Approved July 12, 2011

MODOC COUNTY
INVESTMENT POLICY

Policy Statement

The California Government Code §53601, et. seq. provide legal authorization for the investment and deposit of funds of local agencies, and §53635 provides additional authority for counties**.** Modoc County shall conform to, and comply with, the restrictions of all applicable laws. In addition, further requirements shall be established taking into consideration prudent investment standards.

Investment Objectives

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for government purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance.

1. **Safety of Principal** - the preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they are from securities default, broker-dealer default or erosion of market value. Care shall be taken to preserve principal be mitigating the two types of risk, credit risk and market risk.

   Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investment in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the County's capital base and cash flow.

   Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity, and avoiding the purchase of long term securities for the sole purpose of short term speculation.

2. **Liquidity of Investments** - the Pooled Investment Fund should remain sufficiently flexible to enable the County to meet all reasonable anticipated operating requirements. Historic cash flow trends are compared to current cash flow requirements on an ongoing basis.

3. **Yield** - the Pooled Investment Fund should be designed to attain an optimum rate of return, consistent with the risk limitations, prudent investment principles and cash flow restraints of the County.

Authorized Investments

The classes of investments that most adequately meet the investment objectives include:

Issues of the United States Government

Agencies (the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit System)

Negotiable certificates of deposit (including Yankees)

Bankers' acceptances (including foreign issues)

Medium term notes

Commercial paper

While not as marketable or as liquid as the prior mentioned securities, time certificates of deposit and repurchase agreements shall also be allowed as an investment. Deposits in the Local Agency Investment Fund (LAIF) shall be authorized up to the legal limit.

No security may be purchased with a final maturity of greater than five years from the date of ownership, unless specific approval has been obtained from the Board of Supervisors at least three months prior to the investment.

Investment Guidelines

Guidelines shall be developed for each type of investment authorized to allow the investment Policy to be properly implemented. The guidelines will establish limits as to the amount of funds that can be placed in any one type of investment and in the securities (or deposits in) any one company. These limits will be based on the percentage each represents of surplus funds at the time of each purchase. Included in the guidelines will be a brief description of each type of security, legal authority, credit requirements, collateral requirements (if any), risk factors and other characteristics. The Investment Guidelines are attached to and are part of this Policy.

Prohibited Investments

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include, but are not limited to, inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

Safekeeping of Securities

All securities owned by the Pooled Investment Fund shall be held in safekeeping by a third party bank trust department, acting as agent for the County under the terms of a custody agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the County's safekeeping agent.

Criteria for Selecting and Qualifications of Broker/Dealers and Financial Institutions

Brokers and dealers shall be selected for their proven competitiveness with regard to price and execution, clearance and settlement of transactions, commitment of capital, ability to report promptly and accurately, and to promptly and efficiently deliver securities. Additional criteria shall include the ability and willingness to supply financial publications, economic reports, and financial data. The Investment Advisor for the County shall use these criteria to assist in the selection of brokers and dealers.

Broker/Dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the Board of Supervisors or any candidate for those offices are prohibited from transacting business with Modoc County.

Competitive Bidding

Competitive bids shall be obtained when purchasing or selling securities whenever practical.

Investment Strategy

An economic scenario shall be developed and maintained to assist in developing an investment strategy. An investment strategy will be developed to help optimize earnings based upon liquidity needs and the economic scenario. Investments will be selected taking many variables into consideration. Several of the most important variables will be the shape of the yield curve, the anticipated change in that curve and the relative value of available securities. Proper use of the yield curve will involve not only purchasing securities with desirable maturities, but also swapping from existing portfolio securities with less desirable maturities into those with maturities that are perceived as currently more advantageous or into securities with more relative value. The average maturity of the portfolio will be shortened or lengthened primarily depending upon an evaluation of the above-mentioned factors.

Monitoring and Reporting of the Portfolio

At least quarterly, the County Treasurer will provide to the Treasury Oversight Committee, the Board of Supervisors and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. The report will list the type of investment, name of the issuer, maturity date, par amount, adjusted cost amount and market value of each investment. Additionally, the report will list the average weighted maturity, pricing source, a statement of compliance with the Investment Policy and a statement of the Fund’s ability to meet the expected expenditure requirements for the next six months.

