

**COUNTY OF SANTA CRUZ**  
**TREASURY OVERSIGHT COMMISSION**  
**COMPLIANCE AUDIT**  
**FOR THE YEAR ENDED JUNE 30, 1997**

**COUNTY OF SANTA CRUZ**

Treasury Oversight Commission  
For the Year Ended June 30, 1997

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# Bartig, Basler & Ray

A Professional Corporation

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Certified Public Accountants and Management Consultants

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Curtis A. Orgill

Members of the Treasury  
Oversight Commission  
County of Santa Cruz  
Santa Cruz, CA

In accordance with Section 27134 of the Government Code, we have audited the County of Santa Cruz's compliance with the Treasury Oversight Commission provisions for the year ended June 30, 1997. We did not audit, verify or confirm the existence of the investments as this was done as part of the County's annual financial audit. Rather, the sole purpose of this audit was to determine compliance with the requirements specified in the Government Code Section 27130-27137.

In our opinion the County of Santa Cruz is in compliance, in all material respects, with the articles of Sections 27130-27137 of the Government Code for the year ended June 30, 1997. We have included on the following pages our observations and comments.

We have included in this report certain information prepared by the County. Appendix A is a copy of the *Statement of Investment Policy*. Appendix B includes selected pages from the *Quarterly Investment Report for the Quarter Ended June 30, 1997* prepared by the Santa Cruz County Treasurer's Office. These appendixes have been included for informational purposes only.

BARTIG, BASLER & RAY, CPAs, INC.

*Bartig Basler & Ray CPAs, Inc.*

November 25, 1997

COUNTY OF SANTA CRUZ

Treasury Oversight Commission  
For the Year Ended June 30, 1997

COMMISSION MEMBERS

<u>Member</u>	<u>Organization Appointed From</u>
Nan Wojcik, Chairperson	School Districts Representative
Diane Siri, Vice-Chair	Superintendent of Schools
Mardi Wormhoudt	Board of Supervisors
Carol Bell	Special Districts Representative
Bill Murphy	Public Member

<u>Advisory</u>	
Richard Bedal	County Treasurer-Tax Collector
Gary Knutson	County Auditor-Controller

## COUNTY OF SANTA CRUZ

Treasury Oversight Commission  
For the Year Ended June 30, 1997

### Background and General

In 1995, the California legislature passed provisions requiring each county and city to establish an oversight Commission of from 3 to 11 members representing various organizations (The pool of organizations was also specified in the legislation). The purpose of this Commission was to oversee the policies that guide the investment of public funds. The Commission was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting.

### Compliance Audit Requirement

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. Government Code Section (GC) 27134 required an annual audit to determine compliance with the provisions.

### Commission Formation and Operation

In 1996 County Ordinance 4433 § 1 established the commission, membership, term of members, organization, powers and duties. The first commission meeting was held on January 16, 1997 and meetings were held on a regular basis throughout 1997. It was established that meetings would be held quarterly on the third Wednesday of the months of January, April, July and September.

### Investment Policy Statement

Government Code section 27133 requires the County Treasurer to annually prepare an investment policy statement. We noted in the commission minutes that the commission was properly involved in reviewing and approving the Investment Policy for 1997.

COUNTY OF SANTA CRUZ

Treasury Oversight Commission  
For the Year Ended June 30, 1997

Investment Policy Review

We reviewed the requirements specified in GC 27133, items a-h. We believe the policy addresses all the required provisions as follows:

<u>Requirement</u>	<u>Policy Page</u>	<u>Deemed Compliance</u>
a) Authorized securities	Exhibits A & B	yes
Maximum percentage by type	Exhibits A & B	yes
b) Maximum terms	Exhibits A & B	yes
c) Criteria for selection of brokers	4-5	yes
d) Limits on gifts	5	yes
e) Reporting to oversight Commission	6	yes
f) Calculation of treasurer's costs (GC 27013)	8	yes
g) Voluntary depositors	8	yes
h) Requests for withdrawal	8-9	yes

We believe the policy adequately addresses the guidelines intended by the oversight legislation,

## COUNTY OF SANTA CRUZ

Treasury Oversight Commission  
For the Year Ended June 30, 1997

### Compliance to Policy

We reviewed the County's practices during 1996-97 to determine compliance to the investment policy. We verified that the maximum percentages by category of investment were not exceeded during the year. We also verified that maximums for single issuers and maximum term limits specified in the policy were not exceeded. We reviewed the general procedures for cash flow projection and the amounts available to invest and found them to be adequate. We reviewed the brokers used during the year and found all to be primary dealers as specified in the policy agreement.

### Reporting

We found the June 30, 1997 report to be very comprehensive and complete and appeared to contain all the specified elements listed in Government Code 53646. The values as reported on the June 30, 1997 report show total investments at cost of \$ 235,352,546 and fair market values of the investments of \$ 236,286,526 for a difference of \$ 933,980 or a .4% increase in values over cost. If the accrued values (representing interest earned) for discounted investments (banker's acceptances, commercial paper, and discounted notes) were excluded from the market valuations the difference becomes \$59,936 instead of the \$933,980. We believe that the inclusion of the accrued interest on these types of investments is a fairly common practice but can distort the actual value of the principal of the portfolio.

### Conclusion

The Treasury pool appears to be diversified. Since the portfolio is short term in nature, the market values and the cost are very nearly the same. Investments in the portfolio appear to be prudent and are of the type common to investment pools of other counties.

We believe the Oversight Commission is operating as intended by the legislation. Regular meetings have been held to perform the oversight responsibilities. Comprehensive quarterly investment reports were distributed to the Commission members. These were reviewed at the quarterly Oversight Commission meetings. Our review confirmed that the actual practices during the year were in compliance with Government Code and the Investment Policies in effect.

We believe that continuing education as to the investments, the investment policy, and the practices of the Treasurer will assist the commission in fulfilling its oversight responsibilities.

## **APPENDIX A**



# County of Santa Cruz

## STATEMENT OF INVESTMENT POLICY

Under the laws of the State of California, it is the responsibility of the County Treasurer, with the approval of the Board of Supervisors, to secure and protect the public funds of the County and the participants of the Investment Pool, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are legally deemed surplus in a manner anticipated to provide additional benefit to the people of the County of Santa Cruz. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County instead of each entity having to locate and hire a knowledgeable person to handle the entity's banking, investment, and other financial duties separately. This pooling of public funds not only eliminates duplication of jobs, but also smoothes out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers.

This Statement of Investment Policy will be provided annually for the review of the Treasury Oversight Commission and the approval of the Board of Supervisors in an open public meeting.

### SCOPE

This Statement of Investment Policy pertains to those temporarily surplus funds under the control of the Treasurer, designated for the daily ongoing operations of the County and pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, delayed compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool.

### PURPOSE OF POLICY STATEMENT

The purpose of this Statement of Investment Policy is to provide the Board of Supervisors, the Treasury Oversight Commission, those entities invested in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed surplus.

### TREASURY OBJECTIVES

The underlying objective of the Treasurer is to protect the safety of the principal of the County Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

**Safety:** It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

**Liquidity:** It is imperative that a vast majority of all investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

**Availability:** Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available without requiring the sale of investments prior to maturity, A sufficient portion of all funds shall be invested in securities providing a high degree of liquidity and availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

**Yield:** While it is considered desirable to obtain a respectable yield, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lessor importance than either safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a respectable rate of return, not attempting to maximize yield at the expense of either safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

#### **PRUDENCE**

The Treasurer is subject to the "Prudent Man Rule" whenever making a decision regarding the investment of the County's funds. This rule states; in principle:

*"In investing property for the benefit of others, a trustee shall exercise the judgment and care, under circumstances then prevailing, that men of prudence, discretion and intelligence, would exercise in the management of their own affairs - not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable safety of, as well as the probable income from, their capital, "*

The Treasurer, and those acting for the Treasurer, are ~~is~~ considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made ~~in~~ a manner sustaining this responsibility.

#### **DELEGATION OF AUTHORITY**

In accordance with Government Code section 27000.1 and Santa Cruz Ordinance 4434, the County Treasurer has been delegated the authority to invest and reinvest the funds of the County and the funds of other depositors in the County Pool.

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day to day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the County, as of the date entered on this Policy, are listed below. This list

is **subject** to change, and those parties involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

**Authorized Personnel**

**Title**

Richard W. Bedal	County Treasurer-Tax Collector
Lois J. Thomas	Assistant Treasurer-Tax Collector
Jan Foy	Senior Accounting Technician
Lois Meeker	Senior Account Clerk

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. **Only the persons listed on a current *Trading Authorization and Agreement* document, and the Treasurer, may initiate trading activity.**

**SECURITIES CUSTODY**

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase, on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements.

**DESIGNATED SERVICE BANK**

The Treasurer shall designate a State or Federally chartered bank operating within the State of California to serve as the County's Primary Service Bank, and the Treasury shall use said bank as a clearing house for all funds.

**AUTHORIZED INVESTMENTS AND LIMITATIONS**

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other Code sections that may apply, or might later be enacted, pertaining to local agency investments. Securities brokers dealing with the County should possess a complete understanding of these Code sections.

An attached Exhibit A briefly describes the types of securities that are legal within the Government Code sections noted above and outlines the various limitations included in these sections. Except for the restrictions recorded below in this section, all legally permitted investment options described in the Government Code are authorized under this Policy. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though the Government Code sections define the investment types and terms permissible to the Treasurer, **the Treasurer will not:**

- Invest in any security or investment with a stated or potential final maturity longer than five years, unless the terms of the investment or security includes an unrestricted ‘put’ at a date shorter than five years.
- Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein interest might not be earned during any period the security or investment exists.
- Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein the investment runs the risk of earning a rate of return substantially below other investments obtainable on a fixed rate basis at the time of purchase or the prevailing rate at any time prior to the maturity of the issue.
- Enter into a reverse repurchase agreement.
- Purchase any Collateralized Mortgage Obligation.
- Lend securities.
- Invest in futures or options

In addition to the limitations provided in State law and this Investment Policy, various temporary and more restrictive constraints may at times be beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but are presented in a document prepared by the Treasurer in a document entitled “Temporary Constraints and Restrictions on Investments”, and will change on an “as needed” basis. The attached Exhibit B is the “Temporary Constraints and Restrictions on Investments” that were in effect when the Board of Supervisors approved this policy. When these constraints and restrictions change, a copy will be immediately sent to members of the Treasury Oversight Commission and the Board of Supervisors. These constraints or restrictions may only be *more* restrictive than those of the Policy, but *may not* be less restrictive. Securities Brokers and Dealers should be aware of these temporary conditions in order to save time and best serve the county.

