INVESTMENT POLICY
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TREASURER-TAX COLLECTOR

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PURPOSE

The purpose of the investment policy of Sutter County is to provide direction in the investment of the County's idle cash and the funds of the other depository agencies, to safeguard the principle of all investments, to maintain sufficient liquidity for the regular cash flows of the Treasury and to meet unanticipated cash flow demand. A maximum rate of return will be sought within the restraints of safety and liquidity.

LEGAL COMPLIANCE

All investments and investing activity shall comply with California Government Code §27000 et seq. and §53600 et seq., as well as any forthcoming amendments or additions to the code relating to the investment of local agency funds.

GOALS AND OBJECTIVES

The Treasurer's primary goals for the investment of the pool treasury portfolio are, in order of priority:

Safety

The primary duty and responsibility is the protection, preservation, maintenance of cash and investments placed in Treasurer's trust on the behalf of the citizens of the County of Sutter through investing procedures that best protect against loss arising from default, fraud or error of principle.

Liquidity

An adequate percentage of the pooled treasury portfolio will be maintained so that it may be converted to cash with little or no loss in value to cover cash flow needs of the County and when necessary to meet contingency requirements when they arise.

Yield

Yield will become a consideration only after safety and liquidity objectives have been met. Yield refers to earning a reasonable return on investments within the current market condition and economic cycles, and cash flow requirements.

Diversification

The investment portfolio will be diversified to avoid incurring unreasonable risks regarding specific investments, individual financial institutions or investment class.

Prudence

The investment of the County's funds will be invested by the Treasurer, in accordance to the guidance provided by the "prudent investor rule," which states...

> *"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law"* (Government Code §27000.3 (C)).

ETHICS AND CONFLICT OF INTEREST

The Treasurer and all investment staff members shall refrain from any personal business activity, which could conflict with the proper investment of County funds by impairing the individual's ability to apply impartial judgment in their investment decisions.

The Treasurer will report any material interest in any financial institution, which conducts business with the County of Sutter, by the Treasurer or any member of the Treasurer's staff to the Sutter County Pooled Money Investment Board.

AUTHORITY

Delegation

The Sutter County Board of Supervisors, by county ordinance, delegated authority to invest and reinvest the county funds and those of other depositors to the Treasurer-Tax Collector pursuant to California Government Code §27000.1, which states in part:

> *"...the treasurer-tax collector is hereby delegated the authority to invest or reinvest the funds of the county and the funds of other depositors in the county treasury... the treasurer-tax collector shall thereafter assume full responsibility for those transactions until the board of supervisors, by ordinance, revokes its delegation of authority or decides not to renew the annual delegation."*

Annually the Treasurer will request renewal of the delegation of authority from the Sutter County Board of Supervisors pursuant to California Government Code §53607 and Sutter County Ordinance Code §42-060.

Retention

The Treasurer shall retain the authority to add to, delete or amend the Investment Policies and the Investment Guidelines as is necessary to facilitate accurate and efficient transactions pertaining to the investment of idle funds in the best interest of the County Treasury.

TREASURY OVERSIGHT

California Government Code §27131 makes the establishment of a treasury oversight committee optional. Yet the California Legislature continues to encourage the continuation of the committee. In agreeing with the Legislature's opinion, the Board of Supervisors, in consultation with the Treasurer, will determine the exact size of the committee, which will consist of from three to eleven members, and the categories from which the members will be represented, as specified in subdivisions (a) through (g), inclusive, of California Government Code §27132. Members will be nominated by the Treasurer and confirmed by the Board of Supervisors.

The oversight committee shall be known as the ***Sutter County Pooled Money Investment Board*** and will meet semiannually to review and monitor investment reports for adherence to the County's investment policy.

Annually, the committee will cause an audit by the County's independent (outside) auditors to be conducted to determine compliance with Article 6, Chapter 5 of Division 2 of Title 3 of the Government Code.

The oversight committee cannot direct investment decisions, select advisors, brokers or dealers, or impinge on the day-to-day operation of the county treasury.