Method of Calculating Costs and Yield

Calculations for the treasurer's administrative fee for costs of managing the investment portfolio include, but are not limited to: investment management, accounting for the investment activity, custody of the assets, managing and accounting for the banking, receiving and remitting deposits, oversight controls and costs, and indirect and overhead expenses as authorized in Government Code § 27013. The fee is based upon actual costs and is subtracted from gross interest earnings on a quarterly basis prior to distribution of net interest earnings to all funds. The County Treasurer shall charge an amount equal to one-half of the Treasurer's yearly expenditure budget, except for the professional and specialized budget, which shall be charged 100% against the gross interest earnings.

Earnings Distribution

Interest earnings shall be allocated quarterly according to each fund's average daily cash balance as a percentage of the total investment pool. Earnings shall be the net of accrued and received interest, amortized premiums, accreted discounts and profit or loss on the sale or trade of a security attributable to the quarter being apportioned, plus adjustments from prior quarters. The interest shall be apportioned as of the last day of the quarter and added to each participating fund's balance in the Pooled Investment Fund. The interest apportionment report shall show the net interest earned after treasurer's administrative fee is subtracted from gross interest. The report is given to each fund that earns interest as a part of the investment pool.

Withdrawal Requests

The County Treasurer will honor all requests to withdraw funds for normal cash flow that are approved by the County Auditor at a one-dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall require a thirty day notice and the notice shall be accompanied with the minutes of the meeting of the local agency authorizing the withdrawal of these funds. In accordance with Government Code § 27136 et seq., and § 27133 (h) et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse affect on the interests of the other depositors in the Fund. Any withdrawal for such purposes shall be at the lower of the market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal.

Terms and Conditions for Outside Investors

Outside local agencies, where the County Treasurer does not serve as the agency's treasurer, may invest in the Pooled Investment Fund through government Code §53684 et seq. Deposits are subject to the consent of the County Treasurer. The local agency legislative body must approve the County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. Any withdrawal of these deposits must be made in writing 30 days in advance and will be paid at the lower of market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal. If the County Treasurer deems appropriate, the deposits may be returned at any time.

Limitations on Honoraria

In accordance with Government Code §27133 (d) et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolio and members of the Treasury Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of $50 in a rolling twelve month time period from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities in a rolling twelve month time period in excess of $280. Any violation must be reported to the California Fair Political Practices Commission.

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SUMMARY OF INVESTMENT LIMITATIONS

	* Limit Per Institution	* Limit Per Type of Investment	Maximum Allowable Maturity
Treasuries		100%	5 years
Agencies			
Government National Mortgage Assn.		50%	5 years
Federal Farm Credit System		50%	5 years
Federal Home Loan Bank		50%	5 years
Federal Home Loan Mortgage Corporation		50%	5 years
Federal National Mortgage Association		50%	5 years
Tennessee Valley Authority		50%	5 years
Student Loan Marketing Association		50%	5 years
Medium Term Corporate Notes	10%	30%	5 years
Negotiable Certificate of Deposit	10%	20%	5 years
Time Certificates of Deposits	15%	40%	5 years
Bankers Acceptances	15%	40%	180 days
Commercial Paper	10%	40%	270 days
Repurchase Agreements			
Less than 30 days	20%	30%	30 days
Greater than 30 days	10%	30%	365 days
Shares of Beneficial Interest			
Mutual Funds	15%	15%	** N/A
Community Local Agency Special Sweep (CLA$$) Account – Plumas Bank	100%	100%	** N/A
Local Agency Investment Fund	100%	100%	** N/A

No more than 20% of the portfolio, except Treasuries and Agencies, may be invested in the securities of a single issuer, including its related entities.

* Based on total of available funds at the time the investment decision is made.
** Mutual Funds, CLA$$ Account and LAIF have one-day availability and no maturity date.

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MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
U.S. Treasuries and Agencies

INVESTMENTS: Issues of the U.S. Treasury (treasuries or governments), agencies of the federal government, and the Federal National Mortgage Association (FNMA) shall be authorized as acceptable investments for Modoc County Treasurer's Office.