#### **AUTHORIZED DEALER LIST**

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the **Treasurer's efforts** to best manage the cash portfolio, as well as fulfill certain other minimum requirements. To qualify for Authorized Dealer status, a brokerage **firm** or bank must:

- 1) Be a dealer operation properly licensed to deal with local agencies in California, **and;**
- 2) Have a minimum of \$50mm in capital, or, be a Primary Dealer of the Federal Reserve Bank of New York; **and;**
- 3) Be headquartered in the State of California, or, the City of New York, or be the direct issuer of a security type normally purchased by the Treasurer,

**Or;**

Be a department or subsidiary of an insured bank with minimum assets of \$500MM that the County has comprehensive banking relationships with.

**Or;**

Be a broker operation properly licensed to deal with local agencies in California, that has capital of \$500m, that is not directly involved in the actual custody, and transfer of money or securities purchased or sold by the County, but that represents established accounts opened in the County name at those firms meeting requirements of 1) through 3) of this section, wherein all dealings would be the responsibility of the dealer operation, and wherein all deliveries, payments, written confirmation, etc. will originate with the qualified dealer operation and are sent directly to the county.

If meeting the above requirements, a salesperson may apply to become a Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

- 1) Their reasons for believing they would add value to the present coverage; **and,**
- 2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; **and,**
- 3) A list of five references, at least three being California local agency treasurers, including telephone numbers, that the Treasurer or his representative may contact.

The Treasurer will instigate an investigation of the applying salesperson and the **firm** through various sources, including the California Department of Corporations and the N.A.S.D., to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests at the end of each quarter, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, are prohibited from dealing with a salesman, broker, or account executive from any broker, dealer or bank investment department or subsidiary until the Acknowledgment form found on the last page of *the Trading Authorization and Agreement* is signed by all parties and received by the Treasurer. Similar restrictions and forms may be required of those firms doing business with the County through retained financial advisors or managers.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Codes, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G 37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

## THE COUNTY TREASURY OVERSIGHT COMMISSION

In accordance with Government Code section 27130 et seq. and County Ordinance 4433, there shall be a Treasury Oversight Commission of five members appointed from the following:

- a) An appointed representative of the Board of Supervisors.
- b) The County Superintendent of Schools, or designee.
- c) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts of the County.
- d) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts within the County that are required or authorized to deposit money in the County Investment Pool.
- g) A public member who shall have expertise in, or an academic background in, public finance.

**Restriction of Members-All** members of the treasury oversight commission are restricted as follows:

- A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer; or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.
- A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.
- A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms during the period that the person is a member of the committee or for three years after leaving the committee.
- Members may not receive honoraria, gifts or gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business.

The Treasurer will annually provide a copy of the Investment Policy for review and monitoring by the Treasury Oversight Commission. The Treasurer will provide a report quarterly to the Board and the Treasury Oversight Commission, identifying all investments held in the County Investment Pool, or elsewhere by the Treasurer. The Treasury Oversight Commission shall, via this report and other appropriate means, monitor the activities of the Treasurer, and cause to be performed an annual audit to determine the Treasurer's compliance with this Investment Policy, and other appropriate regulations.

Committee meetings shall be open to the public and in compliance with the appropriate sections of the Ralph M. Brown Act. By Code, all costs related to the duties of the Treasury Oversight Commission will be considered normal charges against earnings of the Investment Pool.

Local agency legislators with surplus money in the County Investment Pool wishing to withdraw funds from the Pool beyond those amounts needed for the normal operation of the agency, will first send their "Request for Withdrawal" to the Treasury Oversight Commission for review. The result of the Commission's examination of the agency's request will be forwarded to the Treasurer for a final decision as to the feasibility of the request.

The Treasury Oversight Commission shall have no authority to direct the process or daily operation of any portion of the Treasury department, nor shall the Commission play any role in determining which banks, firms, or individuals the Treasurer does business with, nor shall the

Commission be involved in determining which investments the Treasurer purchases, but shall act only to review the actions of the Treasurer to determine that they are in accordance with the Investment Policy and all other legal requirements or regulations.

#### **TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL**

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must not only protect each individual local agency, but also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

#### **FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL**

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance distributed on a monthly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, or by the County.

Under recent language added to the Government Code in 1995, it is no longer permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time without the specific permission of the Treasurer. Any such investments existing shall either be terminated and all funds returned to the Pool, or the securities purchased shall be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

### **MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL**

By Code, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds. Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer term investments. Such deposits are subject to withdrawal restrictions for a set minimal term as to be agreed to, prior to the funds being accepted into the Pool, and may not be withdrawn at any time without a minimum of thirty days notice of "intent to withdraw".

Under normal conditions, voluntary money withdrawn from the Pool will be dispersed on a dollar for dollar basis, plus interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for the those local agencies remaining within the Pool, the Treasurer may require one or more of three remedies: 1) restrict the percentage of funds that may be withdrawn in any given month 2) restrict the rate at which the funds may be withdrawn, or 3) require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool. Such terms may exceed those minimum requirements set forth in the Government Codes.

Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

### **POOLING FUNDS AND DISTRIBUTING EARNINGS**

Funds available from all sources may be pooled in order to achieve greater investment potential. The earnings from the pooled investments shall be deposited in a special fund. Each month the Earnings Fund will be shared and each participant in the pool will be credited with interest proportional to the size of their investment, based on the average daily balance.

Funds placed in specific investments earn the yield of the investment, not the return earned by the Pool. Earnings on specific investments will be distributed within thirty days of receipt.

### **CALCULATING AND APPORTIONING COSTS**

The County Treasurer, following the criteria outlined by the Federal Office of Management and Budget circular # A-87, will determine the "administrative cost" of investing or handling of funds as well as the cost of equipment which expedites processing. This cost shall be deducted prior to interest apportionment and shall be shared proportionately by all pooled and specific investments.

### **REPORTING**

The Treasurer will report to the Board of Supervisors and the Treasury Oversight Commission on a quarterly basis the holdings, status, and earnings of the portfolio. The Statement of Investment Policy will be provided annually for the approval of the Board of Supervisors and for review by the Treasury Oversight Commission. Should conditions arise or legislation become effective that behooves changes within the Policy during the year, the revised policy will again be presented to both parties.



**Exhibit A**  
**Investments Allowed by State Law**

Investment Type	Maximum % of TIF*	Maximum Maturity	Quality Requirements
a. Bonds issued by a local agency	100%	None	None
b. Treasury Obligations	100%	None	None
c. State of California Obligations	100%	None	None
d. Obligation of Calif local agency	100%	None	None
e. Obligations issued by Federal Agencies, and U.S. and Government sponsored enterprises	100%	None	None
f. Bankers Acceptances	40%	270 days	None
g. Commercial Paper	if 15% or less if 16% to 30% (30% is Max)	180 days 31 days wgt. avr.	U.S. Corporations with \$500MM in assets A or higher long term rating if any, 10% Max of issue, A1/P1 or better C.P. rating by Moody's and S&P
h. Negotiable C.D.s	30%	5 years	None
i. Repurchase Agreements	100%	1 year	Collateral must be a legal investment
j. Reverse Repurchase Agreement	20% of base	92 days maximum, or to maturity	Collateral must be a legal investment
k. Medium Term Note	30%	5 years	U.S. Corporations, or Banks licensed within any State of the U.S., "A" or better rating by major rating service
l. Mutual Funds	20%, 10% per fund	NA	A defined money market fund; or invest only in a-j, m, n of this list, as restricted; highest letter and number ranking of 2 of 3 rating services; or a SEC Registered Advisor with 5 years.
m. Investments as permitted by provision in agreements of indebtedness	As per bond agreement	NA	Not contrary to 53635 and other pertinent law
n. Asset secured indebtedness	100%	None	As required by 53652
o. Collateralized Mortgaged Obligations	20%	5 years	Issuer must be rated "A" minimum, security must be "AA" by national rating service
p. Contracted Non-neg Time Deposits	100%	None	None--% of asset limits

\*Total Investible Funds (TIF)—for purposes of this Policy, are all funds in the Pool that are available for investment at any one time.

## Temporary Constraints and Restrictions on Investments

- a. **Bonds issued by the County or County Agencies.** The Treasurer may purchase debt issued by the County or its agencies, but any such debt purchased will normally be obtained only directly from the issuing agency and not in the secondary market. Such issues, along with issues from 'c' and 'd' below, shall not exceed 10% of the total portfolio.
- b. **U.S. Treasury obligations.** The Treasurer will attempt to purchase U.S. Treasury obligations for the liquidity and availability they provide when investing in issues beyond two years, However, the spread available on issues with less availability or quality may suggest that other issues be substituted. Treasury issues are will not be limited in quantity, though the cash flow requirements of the Pool shall be considered when purchasing longer term maturities.
- c. **State of California Obligations.** The Treasurer does not currently invest in State obligations, though participation in the Local Agency Investment Fund is part of the overall investment strategy, and the holding of interest bearing State issued warrants as an investment alternative is permissible under some occasions. State issued obligations, with the exception of LAIF investments, along with issues from 'a' and 'd', shall not exceed 10% of the overall portfolio.
- d. **Obligations of another California local agency.** The Treasurer does not currently purchase these securities due to tax considerations, but may purchase taxable issues. The total of all such issues, along with issue from 'a' and 'c' above, shall not exceed 10% of the overall portfolio.
- e. **Obligations of the various Federal Agencies.** The Treasurer currently does not invest in any long term pooled securities issued by GNMA, FHLMC, SBA, or any Federal agency with a maturity based on average life calculations. Due to the frequent concerns for the safety and liquidity levels of many agency obligations, the Treasurer monitors and may restrict the purchase of any particular agency's securities at any time. Agency obligations'are expected to yield a reasonable spread over Treasury issues of the same maturity, and the Treasurer will ~~currently~~ generally not purchase any agency obligations for a spread below a minimum of 10 basis points. No single agency will account for more that 15% of the portfolio at this time, nor will the total of all Federal agencies exceed 40% of the portfolio.
- f. **Bankers Acceptances.** The Treasurer currently purchases B.A.s from those banks ranked in the top 100 world banks or the top 20 U.S. banks on the latest compilation by the American Bankers Association Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan. For additional potential restrictions see section 'p' below.
- g. **Commercial Paper.** The Treasurer currently does not impose any additional restrictions on commercial paper, though in order to provide the most flexibility when making investment decisions, will attempt to maintain a maximum thirty day weighted average maturity. See section 'p' below for additional potential restrictions on particular Commercial Paper issues.
- h. **Negotiable Certificates of Deposit.** The Treasurer currently purchases'those types of Negotiable C.D.s permitted by the Government Codes, from certain banks listed in the top 100 world banks or the top 20 U.S. Banks, as registered in the most recent American Bankers Association compilation, that also receive a long term debt rating of "A" or better by S&P and Moody's, and a short term rating of investment grade. Additionally, the Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their pricing within the secondary markets. Negotiable S&L and savings bank C.D.s are not currently purchased. The Treasurer currently is not purchasing fixed rate C.D.s with a maturity beyond two years nor any type of C.D. with a maturity beyond five years. Any C.D.s purchased with a maturity longer than

one year must pay interest no less frequently than semiannually. Please see section 'p' below for additional potential restrictions on C.D. purchases.

