured by the FDIC depository insurance and the remainder was collateralized as required by California Government Code Section 53652.

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

In order to limit *Custodial Credit Risk for Investments*, County Treasury's Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

Note 2 – Investments (Continued)

Custodial Credit Risk (Continued)

The County purchased Commercial Paper, which was traded with BNP Paribas for $25 million par value on June 29, 2010 and settled on July 1, 2010. The County accounts for this investment accordingly under trade date accounting, even though the security remained in the possession of the counterparty pending settlement as of June 30, 2010.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE STATEMENT OF ASSETS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Supervisors
County of San Bernardino, California

We have audited the special-purpose statement of assets of the San Bernardino County (County) Auditor – Controller/Recorder/Treasurer/Tax Collector (Treasury) as of June 30, 2010, and have issued our report thereon dated November 1, 2010, which includes an explanatory paragraph describing that the statement of assets was prepared for the purpose of complying with California Government Code Section 26920, and is not intended to be a presentation in conformity with generally accepted accounting principles. 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 *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 County Treasury's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statement of assets, but not for the purpose of expressing an opinion on the effectiveness of the County Treasury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Treasury's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 County Treasury's statement of assets 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 of assets 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.*

This report is intended solely for the information and use of the Board of Supervisors, the County Treasury management, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

San Bernardino, California
November 1, 2010