REASONS: U.S. Treasury issues are judged to be the safest of all investments. Agencies are typically considered the next safest class of securities available. (The Federal National Mortgage Association is now publicly owned, but the investment world still generally groups it with the agencies. For purposes of these guidelines it will be referred to as an agency.) These securities are also very liquid, marketable, and they offer a wide range of available maturities.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase all of these securities with no limitations as to the amount than can be owned of each.

CHARACTERISTICS: Agencies of the Federal Government are the Federal Home Loan Bank system (FHLB), the Federal Farm Credit System (FFCS), the Federal Home Loan Mortgage Corporation (FHLMC), and the Government National Mortgage Association (GNMA).

Securities issued by the GNMA are guaranteed by the Federal Government and it is a general belief that the other agencies carry an "implied" guarantee (excluding FNMA).

Along with treasuries, agencies can be issued in discount form from securities with maturities of one year or less. If the maturities are greater than one year, these securities are normally issued with coupons. They can, however, be issued in "stripped" form with all interest paid at maturity. The GNMA, FHLMC and FNMA also issue a variety of securities backed by mortgages. Maturities on treasuries and agencies can be from just a few days to thirty years.

While all of these securities are classified as agencies, there can be perceived differences in quality and consequently, each can trade at a different yield from each other and treasuries. Issues of the GNMA, because of the government guarantee, are considered the safest of the agencies.

GUIDELINES: There shall be no restrictions on the amount of dollars to be placed in governments at any one time. However, investments in each of the agencies shall not exceed 50 percent of available funds.

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MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Medium-Term Corporate Notes

INVESTMENTS: Medium-term notes (MTNs) shall be authorized as acceptable investments for Modoc County Treasurer's Office.

REASONS: Medium-term notes are a suitable investment for maturity requirements of one to five years. High-quality corporate notes are relatively safe as to principal, reasonably liquid and they can offer attractive yields and a wide range of maturities.

DEFINITION: MTNs are negotiable instruments issued by corporations and depository institutions with maturities of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as a letter of credit.

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest a maximum of 30 percent of surplus funds in MTNs with maturities up to five years. Issuers must be operating within the United States and possess ratings in the top three categories (A or better) by two of the three largest nationally recognized rating services (currently Moody's, Standard and Poor's and Fitch's Rating Services).

HISTORY: MTNs were initially issued by General Motors Acceptance Corporation (GMAC) in 1972. They have become a more prevalent investment since 1982 when the SEC removed some restrictions that had previously hindered their sale. Currently, there are over 100 issuers of MTNs with outstanding notes of over 35 billion dollars.

CHARACTERISTICS: MTNs are generally issued in minimum amounts of $25,000 or $100,000 and integral amounts of $1,000. Interest is calculated on a 30-day month, 360-day year basis and paid semi-annually on two pre-established dates. Floating rate MTNs can pay interest monthly, quarterly, or semi-annually.

Yields on MTNs will normally exceed those on treasuries with comparable maturities by about 10 to 75 basis points. Levels of interest rates, maturities, the quality of each issue, and supply and demand factors will affect available yields.

GUIDELINES: Only MTNs issued by the most stable corporations should be purchased for the Modoc County Treasurer's Office.

Up to 30 percent of available funds shall be allowed to be placed in MTNs at any one time.

No more than ten percent of available funds should be allowed to be placed in the notes of any one issuer at any one time. In combination with any other debt issued by any one corporation or its holding company, no more than 20 percent of available funds should be placed in that corporation at any one time.

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MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Negotiable Certificates of Deposit

INVESTMENTS: Domestic and Yankee negotiable certificates of deposit (CDs) shall be authorized as acceptable investments for the investment portfolio of Modoc County Treasurer's Office.

REASONS: CDs have become a desirable investment because they offer a good combination of liquidity, marketability, yield, safety and choice of maturities.

DEFINITION: A CD is a negotiable instrument evidencing a time deposit with a financial institution at a fixed rate of interest for a fixed period. A variation is a variable rate CD that periodically changes the interest rate based upon a predetermined index, usually an average of shorter term CDs or treasury bills. CDs are not collateralized and should be considered an unsecured deposit.

Yankee CDs are issued by foreign bank branches in the United States.