i.[a] **Repurchase Agreements.** Repurchase agreements will only be entered into with Primary Dealers, and all collateral will be delivered to a third party designated by the Treasurer, as per state law. Due bills are not acceptable, nor, except in cases of extreme emergency, are substitutions of collateral on agreements under 30 days. The Treasurer will constantly monitor the market value of all collateral and shall require additional collateral if the market value falls to a level of 100% of the cash value invested, when Treasury Notes and Bonds are the collateral, and at higher levels for other types of collateral. Treasury Notes and Bonds will be collateralized at a minimum of 102% of market at the start of the repo, for short term repos, and possibly at higher levels for longer term repos, (percentage determined by market conditions, etc.). Repo agreements with Treasury Bills or other discounted securities as collateral will be priced to market and collateralized at a minimum of 102% of market, (actual percentage to be determined by collateral type, conditions, etc.) Collateral with maturities beyond five years are not acceptable, (except in certain limited cases where unrestricted 'puts' are included with the issue), and all collateral must meet the same requirements as purchased securities. Repurchase Agreements will not be entered into for periods longer than 90 days. Repurchase Agreement contracts will be on file for any dealer with which the County does Repos. See section 'p' below for other potential restrictions on Repo collateral.

[b] **Reverse Repurchase Agreements.** The County Investment Policy does not allow the Treasurer to enter into Reverse Repurchase Agreements.

j. **Medium Term Notes.** The Treasurer currently purchases Medium Term Notes with a rating of "A" or better for a maturity of up to one year. Maturities beyond one year requires a rating of "AA" or better. See section 'p' below for additional potential restrictions on Medium Term Notes,

k. **Mutual Funds.** The Treasurer currently imposes no additional restrictions on Mutual Fund purchases beyond those in the Codes.

l. **Investment of Bond indebtedness.** The Treasurer will consider GICs and other issues as bond documentation permits.

m. **Asset backed securities.** The Treasurer buys only asset backed commercial paper with maturities under 180 days.

n. **CMO investments.** The County Investment Policy does not allow the Treasurer to purchase any Collateralized Mortgaged Investments.

o. **Contracted Non-negotiable Time Deposits.** The Treasurer will enter into contracts for Time Deposits of amounts greater than \$98,000, only with those banks that meet the requirements for investment in Negotiable C.D.s, or with those banks headquartered or with a branch within the County, that are rated "A" or better by Gerry Findley Inc. or an equivalent rating of a similar rating agency. Time Deposits for amounts of \$98,000 or less shall be with California institutions rated "A" or better by Gerry Findley Inc. or a similar rate and rating agency, having assets of at least \$25,000,000 and shall require at least quarterly interest payments. Issuers of all Time Deposits shall agree to early withdrawal, under a bona fide emergency circumstance, with penalties not exceeding an interest adjustment to the level of the yield available to the investor on the original settlement date, for the shorter time period actually held. The maximum maturity on any Time Deposit shall usually not exceed 6 months, nor shall the total of all Time Deposits exceed 10% of the total portfolio. Mandated deposits or investments specifically invested by pool participant's request are not included in this percentage restriction. See section 'p' below for additional potential restrictions.

p. **Exposure Limits.** Presently the total exposure to any one issuer, when totaling all types of securities, shall not exceed 10% of the total portfolio on date of purchase. Possible exceptions to this rule shall include U.S. Treasury

issues, Federal Agency issues, local agency issues, and funds in LAIF. Repurchase Agreement collateral shall not be excluded from this calculation unless the Repurchase Agreement is for 5 business days or less. Exposure to the overall credit of individual foreign countries shall be monitored and maintained at prudent levels. Under generally accepted practices, exposure limits are calculable on the purchase date of the investment only.

q. **Lending Securities.** The County Investment Policy does not allow the County Treasurer to lend securities.

r. **Futures and Options.** The County Investment Policy does not allow the Treasurer to invest in futures or options.

s. **Maturities over one year.** Any investment made with a maturity exceeding one year shall require prior written approval of the Treasurer.

## **APPENDIX B**

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# CERTIFICATION OF LIQUIDITY

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TO: Honorable Board of Supervisors

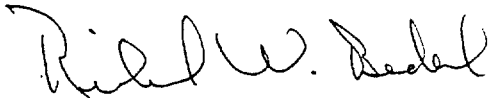
FROM: Richard W. Bedal, Treasurer/Tax Collector

This report shows the investment activity for the Quarter ending June 30, 1997, of pooled funds on deposit with the Treasurer and that it is in compliance with California Government Code Sections 27000 et seq., 53600 et seq., and the County's Investment Policy of 1997.

Attached are summaries of Portfolio Statistics, Investments Outstanding, Securities Activity by Brokers, the Portfolio at Glance, and other information to give a better understanding of the investment activity that has occurred through June 30, 1997.

Pursuant to Government Code § 53646(b)(3), I certify that because of the liquidity of the pool and the county's issuance of Teeter Notes and TRANS, the county has the ability to meet the pool's expenditure requirements for the next six months.

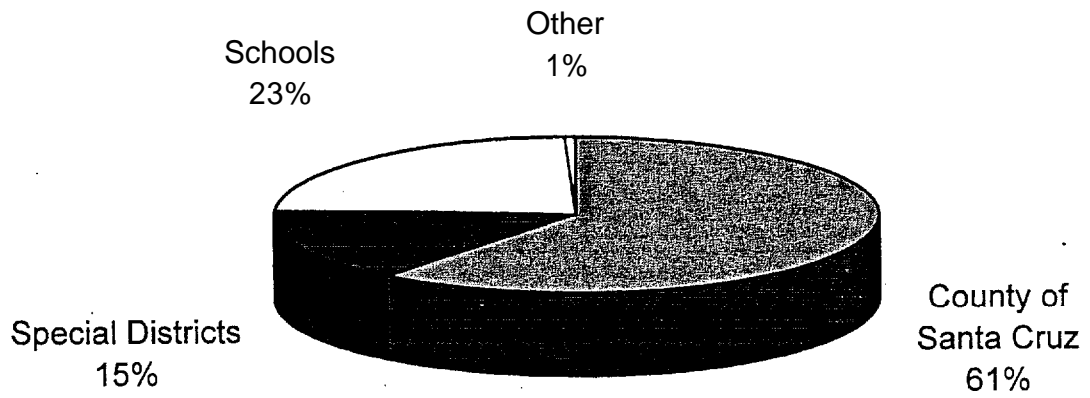
Respectfully Submitted,



Richard W. Bedal  
Treasurer/Tax Collector

# SOURCE OF FUNDS

Pooled 'Money Investment Account  
as of June 30, 1997



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# **SUMMARY OF PORTFOLIO STATISTICS**

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Asset Listing Sorted by Security Type

Includes Percent of Assets, Book Value, Market Value,  
Gross Yield History, and Monthly Balance History