California Government Code §27133(d) requires limits to be set on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the county treasury conducts business by any member of the committee and will be controlled and will conform to the limits set by the Fair Political Practices Commission.

REPORTING

The Treasurer will submit a monthly investment report to the Board of Supervisors, Auditor-Controller and Chief Administrative Officer. A semiannual report shall be submitted to the Sutter County Pooled Money Investment Board. In addition, at the end of the second and fourth quarter of each year an investment report shall be submitted to the California Debt and Advisory Commission.

The report will contain the following elements:

a) Statement of Compliance or Noncompliance with Investment Policy

b) Combined funds in the County Treasury

c) Statement of funds under management of contracted parties

d) Type of Investment

e) Book Value

f) Percentage of Managed Portfolio

g) Invested Percentage of Pooled Portfolio

h) Average Days to Maturity

i) Average Yield

j) Financial Institution

k) Market Value

l) Par Value

m) Dates of Investment and Maturity

n) Total Days Invested

o) Yield

Marked to Market

Marked-to-Market is a requirement of the AICPA, pronouncement GASB 31, which requires that portfolios disclose the Fair Market Value of investments on a given date. Fair market value may be determined by an independent agency, thus the County shall utilize its third party custodian's fair market valuation in determining the pooled treasury portfolio's marked-to-market value.

AUTHORIZED AND SUITABLE INVESTMENTS

All investments shall be made in accordance with the provisions contained in Government Code Section §53601-§53645 and §16429.1-§16429.3. Acceptable categories, terms and percentages of total pooled treasury portfolio for Sutter County will be as follows:

Category of Investment	Allowable Percentage of Portfolio *	Maximum Allowable Term of Investment
US Treasury Notes, Bonds, Bills	Unlimited	5 Years
US Government Agencies	Unlimited	5 Years
Medium Term Notes	30%	5 Years
Commercial Paper of "Prime" Quality	15% Or 30% with	270 Days or 31 day dollar-weighted average
Negotiable Certificates Of Deposit	30%	5 Years
Local Agency Investment Fund (GC §16429.1-16429.3) LAIF	$50,000,000 Limited by LAIF	No Maximum
California Asset Management Program (CAMP)	Unlimited	No Maximum
Bankers Acceptances	40% 30% one bank	180 Days
Repurchase Agreement	Unlimited	1 Year
Certificates of Deposit	Unlimited	5 Year
Money Market Mutual Funds	20% No more than 10% in one fund	No Maximum
State or Local Agency Obligations (GC §53601(e)	Unlimited	5 Year

*Allowable percentage per investment category, listed above, is of the date of purchase of the investment, R&T code §53601. It is possible during the portfolio's cycles these guidelines may be exceeded due to a reduction in the total portfolio. When this occurs, no new purchases will be made in any category exceeding the defined limit. Due to these factors compliance testing is only applicable to the day of purchase.

In addition to the limitations shown above all investments shall, at the time of purchase, have a rating of "A" or better with Moody's and Standard and Poor's as required by California Government Code §53601.7.

AUTHORIZED BROKERS / DEALERS

In accordance with Section §53601.5 of the California Government Code which states,

> *"The purchase by a local agency of any investment authorized pursuant to Section §53601 or §53601.1 of the California Government Code, not purchased directly from the issuer, will be purchased either from an institution licensed by the state as a broker-dealer as defined in Section 25004 of the Corporations Code; a member of a federally regulated securities exchange; a national or state-chartered bank; a federal or state association as defined by Section 5102 of the Financial Code; or a brokerage firm designated as a primary government dealer by the Federal Reserve Bank. However, the issuer of a repurchase agreement is not required to be a primary dealer of the Federal Reserve Bank."*

Additionally it is prohibited to select any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.

TREASURY DEPOSITS

In addition to County agencies that are required to place deposits into the County Treasury, any public agency not required to deposit funds with the County Treasury may do so on a voluntary basis subject to the approval of the County Treasurer pursuant to Government Code §53684.