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest a maximum of 30 percent of surplus funds in CDs issued by a nationally or state-chartered bank or by a California licensed branch of a foreign bank (Yankees).

HISTORY: The New York banks began issued CDs in 1961 in an effort to attract deposits from the national market. A secondary market was created at the same time. Yankee CDs began trading actively in the late 1970's.

CHARACTERISTICS: CDs are coupon bearing, which on CDs with maturities of one year or less is usually paid at maturity. A small percentage of CDs issued have maturities greater than one year and will normally pay interest on a semiannual basis. The majority of CDs are issued in the 30-90 day range.

CDs are normally issued in pieces of $1 million and the normal trading block is $5 million. The odd-lot market is active, but marketability and yield suffer slightly.

Yankee CDs will typically yield a little more than domestic bank CDs.

GUIDELINES GOVERNING CD INVESTMENTS: Since CDs are unsecured deposits, only banks of the highest quality shall be eligible for purchase. CDs shall only be purchased from issuers that meet minimum quality standards as determined by professional rating services.

Because CDs are of lower quality than Bas, they shall represent a smaller percentage of the portfolio than Bas do. That limit shall be 20 percent of available funds.

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Negotiable Certificates of Deposit
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No more than 10 percent of available funds shall at any one time be in the CDs issued by any one institution.

CDs in any one financial institution, in combination with any other debt issued by that institution or its holding company should be equal to no more than 20 percent of available funds (excluding repos and commercial paper with maturities of seven days or less).

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MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Time Certificates of Deposit

INVESTMENTS: Time Certificates of Deposit (TCDs) shall be authorized as acceptable investments for the investment portfolio of Modoc County.

REASONS: TCDs can be attractive investments because they offer competitive yields, a wide range of maturities, and a relatively high degree of safety if they are issued by a financial institution of high quality and collateralized.

DEFINITION: A TCD is a non-negotiable instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. TCDs can be collateralized with securities or mortgages or, if issued in denominations of $100,000 or less, they can be insured by the Federal Deposit Insurance Corporation.

LEGAL AUTHORITY: Section 53630-53638 of the Government Code allows public agencies to invest in the TCDs of banks, savings and loan associations or savings banks.

HISTORY: Prior to 1975, bank TCDs collateralized with securities were one of the few investments allowed for public agencies. Subsequently, TCDs of savings banks were legalized as investments, the insured portion of TCDs was raised to $100,000, mortgages could be utilized as collateral, and collateral could be waived in lieu of insurance.

CHARACTERISTICS: TCDs purchased by public agencies pay interest at least quarterly. Maturities are typically one year or less. Because they are non-negotiable, they are non-liquid and cannot be sold or redeemed prior to maturity without suffering a loss of interest. TCDs can be written for any amount, but it has become common practice over the past few years to issue TCDs in $100,000 denominations to take advantage of the insurance available on that amount.

TCDs covered by insurance typically yield slightly more than collateralized TCDs. TCDs issued by different institutions can vary a great deal depending upon the quality and size of the institution. Normally, yields on TCDs issued by larger, more stable (first-tier) banks will be at a slight premium to treasury yields. TCDs of lower-rated regional banks and those of savings and loans, and savings banks can yield up to 300-400 basis points over those of first-tier banks during periods of tight monetary policy.

GUIDELINES: Only TCDs of banks or savings banks of highest quality shall be purchased. TCDs shall only be purchased form those institutions that meet minimum quality standards as determined by professional rating services.

No more than 15 percent of available funds shall be placed in TCDs of any one institution at any one time.

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All TCD deposits shall be fully collateralized as provided for in the Government Code. Waivers for FDIC insurance will not be allowed.

Interest shall be collected monthly when possible.

Up to 40 percent of funds being managed may be deposited in TCDs at any one time.

Deposits in any one financial institution, in combination with any other debt issued by that institution or its holding company should equal no more than 20 percent of available funds (excluding repos and commercial paper with maturities of seven days or less).

MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Repurchase Agreements

INVESTMENTS: Repurchase Agreements (repos) shall be authorized as acceptable investment instruments for the Modoc County Treasurer's Office.

REASONS: Repos are on of the most flexible investments available to invest short-term funds, and when proper guidelines are followed, are relatively safe.