**Santa Cruz County Treasurer's Portfolio  
as of June 30, 1997**

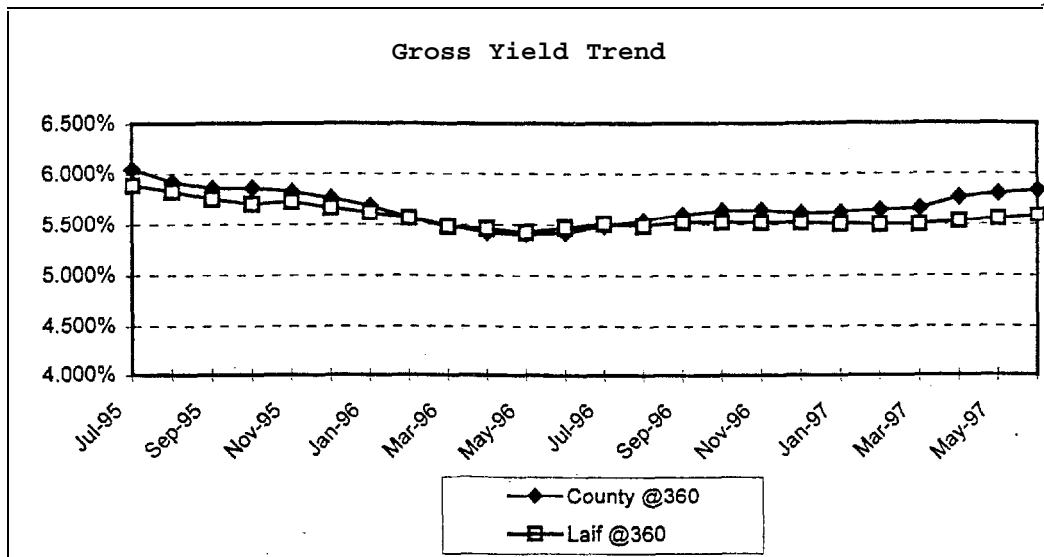
	<i>COST BASIS</i>	<i>Rate of Return</i>	<i>PAR VALUE</i>	<i>MARKET VALUE</i>	<i>% of PORTFOLIO</i>	<i>% ALLOWED</i>
<b>U.S. Treasury Notes</b>	\$ 60,941,448.68	<b>6.07%</b>	\$ 61,000,000.00	\$ 61,094,687.50	<b>25.05%</b>	100%
<b>U.S. Government Agencies</b>						
Farm Credit Notes	\$ 14,226,316.63	<b>6.05%</b>	\$ 14,250,000.00	\$ 14,238,218.75	<b>5.85%</b>	15%
FHLB Notes	\$ 14,975,108.13	<b>5.86%</b>	\$ 15,000,000.00	\$ 14,993,125.00	<b>6.16%</b>	15%
FHLB Discount Notes	\$ 1,890,177.78	<b>5.93%</b>	\$ 2,000,000.00	\$ 1,997,937.78	<b>0.78%</b>	15%
FNMA Discount Notes	\$ 9,675,966.67	<b>5.60%</b>	\$ 10,000,000.00	\$ 9,866,266.67	<b>3.98%</b>	15%
FNMA Notes	\$ 17,212,269.90	<b>5.88%</b>	\$ 17,100,000.00	\$ 17,161,562.50	<b>7.08%</b>	15%
SLMA Notes	\$ 4,994,768.75	<b>5.66%</b>	\$ 5,000,000.00	\$ 4,992,187.50	<b>2.05%</b>	15%
FHLB Callable Bond	\$ 9,996,875.00	<b>5.96%</b>	\$ 10,000,000.00	\$ 9,990,625.00	<b>4.11%</b>	15%
<b>Total Govt. Agencies</b>	\$ 72,971,482.86	<b>5.85%</b>	\$ 73,350,000.00	\$ 73,239,923.20	<b>30.00%</b>	<b>40%</b>
<b>Banker's Acceptances</b>						
ABN Amro N.Y.	\$ 4,884,237.50	<b>5.80%</b>	\$ 5,000,000.00	\$ 4,945,854.17	<b>2.01%</b>	10%
Bank of America	\$ 15,575,884.18	<b>5.61%</b>	\$ 17,000,000.00	\$ 15,862,390.27	<b>6.40%</b>	10%
Citicorp N.Y.	\$ 1,953,597.78	<b>5.45%</b>	\$ 2,000,000.00	\$ 1,998,163.33	<b>0.80%</b>	10%
<b>Total BA's</b>	\$ 22,413,719.46	<b>5.62%</b>	\$ 24,000,000.00	\$ 22,806,407.77	<b>9.21%</b>	<b>40%</b>
<b>Negotiable CD's</b>						
Societe Generale	\$ 5,000,489.25	<b>5.50%</b>	\$ 5,000,000.00	\$ 5,000,489.25	<b>2.06%</b>	10%
Deutsche Bank	\$ 5,029,290.13	<b>5.59%</b>	\$ 5,000,000.00	\$ 4,995,850.00	<b>2.07%</b>	10%
<b>Total CD's</b>	\$ 10,029,779.38	<b>5.55%</b>	\$ 10,000,000.00	\$ 9,996,339.25	<b>4.12%</b>	<b>30%</b>
<b>Medium Term Notes</b>						
Merrill Lynch	\$ 5,000,000.00	<b>6.65%</b>	\$ 5,000,000.00	\$ 5,021,093.75	<b>2.06%</b>	10%
GE Capital Corp	\$ 6,121,650.00	<b>5.65%</b>	\$ 6,000,000.00	\$ 6,070,312.50	<b>2.52%</b>	25%
<b>Total Medium Term Notes</b>	\$ 11,121,650.00	<b>6.15%</b>	\$ 11,000,000.00	\$ 11,091,406.25	<b>4.57%</b>	<b>30%</b>
<b>Commercial Paper</b>						
Merrill Lynch	\$ 4,910,419.44	<b>5.52%</b>	\$ 5,000,000.00	\$ 4,991,322.00	<b>2.02%</b>	10%
Nationwide Building	\$ 4,868,972.22	<b>5.44%</b>	\$ 5,000,000.00	\$ 4,967,000.00	<b>2.00%</b>	10%
<b>Total Commercial Paper</b>	\$ 9,779,391.66	<b>5.48%</b>	\$ 10,000,000.00	\$ 9,958,322.00	<b>4.02%</b>	15%
<b>Repurchase Agreements</b>	\$ 4,400,000.00	<b>5.28%</b>	\$ 15,600,000.00	\$ 15,600,000.00	<b>1.81%</b>	100%
<b>Mansfield Muni Bond</b>	\$ 37,200.00	<b>11.74%</b>	\$ 40,000.00	\$ 37,200.00	<b>0.02%</b>	10%
<b>Bank of the West Checking</b>	\$ 9,826,237.00	<b>5.00%</b>	\$ 9,826,237.00	\$ 9,826,237.00	<b>4.04%</b>	100%
<b>LAIF</b>						
S.C. County	\$ 20,000,000.00	<b>5.63%</b>	\$ 20,000,000.00	\$ 20,000,000.00	<b>8.22%</b>	\$ 20,000,000.00
RDA	\$ 10,103,533.95	<b>5.63%</b>	\$ 10,103,533.95	\$ 10,103,533.95	<b>4.15%</b>	\$ 20,000,000.00
S Benito Schools	\$ 8,258,432.76	<b>5.63%</b>	\$ 8,258,432.76	\$ 8,258,432.76	<b>3.40%</b>	\$ 20,000,000.00
SC Schools Health Ins	\$ 2,792,700.08	<b>5.63%</b>	\$ 2,792,700.08	\$ 2,792,700.08	<b>1.15%</b>	\$ 20,000,000.00
Apos/La Selva Fire	\$ 559,306.70	<b>5.63%</b>	\$ 559,306.70	\$ 559,306.70	<b>0.23%</b>	\$ 20,000,000.00
<b>GRAND TOTAL</b>	\$ 243,234,882.53	<b>5.80%</b>	\$ 256,530,210.49	\$ 255,364,496.46	<b>100.00%</b>	

Investment Portfolio Yield at a Glance

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Gross Yield History

	County @360	Laif @360	Laif @365
Jul-95	6.049%	5.890%	5.972%
Aug-95	5.922%	5.829%	5.910%
Sep-95	5.859%	5.752%	5.832%
Ott-95	5.861%	5.705%	5.784%
Nov-95	5.827%	5.725%	5.805%
Dee-95	5.765%	5.669%	5.748%
Jan-96	5.688%	5.620%	5.698%
Feb-96	5.569%	5.566%	5.643%
Mar-96	5.489%	5.481%	5.557%
Apr-96	5.424%	5.462%	5.538%
May-96	5.402%	5.427%	5.502%
Jun-96	5.422%	5.472%	5.548%
Jul-96	5.487%	5.510%	5.587%
Aug-96	5.540%	5.490%	5.566%
Sep-96	5.601%	5.524%	5.601%
Ott-96	5.639%	5.524%	5.601%
Nov-96	5.648%	5.522%	5.599%
Dee-96	5.617%	5.522%	5.599%
Jan-97	5.623%	5.507%	5.583%
Feb-97	5.648%	5.499%	5.575%
Mar-97	5.661%	5.504%	5.580%
Apr-97	5.770%	5.535%	5.612%
May-97	5.806%	5.557%	5.634%
Jun-97	5.839%	5.589%	5.667%

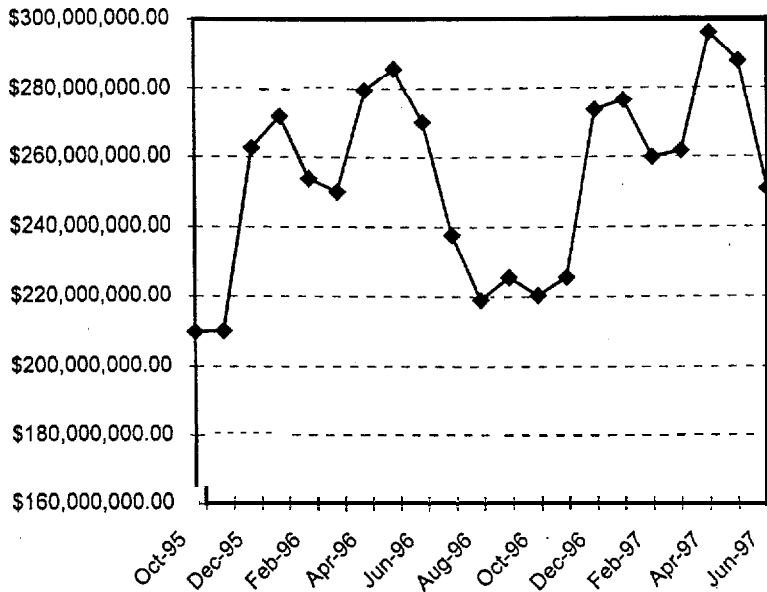


Portfolio Structure as of June 30, 1997

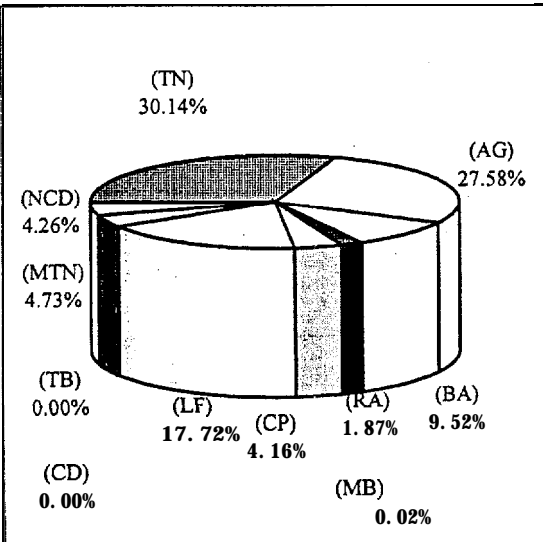
Monthly Balance History

Ott-95	\$	209,846,958.00
Nov-95	\$	210,137,594.00
Dee-95	\$	262,567,329.00
Jan-96	\$	271,782,868.47
Feb-96	\$	253,783,459.21
Mar-96	\$	250,078,838.79
Apr-96	\$	279,544,369.85
May-96	\$	285,722,450.79
Jun-96	\$	270,180,962.65
Jul-96	\$	237,777,055.28
Aug-96	\$	219,115,198.31
Sep-96	\$	225,510,940.67
Ott-96	\$	220,427,615.35
Nov-96	\$	225,500,014.36
Dee-96	\$	273,566,808.26
Jan-97	\$	276,342,375.22
Feb-97	\$	259,791,149.68
Mar-97	\$	261,619,725.47
Apr-97	\$	295,953,552.83
May-97	\$	287,709,168.52
Jun-97	\$	250,702,752.31