WITHDRAWAL POLICY

Withdrawal or disbursement of funds in excess of $500,000 shall require a two-business day advance notice; amounts exceeding $2,000,000 shall require a five-business day advance notice.

Any funds placed in the County pooled treasury may be withdrawn to meet the financial obligations of the public agency depositing the funds. Withdrawal of funds intended for reinvestment in other financial institutions will not be permitted without the prior approval of the County Treasurer pursuant to Government Code §27136. In no event will funds be withdrawn that, in the judgment of the County Treasurer, will adversely affect the interests of the other depositors in the County.

TREASURY FEES

The actual costs of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds as authorized by California Government Code §27013 will be apportioned among the depositors on the basis of each entity's aggregate average daily cash balance.

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GLOSSARY OF INVESTMENT TERMINOLOGY

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Accrued Interest: The amount of interest that is earned, but unpaid since the last payment date

Agency: Securities issued by government-sponsored corporations such as Federal Home Loan Banks (FHLB) and Federal Land Banks (FLB).

Accretion: Accounting procedure that gradually increases the book value of a bond purchased at a discount to par.

Amortization: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. Purchase Premiums are amortized over the par life of the bond purchased above par.

Asked Price: The price at which securities are offered by a seller.

Asset Backed Securities (ABS): Securities collateralized with consumer receivables, such as consumer loans, owned by the issuer but placed with a trustee for the benefit of the investor.

Basis Point: One basis point equals 1/100 of one percent. For example 0.35% is equal to 35 basis points or 35bp. Basis points are commonly used to describe changes in yield.

Bid Price: The price at which a buyer offers to buy a security.

Bond: Long-term debt instrument in which investors lend money to the bond issuer, who agrees to pay a stated rate of interest over a specific period of time.

Bond Rating: A rating scale which is an indication of relative risk/likelihood of default.

Book Entry: The system maintained by the Federal Reserve, by which money market securities are delivered to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). Physical certificates are not received.

Book Value: The original cost of the investment plus any applicable accretion of discount or less any applicable amortization of premium.

Broker: Brokers bring buyer and sellers together and is compensated for their service.

Bullet: A bond without a call option, a non-callable bond.

Call Option: A contract which allows the holder to buy a specific quantity of an asset at a specific price on or within a specified date.

Callable Bonds: Bonds which may be redeemed by the issuer prior to the maturity date.

Capital gain/Loss: the profit or loss realized from the sale of a capital asset.
Collateral: Securities or cash pledged by a barrower to secure repayment of a loan or repurchase agreement. Securities pledged by a financial institution to secure deposits of public moneys.

Commercial Paper (CP): Short-term, unsecured obligations of 2 to 270 days issued by banks, corporations and others.

Coupon or Coupon Rate: The rate at which a bond pays interest.

Current Yield: The annual income from an investment divided by the current market value. Note that since the mathematical calculation relies on the current market value rather than cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

Custodian: A bank or other financial institution that holds custody of stock certificates and other assets.

Dealer: A dealer may be considered the opposite of a broker. The dealer acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment (DVP): Delivery of securities with a simultaneous exchange of money or securities.

Derivative: A security whose interest rate or principle amount may vary and is determined by a market index or a combination of indexes.

Discount: The difference between the par value of a bond and the cost of the bond, when the cost is below par.

Diversification: An investment strategy designed to spread portfolio risk by dividing investments among different sectors, industries and companies.

Dollar-Weighted Average Maturity: A calculation that expresses the average maturity of a portfolio using each investment's maturity weighted by the size of that investment.

Fed Funds: All government securities are traded on Fed Funds, funds on deposit with the Federal Reserve Bank, also known as same day funds.

Federal Fund Rate: Interest rate at which banks lend federal funds to each other.

Federal Reserve System: A U.S. centralized banking system, which has supervision over the twelve Federal Reserve banks and its members.

Fixed Income Security: Security which returns a fixed income over a specified period of time.

Floating Rate Note: A debt security, whose interest rate is reset periodically and is based on a market index (e.g. Treasury Bills, LIBOR, ect.).