DEFINITION: A repo involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

LEGAL AUTHORITY: Section 53601 of the Government Code permits Repos in any security that is allowed for purchase as defined in that same section of the Code. Collateral must be delivered to the local agency by book entry, physical delivery or third party custodial agreement. Market value of collateral must be equal to at least 102 percent of the repo.

CHARACTERISTICS: Repos can be entered into with any amount of dollars, including odd amounts. They are typically for very short periods, often one day; but it is not unusual for repos to be for periods of up to 180 days and occasionally longer.

Any type of security can be used as collateral, but most often government or agencies securities are utilized.

The interest rate earned on a repo is a function of short-term borrowing rates, the term of the repo, the size of the transaction, and the quality and supply of the securities used as collateral.

When repos are transacted with a bank it is a normal practice to allow that bank to maintain the collateral in a pooled trust account. When the transaction is with broker/dealer investment policies differ, but typically the collateral is transferred to the safekeeping account of the investor, especially if the dollars involved and the term of the repo is relatively long.

Pricing of collateral is normally at market value if the term of the repo is for a short term and at a slight discount to market value if the repo is for longer term (over 30 days) to protect the lender from market fluctuations.

RISK: There are minimal risks involved in a repo transaction if the collateral is priced properly. Caution should be used for repos of greater than 30 days so that market changes do not substantially change the value of the collateral. This risk can be minimized by requesting additional collateral if market price drops below a predetermined price level.

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GUIDELINES: Repos shall be transacted only with banks and broker/dealers considered reputable and financially strong.

Collateral used for repos shall be any security approved for purchase.

For repos of 30 days or less, no more than 20 percent of the funds managed by Modoc County Treasurer's Office shall be invested with any one institution.

For repos of more than 30 days, no more than 10 percent of the funds managed shall be placed with any one institution.

Securities purchased through repurchase agreements shall be considered "owned" and added to the total of those securities (excluding repos of seven days or less). This will prevent percentage limitations placed on any type of security from being exceeded.

MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Commercial Paper

INVESTMENTS: Commercial paper (CP) shall be authorized as an acceptable investments for Modoc County Treasurer's Office.

REASONS: Commercial paper can be an appropriate short-term investment because of yield, liquidity and choice of maturities.

DEFINITION: Commercial paper is an unsecured negotiable instrument normally issued by large and financially sound corporations.

LEGAL AUTHORITY: Section 53635 of the Government Code allows California counties to invest up to 40 percent of available funds in commercial paper if certain conditions are met.

HISTORY: The origin or commercial paper can be traced to the 19th century in the United States where it became a substitute for bank loans.

CHARACTERISTICS: Commercial paper can be issued bearing a coupon or it can be discounted. Maturities never exceed 270 days and the majority of commercial paper is issued for 30 days or less. It can be issued by an "industrial" company or a bank holding company, but not directly by a bank.

Commercial paper can be written for any amount, but normally is issued in increments of $1 million. There is a secondary market for commercial paper, but it has very limited liquidity compared to the CD or BA markets.

Commercial paper issuers can obtain a letter of credit from a bank to guarantee payment of principal and interest at a maturity or a bank line of credit that can be drawn on for such payment.

Top grade commercial paper will typically yield slightly less than top grade CDs.

RECOMMENDED GUIDELINES GOVERNING COMMERCIAL PAPER INVESTMENTS: Commercial paper eligible for purchase by Modoc County Treasurer's Office shall be issued by a company that:

(1) Has the highest rating offered by Moody's Investors Service, Inc. (A-1), Standard and Poor's Corporation (P-1) or Fitch Financial Services (F-1) (Current Law)

(2) Has Moody's, Standard and Poor's or Fitch's rating of "A" or better on its debentures other than commercial paper (Current Law)

(3) Is approved by the Modoc County Treasurer's investment advisor. This is the same restriction placed on banks that issue Bas and CDs.

(4) Are organized and operating with the United States (Current Law)

(5) Have assets in excess of $500,000,000 (Current Law

Maturities of commercial paper shall not exceed 270 days.

Purchase of the commercial paper of any one corporation shall not exceed 10 percent of its outstanding paper.

Up to 40% of available funds may be placed in commercial paper at one time.