Monthly Balance Trend



Breakdown of Investments



Treasury Bills	(TB)	0.00%
Treasury Notes	(TN)	30.14%
U.S. Agencies	(AG)	27.58%
Bankers Acceptance	(BA)	9.52%
Repurchase Agreements	(RA)	1.87%
Commercial Paper	(CP)	4.16%
Muni Bond	(MB)	0.02%
LAIF	(LF)	17.72%
Certificate of Deposit	(CD)	0.00%
Negotiable CD	(NCD)	4.26%
Medium Term Note	(MTN)	4.73%

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**DETAILED LIST OF INVESTMENTS OUTSTANDING**

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AS OF JUNE 30, 1997

Investments in the Portfolio  
with Market Values, Accrued Interest  
and Unrealized Gains or Losses

COUNTY OF SANTA CRUZ

INVESTMENT INVENTORY WITH MARKET VALUE

PAGE: 1

(RPTMKT)

RUN: 7/11/97 10:21:49

INVESTMENTS OUTSTANDING AS OF 06/30/97  
MAJOR SORT KEY IS ICC#

INVEST NUMBER	DESCRIPTION PURCHASE DATE	MATURITY DATE	CUSIP	BANK	FUND	CPN RATE YTM TR	PAR/SHARES BOOK	MARKET VALUE MARKET PRICE	CURR ACCR INT PRICE SOURCE	UNREALIZED GAIN UNREALIZED LOSS
A 14304	T NOTE 5.75 COUP 04/03/96	09/30/97	912827V33	28	100	5.7500 5.6499	2,000,000.00 2,002,812.50	2,001,250.00 100.0625000000	28,907.10 SUNGARD	-1,561.50
A 14357	T NOTE 05/01/96	09/30/97	912827V33	29	100	5.7500 5.8798	5,000,000.00 4,991,015.63	5,003,125.00 100.0625800000	72,267.76 SUNGARD	12,109.37
A 14514	T NOTE 09/30/96	09/30/97	912827V33	28	100	5.7500 5.7174	3,000,000.00 3,000,937.50	3,001,875.00 100.0625000000	43,593.75 SUNGARD	937.50
A 14366	T NOTE 05/09/96	10/31/97	912827V58	29	100	5.6250 6.0390	5,000,000.00 4,971,093.75	5,001,562.50 100.0312500000	47,384.51 SUNGARD	30,468.75
A 14401	T NOTE 5.625 COUP 05/30/96	10/31/97	912827V58	23	100	5.6250 6.005	4,000,000.00 3,979,375.00	4,001,250.00 100.0312500000	37,907.61 SUNARD	21,875.00
A 14440	T NOTE 08/07/96	12/31/97	912827W32	28	100	5.2500 5.7385	3,000,000.00 2,978,437.50	2,995,312.50 99.8437500000	427.99 SUNGARD	16,875.00
A 14701	T NOTE 04/15/97	02/15/98	912827S78	28	100	7.2500 6.0119	5,000,000.00 5,108,300.24	5,045,312.50 100.9062500000	136,187.84 SUNGARD	-3,906.25
A 14664	T NOTE 03/03/97	04/30/98	912827X56	28	100	5.8750 5.8243	7,000,000.00 7,003,281.25	7,006,562.50 100.0937500000	69,286.68 SUNARD	3,281.25
A 14704	T NOTE 04/14/97	05/31/98	9129271'39	28	100	6.0000 6.1954	5,000,000.00 4,989,062.50	5,007,812.50 100.1562500000	25,409.84 SUNGARD	18,750.00
A 14538	T NOTE 07/10/96	06/30/98	912827Y30	28	100	6.2500 6.3984	2,000,000.00 1,994,531.25	2,008,750.00 100.4375000000	329.67 SUNGARD	14,218.75
A 14703	T NOTE 04/11/97	10/31/98	912927170	23	100	5.9756 6.4060	5,000,000.00 4,961,132.81	4,993,750.00 99.8750000000	49,490.49 SUNGARD	32,617.19
A 14705	T NOTE 04/07/97	10/31/98	912327270	23	100	5.9750 6.3082	5,000,000.00 4,967,968.75	4,993,750.00 99.9750000000	49,490.49 SUNGARD	25,781.25
A 14699	T NOTE 03/31/97	03/31/99	9128272N1	29	100	6.2500 6.1851	10,000,000.00 9,993,500.00	10,034,375.00 100.3437500000	157,103.83 SUNGARD	40,875.00
SUBTOTAL (INV TYPE) 12 TREASURY NOTES				25.86%	(M)	5.9853 6.0728	61,000,000.00 60,941,448.68	61,094,687.50 100.1552250000	717,797.56	217,789.06 -5,468.75
A 14431	FAKECREDIT 5.93 COUP 07/05/96	07/01/97	31331HHW0	28	100	5.9300 6.0706	3,600,000.00 3,595,176.00	3,600,000.00 106.0006000000	106,740.00 SUNGARD	4,824.00
A 14481	FARM CREDIT 09/11/96	09/03/97	31331HJC2	28	100	5.6200 6.0402	3,000,000.00 2,988,150.00	2,999,062.50 99.9687500000	54,978.26 SUNGARD	10,912.50
A 14438	FCB 08/27/96	02/20/98	31331NW75	28	100	5.8750 6.1202	2,650,000.00 2,640,890.63	2,651,656.25 100.0625000660	56,339.95 SUNARD	10,765.62
A 14706	FFCB 04/09/97	03/03/98	31331HMB0	28	100	5.4500 6.0064	5,000,000.00 5,002,100.00	4,987,500.00 99.7500000000	89,099.81 SUNGARD	12,650.00
SUBTOTAL (INV TYPE) 20 FFCB				6.03%	(M)	5.6864 6.0509	14,250,000.00 14,226,316.63	14,238,218.75 99.3.91732500000	307,158.02	39,152.12
A 14436	FHLBMC 08/30/96	08/28/97	3134A0600	29	100	5.6400 6.0619	3,000,000.00 2,992,530.00	3,000,000.00 100.0000006000	57,490.61 SUNGARD	7,470.00
A 14604	FHLB 5.73 COUP 01/27/97	01/27/98	313395HQ1	23	100	5.7300 5.7300	10,000,000.00 10,000,000.00	9,996,875.00 99.9687500000	244,002.21 SUNGARD	-3,125.00

INVESTMENT INVENTORY WITH MARKET VALUE

(RPTMKT)

RUN: 7/11/97 10:21:49

INVESTMENTS OUTSTANDING AS OF 06/30/97

MAJOR SORT KEY IS ICC#

INVEST NUNEER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP BANE FUND CPN RATE	PAR/SHARES	MARKET VALUE	CURR ACCR INT UNREALIZED GAIN
		FRO): SAFE YTM TR	BOOK	MARKET PRICE	PRICE SOURCE UNREALIZED LOSS
A 14439 HLB	08/30/96 06/15/98	313391QR8 28 100 5.7250	2,000,000.00	19,963,750.00	5,005.46 13,671.67
		16 100 6.2400	1,982,178.13	99.8125000000	SUNGARD
SUBTOTAL (INV TYPE) 22 FHLB		6.35%(M)	5.7114 15,000,000.00	14,993,125.00	306,498.26 21,141.87
		5.8638	14,975,108.13	99.95416700000	-3,125.00
A 14480 FNMA	09/05/96 09/03/97	31364CKH0 28 100 5.6400	3,000,000.00	3,000,937.50	55,173.91 12,937.50
		16 100 6.0601	2,988,000.00	100.0312500000	SUNGARD
A 14702 FNMA	04/10/97 10/20/97	31364BMZ0 28 100 5.6500	4,000,000.00	4,001,250.00	44,459.02 4,375.00
		14 100 5.7983	3,996,875.00	100.0312500000	SUNGARD
A 14603 FNMA 5.60 COUP	01/16/97 01/16/98	31364CVE5 28 100 5.6000	5,000,000.00	4,979,687.50	128,397.79
		5 100 5.6801	4,996,160.00	99.59375000000	SUNGARD -16,472.50
A 14733 FNMA	04/10/97 03/10/98	313586WZ8 28 100 8.2000	5,100,000.00	5,179,687.50	128,035.87
		16 100 6.0401	5,231,234.90	101.5625000000	SUNGARD -16,697.40
SUBTOTAL (INV TYPE) 23 FNMA		7.26%(M)	6.4051 17,100,000.00	17,161,562.50	356,066.59 17,312.50
		5.8826	17,212,269.90	100.3600150000	-33,169.90
A 14647 SLMA	02/26/97 02/25/98	86387RZD7 28 100 5.5350	5,000,000.00	4,992,187.50	96,331.60
		26 100 5.6602	4,994,768.75	99.84375000000	SUNGARD -1,812.50
SUBTOTAL (INV TYPE) 27 SLMA		2.11%(M)	5.5350 5,000,000.00	4,992,187.50	96,331.60 .00
		5.6602	4,994,768.75	99.84375000000	-1,812.50
A 14685 FHLB BOND CALLABL 9-17-97	03/17/97 09/17/98	313395TR6 28 100 5.9400	10,000,000.00	9,990,625.00	172,032.79
		16 100 5.9627	9,996,875.00	99.90625000000	SUNGARD -6,250.00
SUBTOTAL (INV TYPE) 28 BVT.AGENCY CALLABLE		4.23%(M)	5.9400 10,000,000.00	9,990,625.00	172,032.79 .00
		5.9627	9,996,875.00	99.90625000000	-6,250.00
A 14581 FNMA DN	12/17/96 08/22/97	313589KT9 28 100 5.2300	5,000,000.00	4,960,711.11	142,372.22
		1 100 5.4255	4,819,855.56	99.21422222222	SUNGARD -1,516.67
A 14746 FNMA DN	05/02/97 11/03/97	313589NU3 28 100 5.6000	5,000,000.00	4,905,555.56	46,666.67 2,777.78
		16 100 5.7659	4,856,111.11	98.11111111111	SUNGARD
SUBTOTAL (INV TYPE) 40 FNMA DISCOUNT NOTES		4.18%(M)	5.4157 10,000,000.00	9,866,266.67	189,038.89 2,777.78
		5.5363	9,675,966.67	98.66266700000	-1,516.67
A 14497 HLB DN	09/24/96 09/12/97	313384F61 28 100 5.6000	2,000,000.00	1,977,937.78	87,111.11 648.89
		1 100 5.9254	1,890,177.78	98.89688888889	SUNGARD
SUBTOTAL (INV TYPE) 41 FHLB DISCOUNT NOTES		.84%(M)	5.6000 2,000,000.00	1,977,937.78	87,111.11 648.89
		5.9254	1,890,177.78	98.89688900000	