Interest: The amount earned while owning a security based on a percentage of the par value.
Liquidity: The speed at which an investment can be converted to cash.

Local Agency: County, city, school district, community college district, superintendent of schools, or any public or municipal corporation.

Market: A place, physical or electronic, that investment transactions take place. The New York Stock Exchange (NYSE) is a recognized exchange (stock market) physically located in New York. The Chicago Board of Trade (CBT) is a recognized exchange (commodities market) physically located in Chicago. The "over-the-counter" market is an electronic and phone system used to trade investments, which are not traded on recognized exchanges. Bond and money market investments (fixed income securities) are traded on the "over-the-counter" market.

Market Risk: The risk that changes in the overall market conditions or interest rate may adversely affect current market prices.

Mark-to-Market: Market valuation of all securities in a portfolio used to determine Net Asset Value (NAV).

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Maturity: The date on which the principle or stated value of an investment becomes due.

Medium Term Note (MTN): Debt securities issued by corporations or depository institutions with maturities of nine months to five years.

Money Market: The market in which short-term debt instruments such as Treasury Bills are traded.

Money Market Mutual Funds: An investment company that pools money from investors and invest in a variety of short-term money market investments.

Municipal Debt: Debt issued by a public entity to meet capital needs.

Nationally Recognized Rating Service: Firm that reviews the creditworthiness of debt security issuers and expresses an alpha rating based on their opinion. The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc; Fitch Investor Service; Duff & Phelps Investment Service; Thompson Bank Watch and International Bank Credit Analyst.

Net Asset Value (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

Non Callable: Bond that is exempt from any kind of early redemption for the state term of the bond. Also known as a "bullet".

Offer Price: The priced asked by a seller.

Par Value: The principle amount that must be paid at maturity.
Physical Delivery: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment as opposed to "book entry".

Portfolio: A group of securities held by an investor.

Premium: The difference between market value of a bond and the par value when the market value is greater than par.

Price: The percentage of par at which a security is bought or sold.

Price Risk: The risk that the price of a bond at maturity will be less than the price at which it was originally purchased.

Primary Dealer: A group of government securities dealers, who submit daily reports of market activity and positions along with monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

Prime Rate: The interest rate banks charge the largest borrowers with the highest credit ratings.

Principle: The face value or par value of an investment.

Registered State Warrant: A short-term obligation of a state governmental body issued in anticipation of revenue.

Reinvestment Risk: The risk that coupon payments cannot be reinvested at the same rate as the initial investment.

Revenue Anticipation Notes or RANs: Short-term notes, thirteen months or less, issued to cover cash flow in anticipation of receiving future revenue.

Rule G-37 Municipal Securities Rulemaking Board: Federal regulations to severe any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping: The holding of securities in a segregated account by a custody agent or trustee. Safekeeping services are typically provided by banks and financial institutions.

Security and Exchange Commission (SEC): The federal agency responsible for supervising and regulating the security industry.

Settlement Date: The date on which the purchase or sale of securities is executed.

Tax Anticipation Notes or TANs: Short-term notes issued for thirteen months or less used to finance cash flows in anticipation of future tax revenue.

Tax And Revenue Anticipation Notes or TRANs: Short-term notes issued for thirteen months or less. They are a combination of Revenue Anticipation Notes (RAN) and Tax Anticipation Notes (TAN).

Trade Date: The date and time corresponding to an investor's commitment to buy or sell a security.

Treasuries: Securities issued by the U.S. Treasury and are back by the Full Faith and Credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the U.S. and overseas.

Treasury Bill: Non-interest bearing discount security with a maturity under one year and issued by the U.S. Treasury to finance national debt.

Treasury Note (USTN): Interest bearing obligation issued by the U.S. Treasury with maturities that range from two years to ten years from the date of issue.

Treasury Bond: Interest bearing obligation issued by the U.S. Treasury with maturities ranging from ten to thirty years from date of issue.

Yield: The annual rate of return on a debt investment computed as if held to maturity and expressed as a percentage.