No more than 10 percent of available funds shall be placed in the commercial paper of nay one institution at any one time. In combination with all other investments from the same bank the commercial paper of any one institution shall not exceed 20 percent of available funds.

MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Banker's Acceptances

INVESTMENTS: Domestic and Japanese Bankers' Acceptances shall be authorized as acceptable investments for Modoc County Treasurer's Office.

REASONS: Banker's Acceptances (BAs) are a suitable short-term investment. In addition to providing good yields, they are considered a relatively safe and liquid investment.

DEFINITION: A BA is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

LEGAL AUTHORITY: Section 53601 of the Government Code allows local agencies to place up to 40 percent of available funds in BAs.

FOREIGN BA'S: During the 1970s foreign banks, and in particular the Japanese agencies, became a competitive force in the U.S., especially in the issuance of BAs. The International Banking Act (IBA) was passed by Congress and signed into law in 1978 to regulate foreign banks. The IBA created a dual state and federal regulatory system. The Fed was authorized to fix reserve requirements for both state and federally licensed agencies of foreign banks. Most states require foreign agencies to maintain assets in an amount not less than 108 percent of the adjusted total liabilities of the agency and to deposit cash or securities with the state equal to five percent of adjusted total liabilities.

HISTORY: A form of BAs was used to finance foreign trade as early as the 12th century and they have been used in the United States for over 100 years. The Federal Reserve allowed national banks to accept time drafts in 1913 to encourage foreign trade and subsequently took action to promote expansion of the BA market. The most dramatic growth of the BA market began in 1974 when the total of BAs outstanding was approximately $10 billion.

CHARACTERISTICS: BAs are issued in bearer form and are a discount instrument. Normal trading blocks are $5 million, but the odd-lot market is active. The majority of BAs are created with a 90-day maturity and rarely extend over 180 days.

Due to the high volume of BAs being traded, they are relatively liquid instruments with spreads between the quoted bid and offer typically being between five and ten basis points, but often brokered for as little as two basis points.

The spread between treasuries and BAs will vary, depending upon a variety of circumstances. During periods of tight money, the spreads can be substantial. Likewise, easy money can produce narrower yield differentials.

Since BAs are a "two-name paper" they are perceived to be the safest of bank obligations. During the more than 70 years that BAs have been actively traded in the U.S. no loss of principal has been documented.

GUIDELINES GOVERNING BA INVESTMENT: Only the most stable of banks shall be acceptable for purchase. Eligible banks must be approved by the Modoc County Treasurer's Office or its investment advisor.

Since BAs are a relatively safe investment, Modoc County Treasurer's Office is authorized to invest in BAs up to the 40 percent maximum authorized by law. However, no more than 15 percent of funds in the Modoc County Treasurer's Office shall be placed in the BAs of any one bank at any one time. In combination with all other investments from the same bank (excluding repurchase agreements and commercial paper with maturities of seven days or less), BAs of any one bank should not exceed 20 percent of available funds.

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MODOC COUNTY TREASURER'S OFFICE
INVESTMENT GUIDELINES
Shares of Beneficial Interest (Mutual Funds)

INVESTMENT: Shares of Beneficial Interest shall be authorized as acceptable investments for the investment portfolio of the Modoc County Treasurer's Office.

REASONS: Shares of Beneficial Interest offer a reasonable amount of liquidity, diversification and safety. They are also easy to invest in and allow odd amounts of money to be fully invested.

DEFINITION: Shares of Beneficial Interest are mutual funds. Each share of the Fund represents an ownership of the Fund's assets and shares all income and expenses.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase Shares of Beneficial Interest if they have been awarded the highest letter and numerical rating provided by at least two of the three largest nationally recognized rating services; or if they are managed by an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized in Section 53601 of the Government Code and with assets under management in excess of $500,000,000. Eligible Shares of Beneficial Interest must only invest in securities that meet the requirements and restrictions listed in Section 53601 of the Government Code. Commissions may not be included in the purchase price and the total of all Shares of Beneficial Interest may not exceed 15 percent of available funds.

GUIDELINES: The restrictions placed by the Government Code on Shares of Beneficial Interest allow for prudent use of them. No additional restrictions need to be applied.