INVESTMENT INVENTORY WITH MARKET VALUE

(RPTMKT)

RUN: 7/11/97 10:21:49

INVESTMENTS OUTSTANDING AS OF 06/30/97  
MAJOR SORT KEY IS ICC#

INVEST NUMBER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP BANK FUND CPN RATE	PAR/SHARES	MARKET VALUE	CURR ACCR INT	UNREALIZED GAIN
		BROK SAFE YTM TR	BOOK	MARKET PRICE	PRICE SOURCE	UNREALIZED LOSS
A 14725	FFCB DN 04/17/97 10/14/97	313313MY1 28 100 5.6100	2,000,000.00	1,968,266.67	23,375.00	991.67
		5 100 5.7719	1,943,900.00	98.41333333333	SUNGARD	
SUBTOTAL (INV TYPE) 42 FARM CREDIT DISCOUNT ND .83%(M)		5.6100	2,000,000.00	1,968,266.67	23,375.00	991.67
		5.7719	1,943,900.00	98.41333300000		
-----m-m-----						
A 14592	BA BANK OF AMERICA 01/07/97 07/03/97	28 100 5.2700	5,000,000.00	4,998,469.44	128,090.27	
		1 100 5.4102	4,870,445.84	99.96938888889	SUNGARD	-66.67
A 14620	BA CITICORP N.Y. 01/31/97 07/07/97	28 100 5.3200	2,000,000.00	1,998,163.33	44,628.89	
		26 100 5.4464	1,953,597.78	99.90816666667	SUNGARD	-63.34
A 14648	BA BANK OF AMERICA 02/25/97 08/15/97	28 100 5.2300	4,000,000.00	3,972,300.00	73,220.00	
		1 100 5.3632	3,900,630.00	99.30750000000	SUNGARD	-1,550.00
A 14713	BA BANK OF AMERICA 04/14/97 10/08/97	28 100 5.7000	2,000,000.00	1,969,475.00	24,700.00	825.00
		1 100 5.8643	1,943,950.00	98.47375000000	SUNGARD	
A 14710	BA BANK OF AMERICA 04/15/97 10/10/97	28 100 5.6600	5,000,000.00	4,922,145.83	60,190.49	1,097.00
		1 100 5.7893	4,860,858.34	98.44291666667	SUNGARD	
SUBTOTAL (INV TYPE) 51 BA, DOMESTIC		7.56%(M)	18,000,000.00	17,860,553.60	330,829.65	1,922.00
		5.5593	-17,529,481.96	99.22529800000		-1,680.01
-----m-----						
A 14709	BA ABM AMRO N.Y. 04/14/97 09/08/97	28 100 5.6700	5,000,000.00	4,945,854.17	61,425.00	191.67
		26 100 5.8044	4,884,237.50	98.91708333333	SUNEARD	
SUBTOTAL (INV TYPE) 52 BA, EUROPEAN		2.09%(M)	5,000,000.00	4,945,854.17	61,425.00	191.67
		5.8044	-4,884,237.50	98.91708300000		
-----m-----						
A 14770	reponet 06/30/97 07/01/97	24 100 5.2600	4,400,000.00	4,400,000.00*	642.33	0.00
		30 100 5.2600	4,400,000.00	100.00000000000	BOOK	
SUBTOTAL (INV TYPE) 61 REPURCHASE AGREEMENTS		1.86%(M)	4,400,000.00	4,400,000.00	642.89	.00
		5.2600	4,400,000.00	100.00000000000		
-----m-----						
A 14626	NCD SOCIETE GENERALE 02/07/97 08/07/97	28 100 5.5200	5,000,000.00	5,000,489.25*	110,400.00	0.00
		16 100 5.5000	5,000,489.25	100.00378500000	BOOK	
A 14627	NC6 DEUTSCHE BANK 02/11/97 01/16/98	28 100 5.8000	5,000,000.00	4,935,850.00	133,722.22	
		16 100 5.5901	5,029,290.13	99.91700000000	USEPPP	-12,495.69
SUBTOTAL (INV TYPE) 63 NEGOTIABLE CD'S		4.23%(M)	10,000,000.00	9,996,339.25	244,122.22	.00
		5.5451	-10,029,779.38	99.96339300000		-12,495.69

\* INDICATES MARKET = BOOK LESS PURCHASE INTEREST

COUNTY OF SANTA CRUZ

INVESTMENT INVENTORY WITH MARKET VALUE

(RPTMKT)

INVESTMENTS OUTSTANDING AS OF 06130197

MAJOR SORT KEY IS ICC#

INVEST NUMBER	DESCRIPTION PURCHASE MATURITY DATE	CUSIP	BANK BROK	FUND SAFE	CPN YTH	RATE TR	PAR/SHARES BOOK	MARKET VALUE MARKET PRICE	CURR ACCR INT PRICE SOURCE	UNREALIZED GAIN UNREALIZED LOSS
04638	MED. TERM NOTE GE CAP. CORP 02/18/97 02/05/98	36962FG34	28	100	7.8400		6,000,000.00	6,070,312.50	135,258.36	
			16	100	5.6513		6,121,650.00	101.1718750000	SUNGARD	-51,337.50
A 14708	MTN MERRILL LYNCH 04/07/97 04/15/99	59018ST69	29	100	6.6500		5,000,000.00	5,021,093.75	42,466.03	21,093.75
			5	100	6.6500		5,000,000.00	100.4218750000	SUNGARD	
SUBTOTAL (INV TYPE) 64 MEDIUM TERM NOTE			4.69%	(M)	7.3050		11,000,000.00	11,091,406.25	177,724.39	21,093.75
					6.1003		-11,121,650.00	100.8303660000		-51,537.50
A 14673	CP MERRILL LYNCH 03/14/97 07/11/97	59018JUB8	28	100	5.4200		5,000,000.00	4,991,322.00	82,052.78	
			5	100	5.5189		4,910,419.44	99.8264400000	USERPR	-1,150.22
A 14646	CP NATIONWIDE BLDG. 02/14/97 08/11/97	63859LV86	28	100	5.3000		5,000,000.00	4,967,000.00	100,847.22	
			16	100	5.4426		4,868,972.22	94.3400000000	USERPR	-2,819.44
SUBTOTAL (INV TYPE) 65 COMMERCIAL PAPER			4.21%	(M)	5.3603		10,000,000.00	9,958,322.00	182,900.00	.00
					5.4809		9,779,391.66	99.5832200000		-3,969.66
A 14435	MANSFIELD DRIVE MUNICIPAL BOND 07/02/96 07/02/00		33	100	3.5000		40,000.00	37,200.00*	1,889.50	0.00
			94	100	11.7431		37,200.00	33.0000000000	BOOK	
SUBTOTAL (INV TYPE) 97 MUNI BOND			.02%	(M)	9.5000		40,000.00	37,200.00	1,889.50	.00
					11.7431		37,200.00	93.0000000000		
A 650	STATE OF CALIF 01/01/85 03/31/98	MONEYMKT9	39	100	5.6340		20,000,000.00	20,000,000.00*	126,391.13	0.00
			93	000	5.6340		20,000,000.00	100.0000000000	BOOK	
A 13534	STATE OF CA, LAIF ADA 02/15/94 03/31/98		93	800	5.6340		10,103,533.95	10,103,533.95*	140,816.29	0.00
			93	000	5.6340		10,103,533.95	100.0000000000	BOOK	
A 13698	S.C./S. BENITO CO. SCHOOLS LAIF 08/12/94 03/31/98		99	61	5.6340		8,258,432.76	8,258,432.76*	118,359.92	0.00
			93	000	5.6340		8,258,432.76	100.0000000000	BOOK	
A 13753	S.C. CO. SCHOOLS HEALTH INS. LAIF 10/06/94 03/31/98		99	34	5.6340		2,792,700.08	2,792,700.08*	39,842.87	0.00
			93	000	5.6340		2,792,700.08	100.0000000000	BOOK	
A 13859	APTOS- LA SELVA FIRE DIST. 02/09/95 03/31/98		93	7007	5.6340		559,306.70	559,306.70*	4,850.51	0.00
			93	100	5.6340		559,306.70	100.0000000000	BOOK	
SUBTOTAL (INV TYPE) 99 STATE POOL AND PASSBOOK			17.65%	(M)	5.6340		41,713,973.49	41,713,973.49	430,260.72	.00
					5.6340		41,713,973.49	100.0000000000		
GRAND TOTAL			5.8381		236,503,973.49		236,286,526.13	3,685,204.21	323,021.31	
			5.8258		235,352,545.53		99.9081000000			-120,825.68

\* INDICATES MARKET = BOOK LESS PURCHASE INTEREST

232 Lines sent from SunGard Computer Center (FILE: RPT.MKT)  
232 Lines received from SunGard Computer Center (File: \GATEWAY\MKT.RPT)

OK>LA RPT.PRFH -NHE

ls: 0653-341 The file RPT.PRFH does not exist.

ls: Not a recognized flag: H

ls: Not a recognized flag: E

Map: ls [-!ARadCxmleortucoFboisf][File,..][Directory,..]



## REPORT DESCRIPTION

### Investments Outstanding

The Investments Outstanding lists active investments in the portfolio on a specific date providing information on the market values, accrued interest and unrealized gains or losses. It is arranged so that securities of the same type are grouped together. What follows is a description of the abbreviations used in the report.

**INVEST NUMBER** - This is a unique system generated number assigned to the security within the portfolio, through which the security is accessed for all subsequent maintenance and trading transactions.

**DESCRIPTION** - This second column provides the type of security. While the description is not a complete enough one to fully identify the security for all purposes, it provides enough information to identify this trade internally. A separate document, entitled "Money Market Instruments," is available to more fully explain these abbreviations.

**PURCHASE MATURITY DATE** - The first date listed is the date the security was purchased. In this report the purchase date is the settlement date. The second date listed is the date the security will mature.

**CUSIP** - The Committee on Uniform Security Identification Procedures (CUSIP) assigns to each book entry security a unique industry standard number based on issuer and issue information. It is part of a quasi-international system that a majority of U.S. issued securities are now a part of. Any security with the same CUSIP number is considered identical to any other. Should any part of the description of a security be different—the date of issuance, the coupon, the maturity, the issuer, etc., than it will have a different CUSIP number. Not all securities have CUSIP numbers yet, as the conversion to this system has been an ongoing one over at least the past decade, with additional different types and groups of securities being added to the system each year. In Fixed Income Markets, U.S. Treasury issues, U.S. Agency issues, and most all securities longer than one year are now in the system.

**BANK BROK** - On the first line is a number assigned by the Treasurer's Office for the bank through which the dollar amount of the trade will be paid. On the second line is a number assigned by the Treasurer's Office specifying the broker through which the trade was contracted. The code numbers are identified as follows:

<u>Broker</u>	<u>Bank</u>
1 = Bank of America	24 = Bank of New York
5 = Merrill Lynch	28 = Bank of the West
14 = Dean Witter	93 = LAIF
16 = Lehman Brothers	99 = Passbook
74 = Great Western Bank	
75 = Home Savings of America	
93 = LAIF (State of California)	
2800 = Bank of the West	

**FUND** - The fund number represents which account/agency the security was purchased for. The fund numbers and their respective account/agency is as follows:

34 = S.C. County Schools Health Insurance

61 = SC/San Benito County School

100 = Pool

800 = RDA

7007 = Aptos La Selva Fire District

**SAFEKEEPING** - This is a code number representing the entity that is safekeeping (holding) the security, or, in the case of a repurchase agreement, the collateral. Because this field was not used until recently, the numbers are meaningless at this time.

**CPN RATE** - This is either the coupon (rate of interest) set on the issue date by the issuer, with notes, bonds, CD's and, infrequently, commercial paper, or, if the security has no coupon, but is sold on a discounted basis, this will be the stated yield to maturity at which the security was purchased.

**YTM TR** - This is the Yield to Maturity-what the yield will be if the security is held to maturity.

**PAR/SHARES** - This represents the stated par (or number of shares if reporting equities, such as mutual funds). The stated par is the face value of a fixed income security.

**BOOK** - The actual cost for each investment, excluding accrued interest, if any.

**MARKET VALUE** - Market value is the dollar amount the security could have been sold for on the report date, not including the accrued interest earned to that date, By comparing this number to the book value one is able to determine what if any loss we would take if we had to liquidate a large portion of the portfolio to meet an unexpected cash demand. The market value will be followed by an asterisk if market value equals book value.

**MARKET PRICE** - This is the market value represented as a percent of the par value. When reviewing this column remember that a security type sold on a discount basis will always show a value below 100%, even when owned at levels that would permit actual profits if sold.

**CURR ACCR INT** - Current Accrued Interest is the amount of interest **earned** but not received as of 5:00 pm on the report date.

**PRICE SOURCE** - This is the source for the valuation given in the "Market Value/Market Price" column. "Sungard" shown in that column is the name of the software company where the portfolio data is maintained.

**UNREALIZED GAIN/LOSS** - This is the unrealized gain and loss, calculated as the difference between the market value and book value. In other words, it is the gain or loss that would be recognized were the security actually sold as of the date of the report at the market value given, not including accrued interest on coupon issues.

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# **AGE OF INVESTMENTS**

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A report on the  
Aging of Maturing Investments

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# **AGE OF INVESTMENTS**

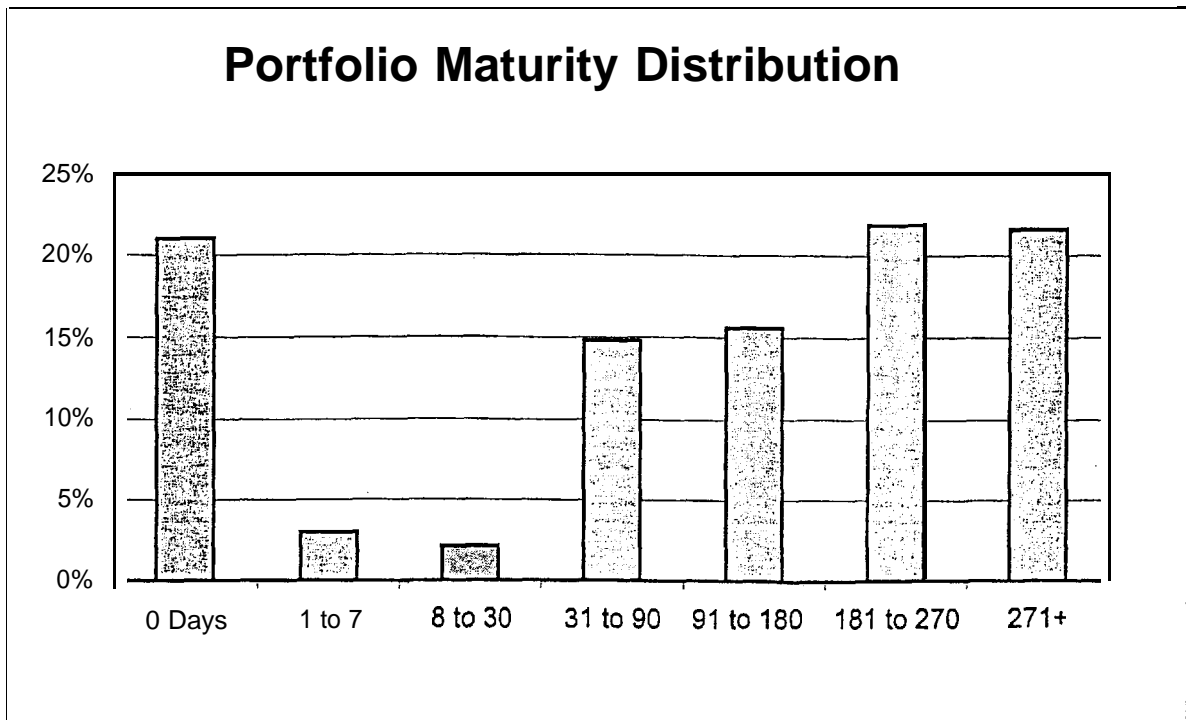
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A report on the  
Aging of Maturing Investments

## Portfolio Maturity Distribution

<i>Maturing In:</i>	<i>Percent of Portfolio</i>
0 Days	21.02%
1 to 7	2.96%
8 to 30	2.11%
31 to 90	14.80%
91 to 180	15.64%
181 to 270	21.88%
271+	21.58%

99.99%



07/21/1997

County of Santa Cruz  
As of July 01, 1997  
AGING OF MATURING INVESTMENTS

AG- 1  
SCRZ  
CASH+ACCINT

Aging Interval	Description	Investment Number	Maturity/Pass chru Par Value	Current Book Value	Current Market Value
<b>0 days 07/01/1997 - 07/01/1997</b>					
	LAIF 07/01/1997 Cash	13534	10,103,533.95	10,103,533.95	10,103,533.95
	LAIF 07/01/1997 Cash	13698	8,258,432.76	8,258,432.76	8,258,432.76
	LAIF 07/01/1997 Cash	13753	2,792,700.08	2,792,700.08	2,792,700.08
	LAIF 07/01/1997 Cash	13859	559,306.70	559,306.70	559,306.70
	FFCB 07/01/1997 Mat/Sale	14431	3,600,000.00	3,595,176.00	3,600,000.00
	MLBNY 07/01/1997 Mat/Sale	50057	4,400,000.00	4,400,000.00	4,400,000.00
	LAIF 07/01/1997 Cash	6501	20,000,000.00	20,000,000.00	20,000,000.00
			49,713,973.49	49,709,149.49	49,713,973.49
<b>1 - 7 days 07/02/1997 - 07/08/1997</b>					
	BOA 07/03/1997 Mat/Sale	14592	5,000,000.00	4,870,445.84	4,998,536.11
	CITI 07/07/1997 Mat/Sale	14620	2,000,000.00	1,953,597.78	1,998,226.67
			7,000,000.00	6,824,043.62	6,996,762.78
<b>8 - 30 days 07/09/1997 - 07/31/1997</b>					
	ML 07/11/1997 Mat/Sale	14673	5,000,000.00	4,910,419.44	4,991,322.00
			5,000,000.00	4,910,419.44	4,991,322.00
<b>31 - 60 days 08/01/1997 - 08/30/1997</b>					
	FHLB 08/28/1997 Mat/Sale	14436	3,000,000.00	2,992,530.00	3,000,000.00
	FNMA 08/22/1997 Mat/Sale	14581	5,000,000.00	4,819,855.56	4,960,000.00
	SOCGEN 08/07/1997 Mat/Sale	14626	5,000,000.00	5,000,489.25	4,998,900.00
	NATION 08/11/1997 Mat/Sale	14646	5,000,000.00	4,860,972.22	4,967,000.00
	BOA 08/15/1997 Mat/Sale	14648	4,000,000.00	3,900,630.00	3,973,850.00
			22,000,000.00	21,582,477.03	21,899,750.00
<b>61 - 90 days 08/31/1997 - 09/29/1997</b>					
	FNMA 09/03/1997 Mat/Sale	14480	3,000,000.00	2,988,000.00	3,000,900.00
	FFCB 09/03/1997 Mat/Sale	14481	3,000,000.00	2,988,150.00	2,999,100.00
	FHLB 09/12/1997 Mat/Sale	14497	2,000,000.00	1,890,177.78	1,977,800.00
	ABN AM 09/08/1997 Mat/Sale	20026	5,000,000.00	4,884,237.50	4,945,662.50
			13,000,000.00	12,750,565.28	12,923,462.50
<b>91 - 180 days 09/30/1997 - 12/28/1997</b>					
	TNOTE 09/30/1997 Mat/Sale	14304	2,000,000.00	2,002,812.50	2,001,200.00
	TNOTE 10/31/1997 Mat/Sale	14366	5,000,000.00	4,971,093.75	5,001,500.00
	TNOTE 09/30/1997 Mat/Sale	14367	5,000,000.00	4,991,015.63	5,003,000.00
	TNOTE 10/31/1997 Mat/Sale	14401	4,000,000.00	3,979,375.00	4,001,200.00
	TNOTE 09/30/1997 Mat/Sale	14514	3,000,000.00	3,000,937.50	3,001,800.00
	FNMA 10/20/1997 Mat/Sale	20025	4,000,000.00	3,996,875.00	4,001,200.00
	BOA 10/10/1997 Mat/Sale	20027	5,000,000.00	4,860,858.34	4,920,602.78
	BOA 10/08/1997 Mat/Sale	20029	2,000,000.00	1,943,950.00	1,968,650.00
	FFCB 10/14/1997 Mat/Sale	20030	2,000,000.00	1,943,900.00	1,968,000.00

07/21/1997

county of Santa Cruz  
 As of July 01, 1997  
 AGING OF MATURING INVESTMENTS

AG- 2  
 SCRZ  
 CASH+ACCINT

Aging Interval	Description	Investment Number	Maturity/Pass thru Par Value	Current Book Value	current Market Value
	FNMA 11/03/1997 Mat/Sale	20032	5,000,000.00	4,856,111.11	4,905,000.00
			37,000,000.00	36,546,928.83	36,772,152.78
181 - 270 days	12/29/1997 - 03/28/1998				
	FFCB 02/20/1998 Mat/Sale	14436	2,650,000.00	2,640,890.63	2,651,590.00
	TNOTE 12/31/1997 Mat/Sale	14440	3,000,000.00	2,978,437.50	2,995,200.00
	FNMA 01/16/1998 Mat/Sale	14603	5,000,000.00	4,996,160.00	4,979,500.00
	FHLE 01/27/1998 Mat/Sale	14604	10,000,000.00	10,000,000.00	9,997,000.00
	DEUTSC 01/16/1998 Mat/Sale	14627	5,000,000.00	5,029,290.13	4,995,850.00
	GECAP 02/05/1998 Mat/Sale	14638	6,000,000.00	6,121,650.00	6,071,400.00
	SLMA 02/25/1998 Mat/Sale	14647	5,000,000.00	4,994,768.75	4,992,000.00
	TNOTE 02/15/1998 Mat/Sale	20020	5,000,000.00	5,108,300.24	5,045,500.00
	FFCB 03/03/1998 Mat/Sale	20023	5,000,000.00	5,002,100.00	4,987,500.00
	FNMA 03/10/1998 Mat/Sale	20024	5,100,000.00	5,231,234.90	5,179,560.00
			51,750,000.00	52,102,832.15	51,895,100.00
271 - 360 days	03/29/1998 - 06/26/1998				
	FHLE 06/15/1998 Mat/Sale	14439	2,000,000.00	1,982,578.13	1,996,200.00
	TNOTE 04/30/1998 Mat/Sale	14664	7,000,000.00	7,003,281.25	7,006,300.00
	TNOTE 05/31/1998 Mat/Sale	20019	5,000,000.00	4,989,062.50	5,008,000.00
			14,000,000.00	13,974,921.88	14,010,500.00
361 - 540 days	06/27/1998 - 12/23/1998				
	TNOTE 06/30/1998 Mat/Sale	14588	2,000,000.00	1,994,531.25	2,008,800.00
	FHLEB 09/17/1998 Mat/Sale	20001	10,000,000.00	9,996,875.00	9,991,000.00
	TNOTE 10/31/1998 Mat/Sale	20017	5,000,000.00	4,967,968.75	4,994,000.00
	TNOTE 10/31/1998 Mat/Sale	20018	5,000,000.00	4,961,132.81	4,994,000.00
			22,000,000.00	21,920,507.81	21,987,800.00
541 - 720 days	12/24/1998 - 06/21/1999				
	TNOTE 03/31/1999 Mat/Sale	20002	10,000,000.00	9,993,500.00	10,034,000.00
	ML 04/15/1999 Mat/Sale	20022	5,000,000.00	5,000,000.00	5,022,000.00
			15,000,000.00	14,993,500.00	15,056,000.00
721 - 1825 days	06/22/1999 - 06/30/2002				
	MNSFLD 07/01/2000 Mat/Sale	14435	40,000.00	37,200.00	37,200.00
			40,000.00	37,200.00	37,200.00
1825 days and after	06/30/2002 -				

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# DESCRIPTION OF INVESTMENT INSTRUMENTS

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The investment activities of County Treasurers are restricted by state law to a select group of government securities and prime money market instruments. To reduce the risk inherent in any one instrument, state law further limits the percentage of the county's portfolio that can be invested in any one type of security.

The types of securities available to the County Treasurer can be divided into three main categories: 1. U.S. Treasury bills, notes and bonds. They are guaranteed by the U.S. Government and are considered by most experts as free of credit risk. They also typically have the least yield of the securities available for investing. 2. Securities issued by U.S. Government Agencies and Instrumentalities. These securities consist mostly of notes and debentures of agencies and government sponsored corporations. They are not guaranteed by the U.S. government and therefore have some credit risk. Their yield is typically higher than U.S. Treasury securities. 3. Prime money market securities. These consist of securities such as bankers' acceptances, certificates of deposit, commercial paper and municipal bonds. The yield is typically higher than the other types of securities invested by the county, but the risk is also higher. Through diversification and purchasing only highly rated paper, the credit risk is kept to an acceptable minimum. Each of the securities in these three categories are subject to market risk if sold prior to maturity.

What follows is a brief description of the different securities used by the County Treasurer:

**U.S. Treasury Notes and Bonds** are long-term obligations of the U.S. government which bear coupons. Interest is payable every six months at a rate of one-half the annual coupon. Treasury bonds and notes trading is conducted by the same securities dealers who trade T-bills. In the secondary market, prices are quoted in thirty-second's of 1 percent. Except for their maturities, notes and bonds are identical regardless of their label. Notes are issued for original maturities of one to 10 years. Bonds are issued with original maturities of more than 10 years.

**U.S. Treasury Bills** are unusual instruments because they bears no specific interest rate. Rather, they are issued originally at a discount from its ultimate maturity (par) value. Because T-Bills are issued and traded at a discount, investors receive their returns at maturity or on subsequent resale, which ordinarily will be at prices higher than the original discount.

**Federal Farm Credit Bank (FFCB) Discount Notes.** FFCB is an instrumentality of the U.S. Government. The notes are the consolidated obligations of the 37 Farm Credit Banks issued on a discount basis with maturities of one year or less. Although not as risk-free as Treasury notes, most experts believe the U.S. government has a moral commitment to the farm credit system.



**Federal Farm Credit Bank (FFCB)** debentures are consolidated obligations of the 37 Farm Credit Banks issued with a fixed coupon rate with maturities ranging from 6 months to 20 years. A debenture is a bond secured only by the general credit of the issuer.

**Federal Home Loan Bank (FHLB)** Discount notes are consolidated obligations of 12 District banks issued with a fixed coupon rate with maturities ranging from one to ten years. Although the FHLB operates under federal charter with government supervision, the securities are not guaranteed by the U.S. government. However, the banks are required to maintain a considerable reserve pledged against the outstanding debt. They are therefore considered relatively risk-free.

**Federal National Mortgage Association (Fannie Mae)** Discount notes are consolidations of government-chartered private corporations issued on a discount basis with maturities under one year. They are guaranteed by the corporations, but not by the U.S. government. Many investors consider the securities a moral obligation of the U.S. government and believe Congress would intervene before allowing default.

**Federal National Mortgage Association (Fannie Mae)** debentures are obligations issued by the Association with a fixed coupon rate and various maturities. A debenture is a bond secured only by the general credit of the issuer.

**Local Agency Investment Fund (LAIF)** is the state sponsored investment fund. LAIF is an excellent cash management tool to help meet most of the unexpected cash demands. Currently the state limits the county's investment in this pool to \$20,000,000.

**Federal Home Loan Mortgage Corporation (Freddie Mac)** Participation are issues of the Federal Home Loan Mortgage Corporation representing undivided interests in conventional mortgages underwritten and previously purchased by it. The corporation guarantees the timely payment of interest at the certificate rate and full return of principal. Participation Certificates have original final payment dates of 30 years.

**Government National Mortgage Association (Ginnie Mae)** Pass-Through are issues of the wholly owned government corporation within the Department of Housing and Urban Development. Principal and interest payment collected on mortgages in specified pools are passed through to holders of GNMA-Guaranteed certificates after deduction of servicing and guaranty fees. GNMA's have original stated maturities of 12 to 40 years. For Santa Cruz County, these are used only as collateral for overnight repurchase agreements.

**Municipal Securities (Notes and Bonds)** Debt securities issued by state and local governments and their agencies are referred to as municipal securities. Such securities can be divided into two broad categories: bonds issued to finance capital projects and short-term notes sold in anticipation of the receipt of other funds, such as taxes or proceeds from a bond issue.

**Banker's Acceptances.** Briefly stated, the function of the bankers' acceptance is as

follows: A borrower may, under certain circumstances, obtain short-term credit by arranging for his bank to accept a time draft upon it. The bank stamps its **official** accepted across the face of the draft and converts it into a bankers' acceptance. The instrument, now being a bank obligation, may be sold to an acceptance dealer who, in turn, may sell it to an investor. Most **BAs** arise out of transactions involving the trade of manufactured goods or commodities. Maturities range from one to 270 days.

**Commercial Paper** are short-term promissory notes issued by a company to finance current transactions. All commercial paper is negotiable, but most paper sold to investors is held by them to maturity. Commercial paper is issued not only by industrial and manufacturing firms but also by finance companies. Notes are sold on a discount or interest bearing basis with maturities not exceeding 180 days. Most paper sold is in the range of 30 days and under.

**Medium-term notes** or obligations have maturities of less than 5 years and are issued by corporations or depositories organized and operating in the US.

**Repurchase Agreements (RP or Repos)**. A holder of securities sells securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. Repurchase agreements are usually for short periods of time (one to five days), when large sums are received that will be needed in the next day or two. As a result, they are often called overnight repos. From the point of view of investors, overnight repos offer several attractive features. First, by rolling overnight repos, investors can keep surplus funds invested without losing liquidity or incurring a price risk. Second, because repo transactions are secured by top-quality paper, investors expose themselves to little or no risk.